



PUBLIC FINANCIAL MANAGEMENT IN ACEH

Measuring Financial Management Performance in Aceh's Local Governments



Badan Rehabilitasi & Rekonstruksi



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THE WORLD BANK



Decentralization
Support Facility



Public Financial Management in Aceh

Measuring Financial Management Performance in Aceh's Local Governments

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Glossary of Terms: Acronyms and Abbreviations

APEA	Aceh Public Expenditure Analysis
BPK	(Badan Pengawasan Keuangan) State Audit Agency
BPFM	(Badan Pengawasan Keuangan dan Pembangunan) Financial and Development Supervisory Board
Bappeda	(Badan Perencanaan Pembangunan Daerah) Regional Development Planning Agency
Bawasda	(Badan Pengawasan Daerah) Regional Internal Audit Agency
BPKD	(Badan Pemeriksa Keuangan Daerah) Regional Auditing Agency
BUMD	(Badan Usaha Milik Daerah) Regionally owned enterprise
DAU	(Dana Alokasi Umum) General allocation transfer
Dana Otsus	(Dana Otonomi Khusus) Special Autonomy Fund
Desa	Village
Dinas	Regional Sector Office
Dispenda	(Dinas Pendapatan Daerah) Regional Government Revenue Office
DPRD	(Dewan Perwakilan Rakyat Daerah) Regional Parliaments
DSF	Decentralized Support Facility
Inpres	(Instruksi Presiden) Presidential Instruction
Juknis/Juklak	(Petunjuk Teknis/Petunjuk Pelaksana) Technical Guidance/Implementation Guidance
Kabupaten	District/Regency
Kepmendagri	(Keputusan Menteri Dalam Negeri) Home Office Ministerial Decree
Keppres	(Keputusan Presiden) Presidential Decree
Kota	City (urban district)
KPPU	(Komite Pengawas Persaingan Usaha) Committee for oversight of enterprise competition
LGSP	Local Government Support Program
LKPJ	(Laporan Keterangan Pertanggungjawaban) Budget Execution Accountability Report
MoF	Ministry of Finance
MoHA	Ministry of Home Affairs
Musbangdes	(Musyawarah Pembangunan Desa) Village Development Meeting
PAD	(Pendapatan Asli Daerah) Locally sourced revenue
PDAM	(Perusahaan Daerah Air Minum) Regional water authority
Perda	(Peraturan Daerah) Regional Regulation
PFM	Public financial management
Qanun	Islamic Regional Regulation (term only used in Aceh)
Renstra	(Rencana Strategis) Strategic Plan
RKA-SKPD	(Rencana Kerja dan Anggaran Satuan Kerja Pemerintah Daerah) Work Plan and Local Government Sectoral Budget
RPJMD	(Rencana Pembangunan Jangka Menengah Daerah) Regional Medium-term Development Plan
Sekda	(Sekretariat Daerah) Regional Scretariat

SK Bupati	(Surat Keputusan) Bupati Decree
SKPD	(Satuan Kerja Perangkat Daerah) Dinas work plan budget
SKO	(Surat Keputusan Otorisasi) Authorization Decree Letter
SPM	(Surat Perintah Membaya) Payment Order
SPP	(Surat Permohonan Pembayaran) Payment Request
USAID	United States Agency for International Development

Summary

Capacity in financial management varies widely across local governments in Aceh. While some local governments achieve reasonable outcomes in financial management capacity, others are lagging far behind. Capacity in key aspects of financial management also varies within individual local governments. Average outcomes indicate particular weaknesses in accounting and reporting, cash management and external audit.

Public financial management (PFM) framework

A Public financial management (PFM) survey was conducted in each local government in Aceh between May and November 2006. Capacity was assessed in nine key areas of financial management: (1) regulatory framework; (2) planning and budgeting; (3) cash management; (4) procurement; (5) accounting and reporting; (6) internal audit; (7) public debt and investment; (8) asset management; and (9) external audit and oversight. Each strategic area is divided into between one to five outcomes and a list of indicators requiring a 'yes/no' response is provided for each outcome. The outcomes represent a desired achievement within each strategic area and indicators are used to assess the extent to which a district government has achieved these outcomes. The PFM framework provides a snapshot of financial management capacity in individual local governments, focusing particularly on policies, procedures and regulations—the environment of financial management in local governments. Particular areas of weakness in financial management in local governments are highlighted, providing a breakdown of aspects that need to be improved. Before the PFM survey was conducted, knowledge of local governments' capacity was very limited. It is hoped that these results and the analysis that accompanies them will provide input for making a more effective assessment of financial management capacity in Aceh and its impact on the process of decentralization across the province.

Results

Overall, the highest scoring local government is Aceh Utara (69 percent) and the lowest is Aceh Jaya (15 percent); thus scores range from *good* to *very poor*, according to the framework's scoring guide. The average score is 41 percent. Eight local governments score between 39 and 42 percent and six local governments score below 39 percent. All but 3 local governments score poorly in at least one strategic area. Thus, more than five years after the implementation of decentralization, financial management capacity remains relatively weak in fourteen local governments in Aceh.

Policy implications

The results have four potential applications. First, and most importantly, the results and the accompanying analysis can assist local governments in addressing their own weaknesses in financial management. By identifying areas of weakness, local governments can themselves develop strategies to improve capacity in these areas. The first step for local governments is thus to ensure the policies, procedures and regulations are in place and subsequently to ensure that compliance is achieved and

that good financial management practices become institutionalized and further developed. Without compliance and institutionalization, the efforts to raise capacity will prove ineffective. Non governmental actors can provide support to local governments to develop their capacity by providing technical assistance and capacity-building training, where necessary. The provincial government can take a leading role in developing a province-wide strategy for local governments in Aceh.

Second, by highlighting key areas of capacity weakness it will be possible for agencies planning to engage local governments to account for financial management capacity and highlight particular local governments suitable for specific engagements. Third, in order to encourage a pro-active approach by local governments incentives should be provided to raise financial management capacity, for example by linking part of the *dana otsus* (special autonomy fund) allocation to improvements in capacity. Finally, by tracking changes in financial management capacity the Government of Indonesia can make a more accurate assessment of the impact of decentralization in Aceh. Thus, policy and regulatory issues in the decentralized context can be identified and improvements in service delivery more accurately accessed.

1. Public financial management in Aceh

Since 2001, Indonesia has been undergoing a fundamental transformation from centralized to decentralized government. However, up to now, the transition of power and responsibility over public resources from the center to local governments of varying capacity has been poorly understood. In particular, Aceh's special autonomy status has granted the province an even greater share of financial resources to local governments. The absence of systematic qualitative and quantitative information on how this fiscal decentralization is being managed in the districts has provided the impetus to develop a measurement framework for Indonesia's local governments.

The PFM framework provides one of the four pillars of the local government measurement framework. The other pillars cover public service provision, investment climate and fiscal health. By measuring performance in these four key areas, a systematic assessment of local governments' performance can be made.

For Aceh, effective financial management capacity in local governments is essential if long-term development goals are to be realized. Several factors have limited FM capacity in Aceh. First, rapid decentralization in Indonesia meant that as fiscal responsibilities were devolved and financial resources shifted to the local government level there was no concurrent increase in the capacity of local governments to manage these resources. As the role of local governments prior to decentralization was primarily to carry out the development priorities of the central government, financial management systems were not developed to cope with the devolved fiscal arrangements. Second, Aceh has experienced a significant rise in the number of local governments since 2000. Of the 21 local governments existing that exist today, 11 were formed since 2000. While this does not necessarily mean that financial management capacity will always be lower in newly formed local governments, the results of the PFM survey indicate that, on average, financial management outcomes were lower in newer local governments. Third, both the tsunami and the separatist conflict may have also adversely affected financial management outcomes.

Prior to the PFM survey, there was a lack of knowledge of the capacity of local governments in Aceh and more generally across Indonesia to manage their finances. If the effectiveness of decentralization is to be assessed effectively, a key component of this is an assessment of the capacity of local governments to manage their finances. If financial management remains weak more than five years after the sweeping changes brought about by decentralization, this has far reaching implications for decentralized Aceh. More important than an aggregate assessment of financial management, the aim is to create a detailed picture of financial management capacity in individual local governments across Aceh, and more generally Indonesia, as it is now the local government level that has the most impact on people's lives. Based on this premise, the PFM framework has been created to facilitate an assessment and analysis of financial management capacity at the local level.

Such knowledge will have several applications. First, the results and analysis will be disseminated to the local governments themselves. Thus, local governments will be provided with an accurate independent assessment of their own financial management

capacity and will be able to focus on improving key areas of weakness. Second, other government agencies, such as BRR and the provincial government, will be able to use the results both for designing interventions to increase capacity and also to better design programs accounting for particular strengths and weaknesses in financial management capacity. Likewise, donors will be able to draw on the results to design capacity-building interventions and better accommodate local government capacity in a range of programs. Third, the results and analysis can also be used to provide incentives for local governments to improve their PFM capacity. For example, if the survey were repeated annually or every two years, changes in PFM capacity could be identified. Well-performing local governments could be rewarded with additional revenue via the *dana otsus* (special autonomy fund) to encourage further improvements, while consistently poorly-performing administrations could be excluded from this additional revenue source. This could form part of an overall strategy to provide local governments with assistance to develop their financial management capacity.

2. The PFM framework: Strategic areas, outcomes and indicators

The PFM framework was developed by the World Bank and Government of Indonesia's Ministry of Home Affairs to assess local governments' financial management capacity. The framework is divided into nine strategic areas key to effective management of public finances at the district level of government: (1) regulatory framework; (2) planning and budgeting; (3) cash management; (4) procurement; (5) accounting and reporting; (6) internal audit; (7) public debt and investment; (8) asset management; and (9) external audit and oversight.

Each strategic area is divided into between one and five outcomes, and a list of indicators is provided for each outcome. The outcomes represent a desired achievement within each strategic area and indicators are used to assess the extent to which a district government has achieved these outcomes. While the framework uses some national and international PFM concepts and tools, this particular PFM framework has been designed specifically for Indonesian local governments. Hence, while minimum international standards have been drawn upon, they do not form the basis of the identified ideal outcomes, as it was considered that these standards were too high to make valid assessments of local governments in an Indonesian context.

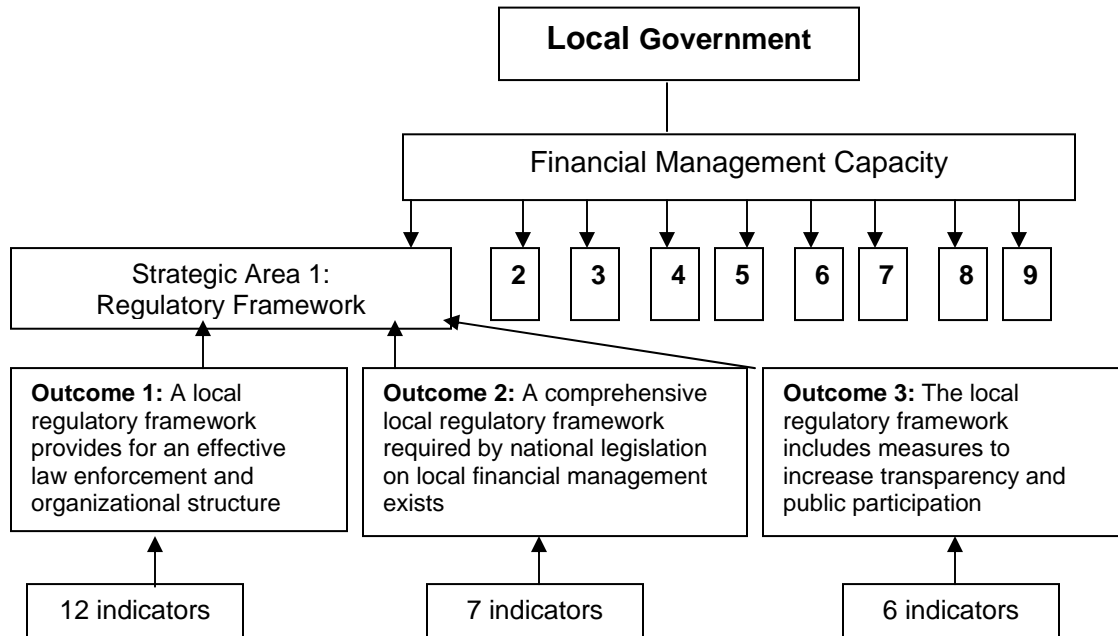
Respondents are required to answer 'yes' or 'no' to each of the statements provided by the indicators. Affirmative responses are added for each outcome and a score is calculated according to the percentage of 'yes' responses. A percentage score is thus provided for each desired outcome representing the extent to which the local government meets the outcome. By adding all the positive responses for a strategic area, a score is arrived at that represents the capacity of the local government for that aspect of financial management.

Results are obtained through interviews and focus group discussions with local government representatives at the relevant departments. These include: the local planning agency (Bappeda), the finance department, the district parliament (DPRD), the local revenue department, the local treasury office and the regional monitoring agency (see Annex 4). To ensure data accuracy 'yes' responses are required to be supported

by either relevant documentation or/and cross-checked with additional respondents.
Most results could be collected within three or four days.

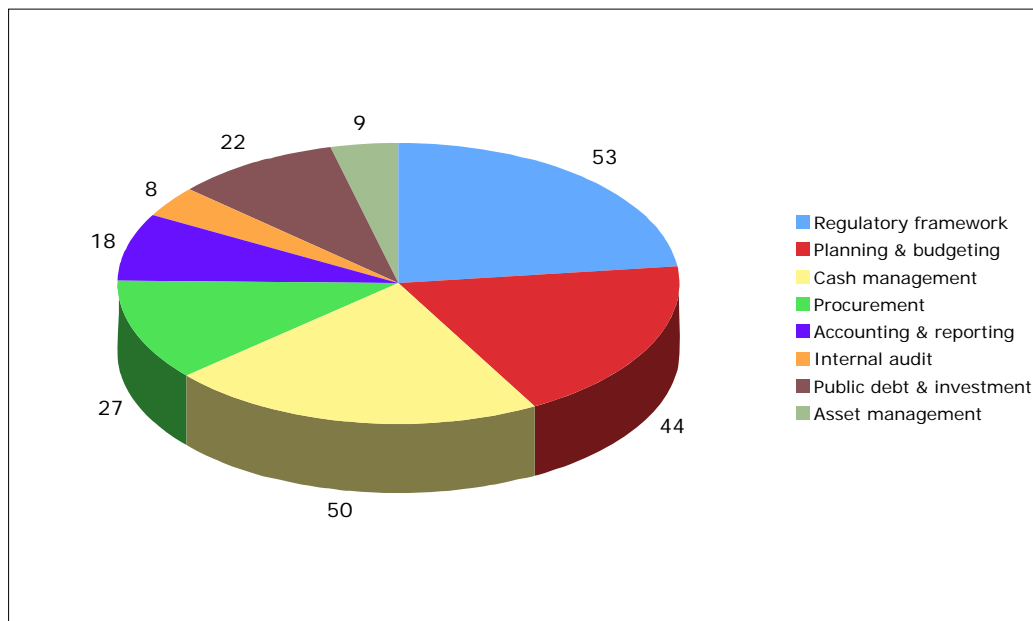
The figure below illustrates the structure of the framework, highlighting one of the strategic areas as an example.

Figure 1: Structure of the PFM framework



Some strategic areas have more indicators than others. For example, planning and budgeting covers 53 indicators, yet debt and public investment covers only eight. The overall score for each local government is calculated as an average of the nine strategic areas; hence, each strategic area is afforded an equal weighting

Chart 1: Number of indicators in each strategic area



Limitations of this framework

This measurement framework is designed to be as comprehensive as possible. However, certain shortcomings are unavoidable. The framework does not claim to be capable of measuring all that there is to measure with respect to financial management and accountability of local governments. It takes into account what is feasible and realistic to achieve in the Indonesian context. Therefore, the indicators refer to the “basics” that are not only required but also considered achievable. This has been done in order to sensitize the model to the relatively modest improvements in PFM that are likely to be realized by many Indonesian local governments, at least in the near term.

The framework has been developed for ease of use. A degree of selectivity has therefore been applied in including certain outcomes, indicators and diagnostic questions and leaving others out, such that the framework can be easily applied by surveyors. Internal control environments at some of the key PFM institutions may not be fully captured in this model. Assessing internal controls can be an intricate exercise. Therefore, in key regional PFM institutions, such as accounting and local treasury offices, only some leading questions have been included that would give broad indicators of the control environments.

Just as it is important to have the right procedures and policies in place, it is also important to ensure that these are actually applied in practice. This framework is inclined more towards assessing the adequacy of the policies and procedures as laid down, and relies generally on discussions between the enumerators and local government officials. Capturing practices that are not in line with the regulations, policies and procedures that govern financial management is problematic. In effect, this means that a high score for, say, internal audit does not necessarily mean that the internal audit is carried out appropriately or effectively. Rather, it simply means that the policies and procedures are in place to conduct an appropriate internal audit.

It is important to note that the measurement framework has been prepared in the absence of any extensive supporting information regarding current PFM processes employed across a significant number of Indonesian local governments. This was because such information was unavailable at the time the framework was developed. In the light of experience in applying the framework across Aceh, adjustments should be made in the future to make the framework more appropriate to the Indonesian context and more focused on capturing measurable PFM outcomes.

3. The PFM Survey in Aceh

The survey in Aceh was conducted in three stages. The first round covered five local governments: Banda Aceh, Aceh Besar, Aceh Jaya, Aceh Barat and Nagan Raya. Surveys were carried out in May to June 2006. The five locations were selected as USAID-LGSP (Local Governance Support Program) had programs in all these five tsunami affected local governments. LGSP funded this first round surveys and provided training for the researchers (a three-day workshop held in Medan in April 2006). LGSP and the World Bank coordinated the survey work and observed the survey implementation. The second round was conducted in four local governments: Aceh Utara, Aceh Timur, Pidie and Bireuen. The World Bank funded and organized this round, which was conducted in July 2006. Round three was conducted in the remaining 12 local governments plus the provincial government in November 2006. This was funded by BRR and organized by the World Bank. This report focuses on the 21 local governments.

The surveys were carried out by researchers from four Indonesian universities: UNSYIAH in Banda Aceh, USU in Medan, and UNHAS in Makassar and Andalas in Padang. Several researchers were also contracted from Aceh NGOs. The researchers had strong academic backgrounds in financial management, most with a relevant MSc, and some with a PhD.

Initial results have already been published in the World Bank's *Aceh Public Expenditure Review*¹ and in BRR's *Aceh and Nias Two Years after the Tsunami*². It is expected that future stages of the implementation of the PFM framework will cover the rest of Indonesia. LGSP has also surveyed several local governments outside Aceh, focusing on strategic areas relating to their capacity-building programs.

PFM results in Aceh

The radar below (Chart 2) highlights the divergence in financial management capacity across Aceh. The average score for all 21 local governments is 41 percent. Of immediate concern, nine local governments score under 40 percent (*poor*) and five local governments score between 40 and 42 percent. Only one, Aceh Utara, scores over 60 percent. It should be noted that low scores are not necessarily the result of a poorly managed incumbent civil service and/or an ineffective local government. A host of factors have led to poor outcomes in financial management, such as the whether the district is administered by an acting *bupati*, the quality of the staff in a remote area, the historical incidence of conflict, the immediate impact of the tsunami, a history of poorly managed previous administrations and a lack of financial resources. Current low levels of capacity in many local governments need immediate and sustained attention. Specific weaknesses highlight areas on which to focus capacity-building measures. Change over time can, and should, be attributed to the government officials responsible. Improvements should be recognized and rewarded, and failures duly noted and accounted for.

¹ *Aceh Public Expenditure Analysis – Spending for Reconstruction and Poverty Reduction*. World Bank, 2006.

² *Aceh and Nias Two Years after the Tsunami*, Badan Rehabilitasi dan Rekonstruksi, 2006.

Results overview

The PFM scores for all 21 local governments, plus the provincial government, are listed below. A scoring guide is provided to show the grading of scores from *excellent* to *very poor*.

Table 1: PFM framework scoring guide

Scoring Guide	
81-100%	Excellent/Fully acceptable
61-80%	Good/Substantially acceptable
41-60%	Moderate/Partially acceptable
21-40%	Poor/Substantially unacceptable
0-20%	Very poor/Unacceptable

Chart 2: PFM scores for each of the 21 local governments and provincial government

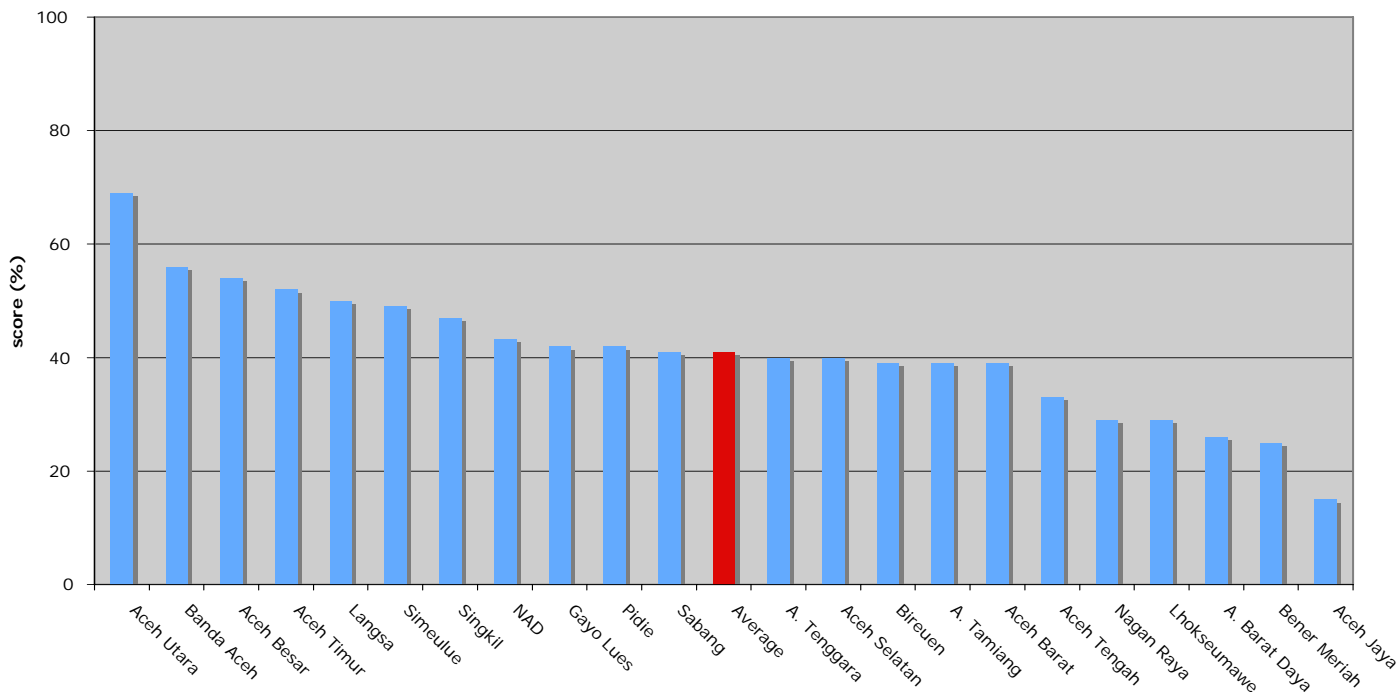
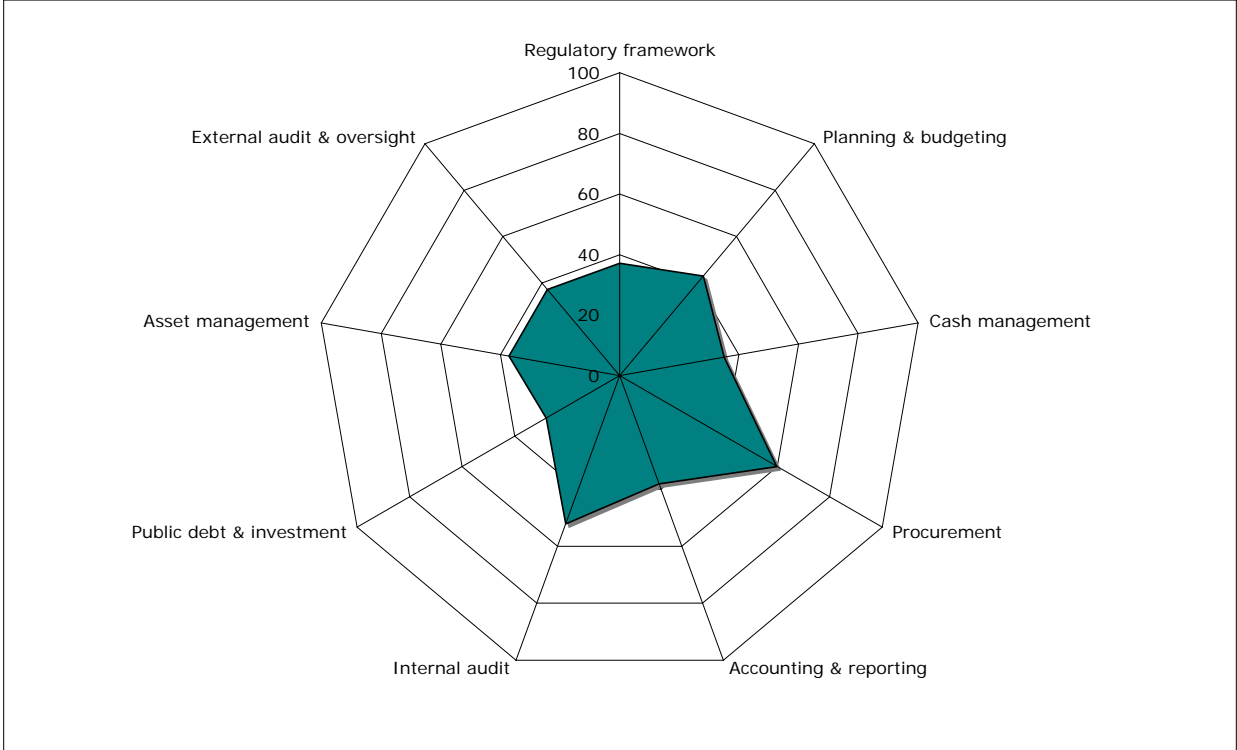


Table 2: PFM scores by strategic area for Aceh regional governments

	Government	Overall score	STRATEGIC AREA								
			Regulatory framework	Planning & budgeting	Cash management	Procurement	Accounting & reporting	Internal audit	Public debt & investment	Asset management	External audit & oversight
1	Aceh Utara	69	68	74	57	78	63	78	63	68	67
2	Banda Aceh	56	48	53	61	68	59	56	50	41	67
3	Aceh Besar	54	56	42	48	62	59	67	38	45	67
4	Aceh Timur	52	68	51	34	64	52	78	50	36	33
5	Langsa	50	56	55	43	66	48	61	50	36	33
6	Simeulue	49	36	51	43	76	52	56	25	50	56
7	Singkil	47	44	51	39	68	33	50	50	36	56
8	Gayo Lues	42	36	51	34	58	74	39	25	32	33
9	Pidie	42	32	36	48	72	41	67	0	50	33
10	Sabang	41	36	34	41	54	59	50	0	41	56
11	A. Tenggara	40	48	49	27	74	19	50	38	32	22
12	Aceh Selatan	40	24	49	16	58	22	44	38	50	56
13	Bireuen	39	32	47	36	72	41	44	12	36	33
14	A. Tamiang	39	44	30	39	58	37	44	38	27	33
15	Aceh Barat	39	8	26	50	70	19	61	50	64	0
16	Aceh Tengah	33	32	40	23	56	30	33	13	27	44
17	Nagan Raya	29	12	25	23	64	19	67	12	41	0
18	Lhokseumawe	29	24	33	36	32	33	50	0	18	33
19	A. Barat Daya	26	24	42	14	48	15	44	25	14	11
20	Bener Meriah	25	20	30	18	38	15	33	13	27	33
21	Aceh Jaya	15	20	25	14	34	11	11	0	14	11
	Average	41	37	43	35	60	38	52	28	37	37
	NAD	43	36	46	41	52	56	61	0	41	56

The radar below shows the average scores in the nine strategic areas for all 21 local governments. The range of average scores for strategic areas is significantly narrower than the range of scores for local governments. The highest average score is for procurement (60 percent) followed by internal audit (52 percent). The lowest score is for public debt and investment (28 percent) followed by cash management (35 percent)

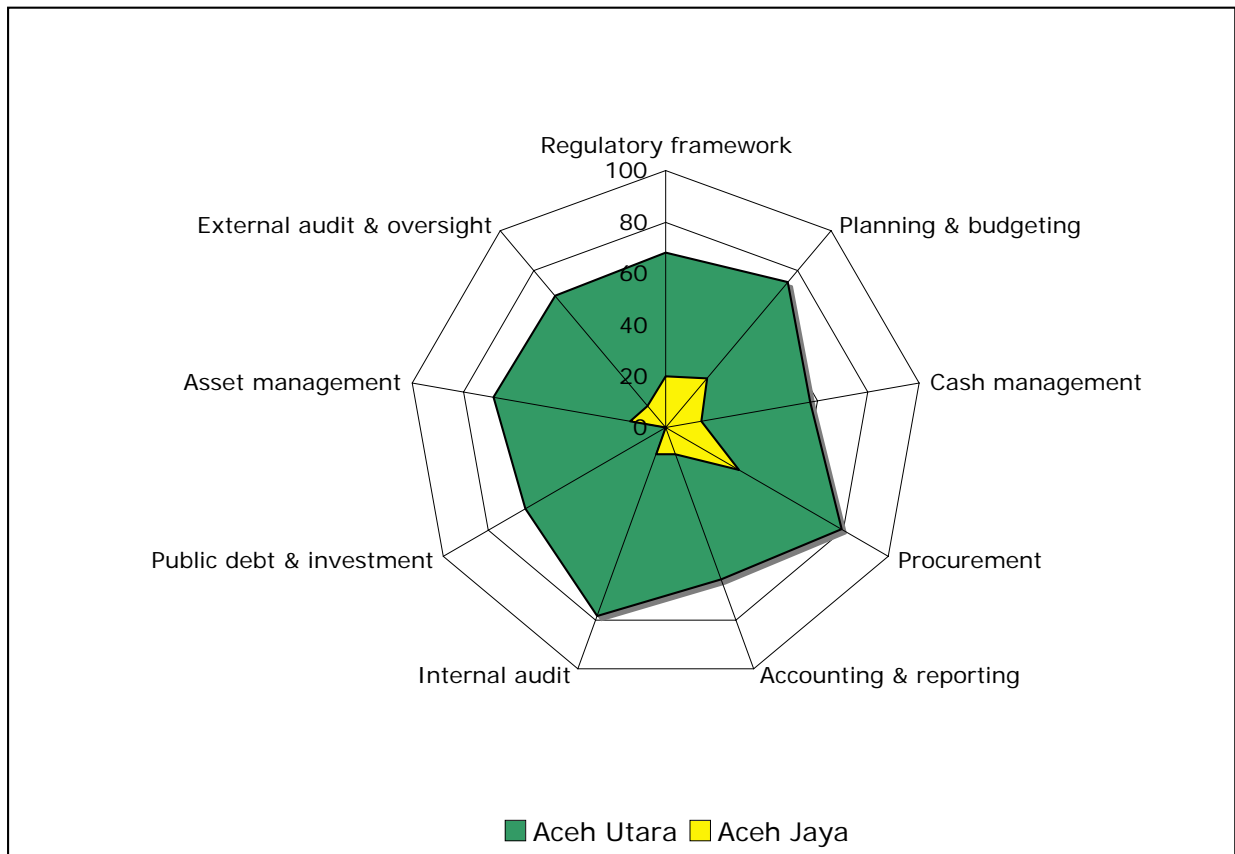
Chart 5: Average PFM scores by strategic area



Best-performing and worst-performing local governments

The highest overall score for financial management is achieved by Aceh Utara (69 percent), while the lowest score is provided by Aceh Jaya (15 percent). The radar below compares the scores for the highest and lowest scoring local governments, illustrating the huge divergence in financial management outcomes across Aceh’s local governments.

Chart 3: Comparing the best-performing and the worst-performing local governments



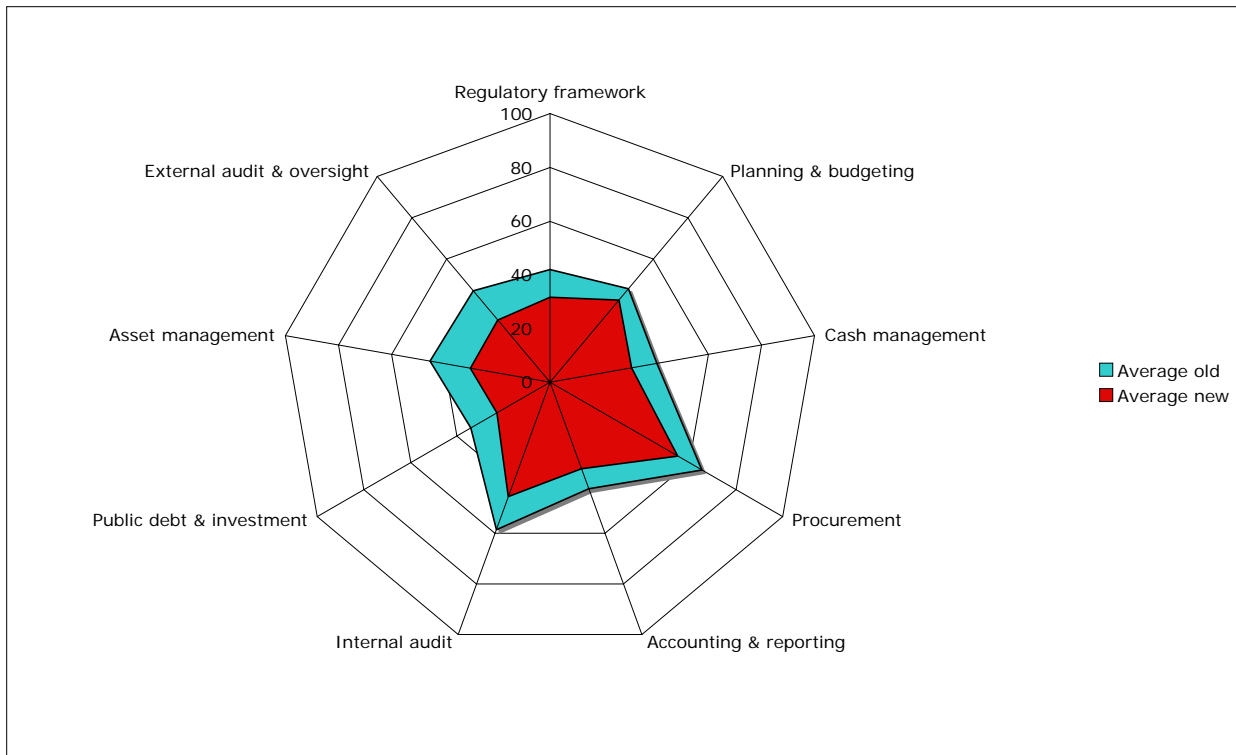
The research team for Aceh Utara identified the political will and commitment of the *bupati* as the main driver of good performance in financial management. Having well-qualified staff supports efforts to raise financial management capacity. Also, support from the local legislative, NGOs and society groups, encourages the local government to raise its performance. Aceh Jaya’s poor performance is in part due to its relatively new status as a district, and the subsequent inadequate human and financial resources at its disposal. In addition, the devastating impact of the tsunami on Aceh Jaya, (the capital, Calang, was completely destroyed) has clearly impacted on financial management outcomes in the medium term.

PFM performance in old and recently established local governments

More recently formed local governments score lower, on average, for each of the nine strategic areas. Eleven of the 21 district and city governments were formed after 2000. This forms part of a nation-wide pattern of sub-division of districts, together with the formation of fiscally independent city administrations within districts following decentralization. In Aceh there are nine ‘new’ districts and two recently formed city administrations. Lower financial management capacity can result from a number of factors: the lack of government infrastructure in the new district to carry out local government functions effectively (or at least, as well as before the separation); the lack of skilled personnel if most of the civil servants remain in the originating district; the lack of time to develop financial management practices; and, insufficient time to pass supporting regulations. However, newly formed districts and cities do not uniformly score lower than originating districts. Clearly, regional separation needs to be carefully considered to ensure that financial management standards are, at the minimum, maintained. Several of the more recently formed local governments have very poor outcomes, indicating a lack of proper

preparation to ensure standards were maintained. Even three to four years after separation, capacity is still far below that of the originating district for several of the recently formed local governments.

Chart 4: Comparing performance in old and recently established local governments



PFM performance in districts (*kabupaten*) and cities (*kota*)

Prior to the survey, cities may have been expected to perform better than districts for several reasons. First, as urban centre cities may be able to draw on more qualified staff who prefer to live and work in major centers. Cities may have better infrastructure to conduct government functions, particularly compared with neighboring district governments that have been relatively recently formed. The PFM survey results indicate that cities, on average, perform better than districts, although there is one notable exception.

Four of the local governments are city administrations. Banda Aceh and Sabang have been separate administrations for some time and Langsa and Lhokseumawe were both formed in 2001 at the start of regional decentralization. A comparison between cities and districts does not show a wide variation, although the average PFM scores for cities are substantially lower than they otherwise would be due to the poor performance of Lhokseumawe (29 percent). Langsa, by contrast, scores higher in every strategic area except external audit, scoring 50 percent overall.

4. Detailed Results and Analysis

The scores shown above for the nine strategic areas within local governments only provide a glimpse of PFM capacity in these key areas. A more detailed description shows significant variations at outcome and individual indicator level. The proceeding section analyses each strategic area in turn and compares scores outcomes between the local governments at outcome and also indicator level, if insightful. As a detailed analysis of each strategic area in each local government would be overly descriptive given the number of local governments (21) and the number of indicators (256), a comparison of the highest and lowest scores for each area provides the bulk of the analysis. In this way, it is hoped that the worst performing local governments will appreciate the extent to which financial management capacity needs to be upgraded.

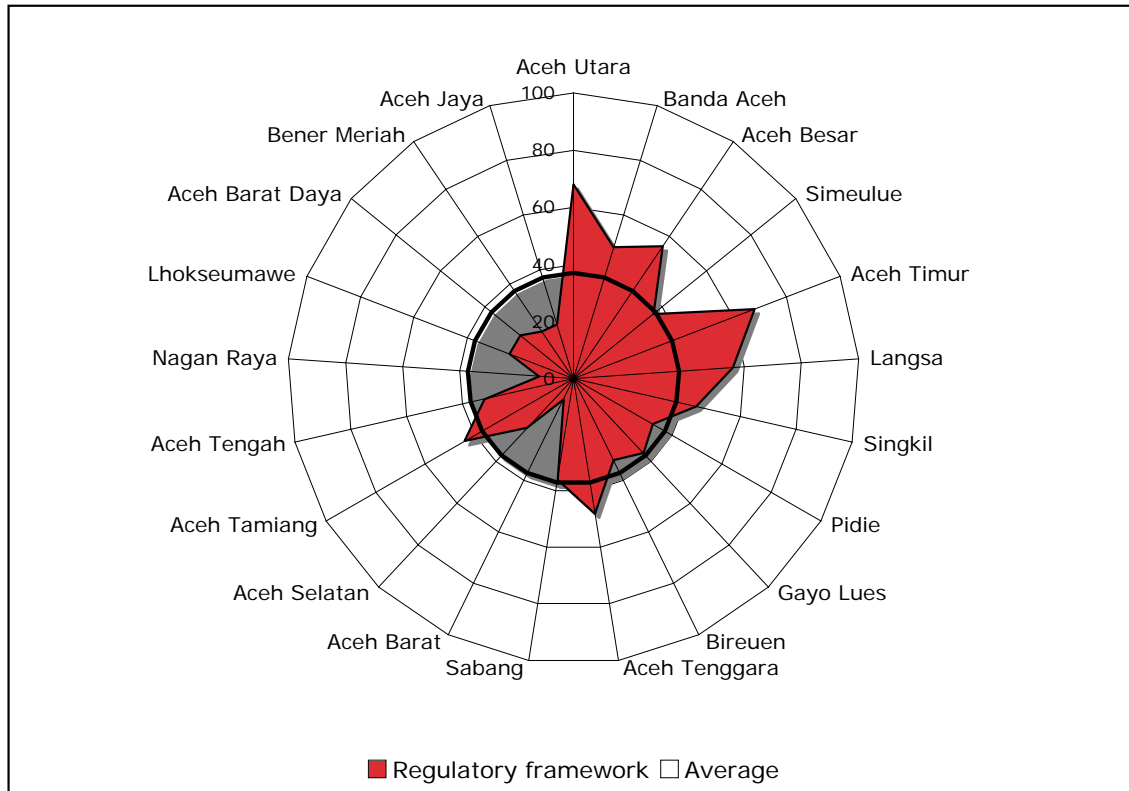
5.1 Strategic Area 1: Local regulatory framework

In Aceh, as well as elsewhere in Indonesia, a comprehensive legal framework for financial management, in line with national legislation and effectively enforced, is essential in the decentralized context of Indonesia. Since decentralization, local governments are required (Law No. 22/1999 and Law No. 17/2003) to pass local legislation (Peraturan Daerah, known as Perda) to legislate on the managing of finances within the local government. Prior to decentralization, the national law provided a legal umbrella for financial administration, but with the devolvement of fiscal powers and responsibilities to the sub-national level, new supporting legislation is required. Local governments have approached this in a number of ways. Some have pressed ahead and issued Perda in accordance with national obligations, while others have issued SK Bupati decrees (Surat Keputusan Bupati, or SK Bupati) to serve the same purpose, with some still relying on existing national level regulations. The key distinction between Perda and SK Bupati is that Perda need to be passed by the local legislative while SK Bupati decrees are, as the name suggests, issued by the executive without legislative approval. In practice, SK Bupati decrees carry less legal weight and this has implications for adherence and enforcement.

The overarching strategic objective is to create supporting local regulatory frameworks to promote effective financial governance that is consistent with national legislation. The local regulatory framework is divided into three desired outcomes: (1) there is a comprehensive local regulatory framework on local financial management; (2) the framework facilitates effective law enforcement and organizational structure; and (3) the framework includes measures to increase transparency and public participation.

While this strategic area focuses on local legislation, including Perda and SK Bupati, other strategic areas are more focused on policies and procedures. For example, outcome one includes indicators on the existence of local legislation on the Regional Medium-Term development Plan (RPJMD) and local legislation on reserve funds and annual budget revisions. Outcome three includes indicators covering transparency and consultation processes.

Chart 6: Regulatory framework



The average score across all 21 local governments surveyed is 37 percent, below the overall average of 41 percent. Thirteen local governments score *poor* or *very poor*. Only two local governments score *good*.

Local regulatory framework - good performers and poor performers

Aceh Utara, the highest scoring local government, scores 69 percent for this strategic area. For the first outcome all but two of the 12 indicators are met. Perda are already in place except for legislation on local obligations, and public and private investment. For the second outcome on legal enforcement and structural organization, four of the seven indicators are met. Of the three unrealized indicators, deficiencies include a lack of measurement of performance and a lack of an incentive/sanction structure for staff. For the third outcome on transparency and public participation, Aceh Utara scores 50 percent. While there is evidence of procedures for public participation in budgeting and policy-making processes, there is no formal procedure for bottom-up participation in planning and no legislation on consultation processes or transparency. It should be noted that while the public formally has access to budget sessions in the local parliament, the framework does not capture the extent to which members observe budget sessions.

Aceh Jaya has only passed legislation on the annual budget (APBD) and has only passed two SK Bupati decrees in lieu of Perda for all the other 11 indicators of outcome one. Similarly, for outcome two, only one SK Bupati decree is listed, which only partially addresses technical aspects of financial management. Outcome three scores zero, with none of the six indicators met. The total lack of a legal framework to ensure some degree of transparency and community participation is an area of immediate concern. Aceh Jaya’s status as a newly formed district may partially explain its low score (20 percent) for local regulatory framework, but the lack of even SK Bupati in lieu of Perda suggests that local governments are either not put under pressure to

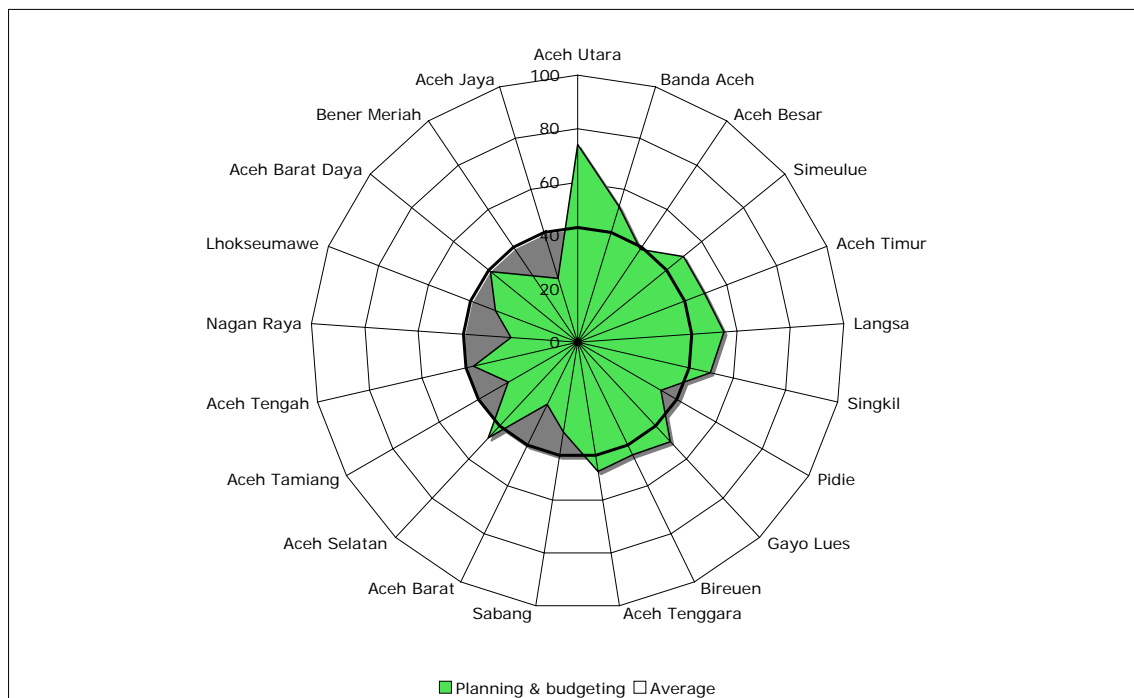
pass supporting legislation even six years after decentralization or are unable to pass legislation.

There are cases of local governments relying on Keppres (Presidential Decree, or Keputusan Presiden). For example, Aceh Barat still uses a Keppres for the procurement of goods and services. In Aceh Barat and Nagan Raya only three of the indicators are met for the outcome on the regulatory framework for financial management. The obstacles and bottlenecks need to be identified and tackled comprehensively, whether these include a lack of impetus from the leadership, a lack of technical expertise or an antagonistic relationship between the local government and the local parliament.

5.2 Strategic Area 2: Planning and budgeting

Effective planning and budgeting lie at the core of effective financial management. With poor planning and budgeting systems a local government cannot effectively manage its finances. The strategic objective is the creation of rigorous regional multi-year budgets clearly linked to regional plans. Of the six outcomes, the first outcome on “consistency between bottom-up participative planning processes, regional development, sectoral planning and the annual budget” provides one third of the strategic area score.

Chart 7: Planning and budgeting



Planning and budgeting: good performers and poor performers

The average score for this strategic area is 43 percent. Nine local governments score *poor* or *very poor*. Aceh Utara is the only local government scoring above 60 percent, with a score of 74 percent for planning and budgeting. It scores well for two of the four outcomes. For the first outcome on “consistency between participative bottom-up planning, sectoral planning and budgeting”, Aceh Utara meets 14 of the 17 indicators. The RPJMD (Regional Medium-term Development Plan) is judged to be realistic, with clear strategies and programs based on

targets. Sectoral planning is based on the RPJMD and reflects development priorities. Minimum service standards are used for budgeting purposes and planning documents and activities in the APBD use a consistent structure. However, planning documents are not supported by project costs in line with budget limitations and planning documents do not cover activities that are funded outside the APBD. Of note, in the regulatory framework strategic area, bottom-up planning processes are not incorporated in local legislation. Outcome two on medium-term budgeting does not score well (only one of three indicators is met). A five-year accountability report is submitted to local parliament but a medium-term expenditure framework is not implemented and a multi-year time horizon is not used in plans and budget forecasts.

Outcome three on realistic budget-making process scores relatively poorly, meeting only four of the 11 indicators. The budget is often not approved by the 31 December, a strategy to increase revenue in line with national legislation does not exist, and the differences between planned and realized expenditure and revenue both exceed 10 percent.

Bottom-up participative planning scores well, with evidence that the RPJMD is a realistic proposal, while planning documents are based on the RPJMD reflecting development priorities. The budget seems to be pro-poor with all indicators met. Quantitative and qualitative poverty data are collected using a participative approach and pro-poor policies are reflected in the SKPD (Satuan Kerja Peringkat Daerah, or Dinas, work plan budget) and RPJMD. Budget priorities are also broadly pro-poor with spending on public services up from previous years and spending on health, education and infrastructure accounting for about 50 percent of the budget.

While there are aspects of planning and budgeting that need to be improved, particularly on medium-term planning and budgeting, Aceh Utara's high overall score sets the standard for other local governments in Aceh for this core aspect of financial management.

Aceh Jaya and Nagan Raya, by contrast, score the lowest for planning and budgeting (25 percent). Of the six outcomes, Nagan Raya only scores well for outcome six on expenditure controls to ensure budget output. Outcome one on the consistency between bottom-up planning, sectoral planning and the budget scores very poorly, meeting only two of the 17 indicators. Respondents indicated that village-level meetings (Musbangdes) are not based on community needs, that bottom-up planning proposals contain an unrealistic number of items and that sectoral plans are not based on the RPJMD and fail reflect development priorities. Other weaknesses include a lack of consistency in the structure of planning documents and activities in the APBD and a lack of measurable indicators. Outcome two on medium-term planning scores zero and for outcome three on realistic budget making processes only one of 11 indicators is met. Budgets are not approved on time (the 2006 budget was approved in May 2006, five months late), monthly and quarterly revenue projections are not provided in the budget, there is no strategy to increase revenue and regulations on the use of emergency funds and off-budget funds are unclear.

The budget is partially pro-poor, with Nagan Raya meeting four of the nine indicators. Poverty data are lacking, although pro-poor policies are reflected in the Renstra (Rencana Strategis, or Strategic Plan) SKPD and RPJMD. Expenditure on public services has increased in the past three years and expenditure on health, education and infrastructure constitutes the largest share of the budget.³ Outcome five on a comprehensive participatory monitoring and evaluation system for planning and budgeting processes scores poorly, meeting only two of the nine indicators. The public is not involved in the monitoring and evaluation of activities, there is no local legislation on a planning and monitoring evaluation system, and planning and budgeting documents are not publicly disclosed or made easily accessible to the public.

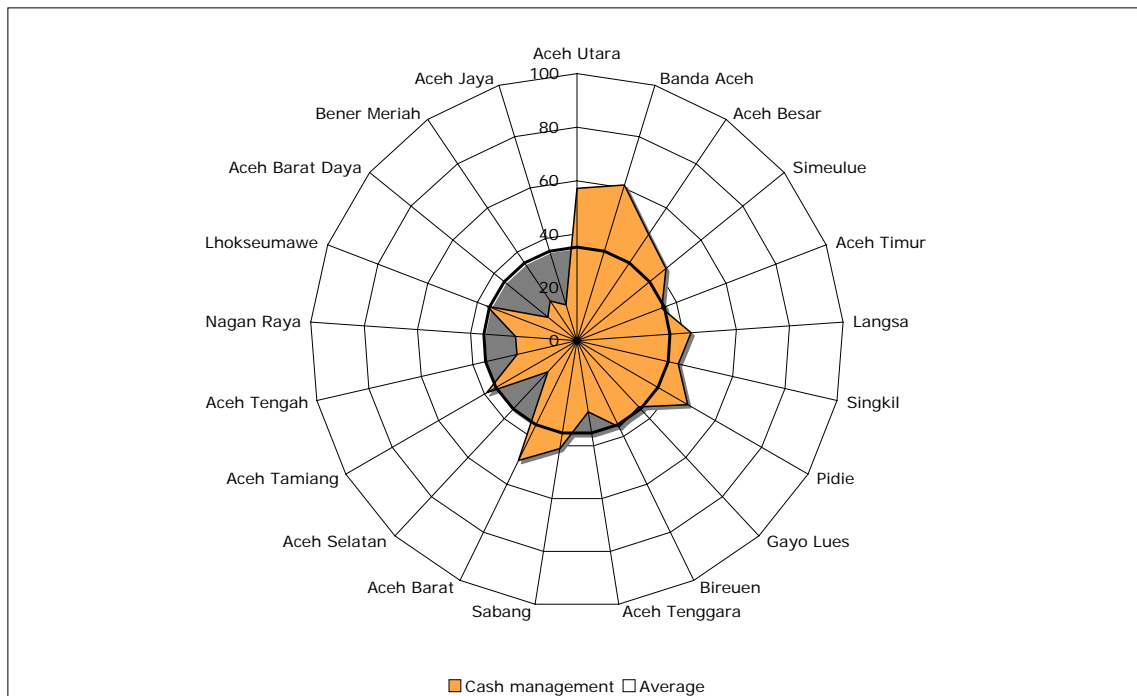
³ Budget data are unavailable for Nagan Raya, Bener Beriah, Aceh Jaya and Aceh Singkil districts (APEA, 2006); hence this response cannot be verified.

With nine of the local governments scoring well below even moderate levels, this core component of financial management is a priority if financial management outcomes are to be improved. Clear guidance needs to be provided to local governments detailing a strategy to improve planning and budgeting outcomes in line with the outcomes listed. Reform in this area is not straightforward and requires an overhaul of not only processes but also of attitudes within the local administration. The fact that budgets are commonly not approved on time, with delays often running well into the following year, needs to be addressed urgently. Not only does this cause problems in planning and implementation, but it reduces public faith in budget processes. Transparency needs to move from being a buzzword in local government administrations towards becoming a reality. Providing budget information regularly, in good time, making it easily accessible and allowing space for discussion and disagreement would be a big step forward.

5.3 Strategic Area 3: Cash management

Cash management is accorded a separate strategic area reflecting the importance of institutionalizing proper practices to handle cash in local government. In some ways it should be the most straightforward of the strategic areas in which to achieve a good score, as effective and proper cash management is such a basic component of sound financial management. However, the 21 local governments only average 35 percent (*poor*), with 14 local governments scoring *poor/very poor* and only one achieves *good*.

Chart 8: Cash management



Cash management: good performers and poor performers

Banda Aceh scores the highest for cash management (61 percent). It scores reasonably well across the four outcomes. For outcome one, policies, procedures and controls to manage cash management are partly in place, with the local government meeting six of the 10 indicators. Written guidance on policies and procedures for cash management is provided and backed by local regulations on cash management in line with national regulations. However, routine staff training on cash management is not provided and the Bawasda (Badan Pengawasan Daerah, or Regional Audit Agency) does not carry out an annual cash management compliance review.

Cash receipts and payments are managed reasonably efficiently, meeting eight of the 11 indicators. Cash receipts are stored in a nominated bank account on the day of receipt or the following day. A daily reconciliation is made for cash receipts and deposits, and payments over Rp 5 million are not paid in cash but transferred or paid by check. However, a computerized system is still not in place and regular reconciliations are not made of bank accounts, deposits, accounts receivable and accounts payable.

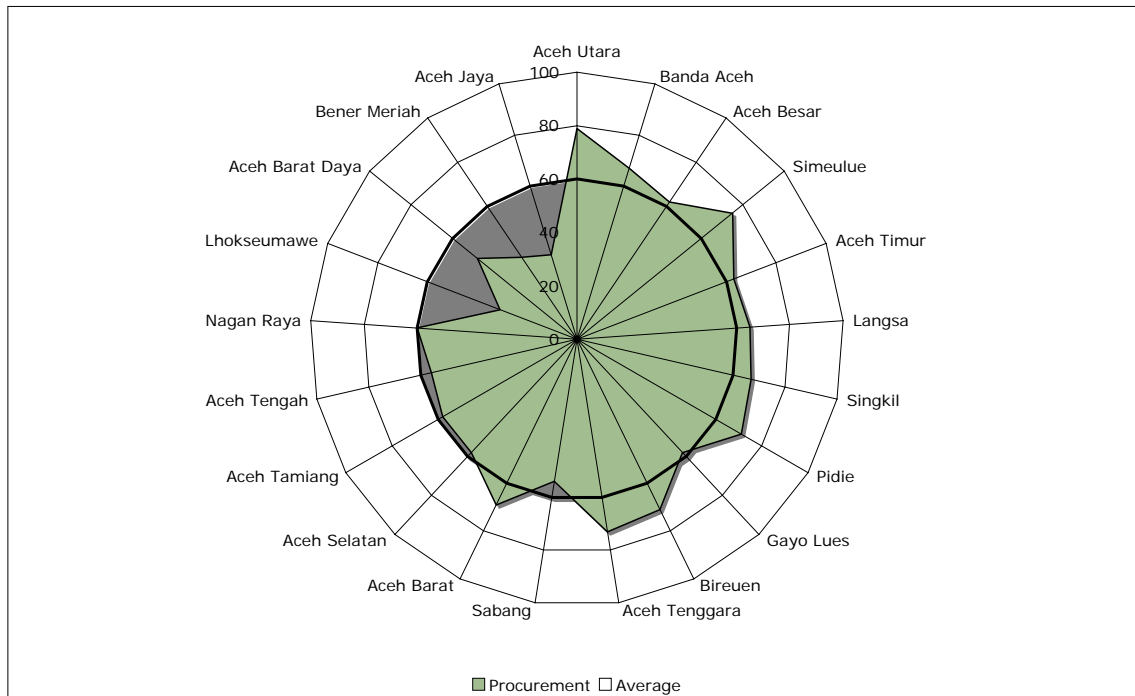
Outcome three focuses on the system for billing and collecting local revenues and, with 17 indicators, this aspect is given prominence. Banda Aceh meets 10 of the indicators on locally sourced revenue (*pendapatan asli daerah*, or PAD). Policies for local levies and taxes are set out in local legislation, which is consistent with national legislation. The local revenue base is reviewed annually to calculate revenue capacity for each revenue item. Customers are billed on time and a service is provided to handle enquiries from taxpayers. However, the receipting system is inadequate to prevent fraud and it lacks clarity in the event of disputes. Also, billing and collection systems are not integrated and sanctions are not applied to outstanding debtors.

Aceh Jaya and Aceh Barat Daya score the lowest (14 percent). Aceh Barat Daya does not manage to meet any of the indicators on policies, procedures and controls to manage cash. This should be partly offset by the use of SK Bupati decrees instead of local regulations to govern the management of cash. Hence, a legal framework is provided, albeit not institutionalized through the issuance of local regulations. Outcome two on cash receipts and payments scores four from 11. Cash receipts are stored in a nominated account and payments over Rp 5 million are transferred to a bank account. Contractors are paid in accordance with requirements and regular reports on cash balances are submitted to the *bupati*, treasurer and head of the finance department. However, cash is often not stored on the day of receipt, there is no daily reconciliation of receipts and deposits, and cash surpluses are not regularly placed in short-term investments. For outcome three on the system of billing and collecting local revenues, Aceh Barat Daya only meets two of the 17 indicators. Regulations and guidance are lacking, again with a reliance on SK Bupati decrees in lieu of Perda. Account notices are not delivered to taxpayers, a receipting system is not in place to prevent fraud, payments are often not collected on time, penalties are not imposed for late payment and billing and collection systems are not integrated. Outcome four on PAD scores zero.

5.4 Strategic Area 4: Procurement of goods and services

The overarching strategic aim is to promote the efficient, competitive procurement of goods and services through policies, procedures and controls. Outcome one, with 47 indicators focuses on value for money in regional expenditure, transparency and accountability in procurement activities. Outcome two, with three indicators, concerns a complaint-handling system.

Chart 9: Procurement



Procurement: good performers and poor performers

With an average score of 60 percent procurement is the highest scoring strategic area. Twelve local governments score *acceptable* or *good* and only three score *poor*. Aceh Utara scores the highest once again (78 percent) and Lhokseumawe scores the lowest (32 percent). Aceh Utara scores very highly for outcome one. There is a local regulation in place to govern the procurement of goods and services, formal guidance on how to conduct procurement is provided, procurement plans are produced annually, estimated costs are prepared and bid documents are kept confidential. However, the unmet indicators are crucial to ensure good procurement practice. DPRD members routinely participate in procurement committees, less than 75 percent of procurements are completed using public bids and there is no rule and/or enforcement governing the participation of procurement committee members and officials with familial relationships with the official appointing them. The second outcome is fully met concerning the operation of a complaints procedure. A Perda governs the complaints procedure and complaints are registered and processed in line with the Perda.

In Lhokseumawe, regulations governing procurement are lacking, guidance on procedures is lacking, costs of all procurement plans are not prepared and revised annually, and procurement staff lack qualifications and competence. On the plus side, tender documents are kept confidential, briefing sessions are conducted openly, and announcements on procurements are published in the media. However, there is no system for handling complaints.

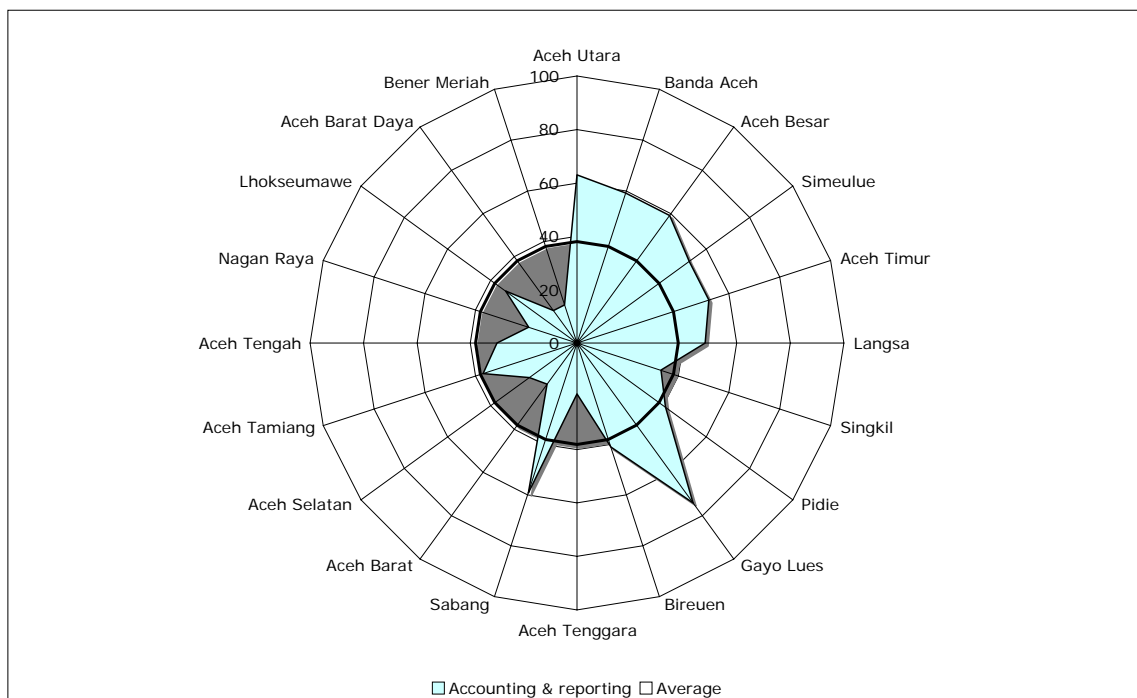
Despite the often high scores, this does not necessarily mean that procurement processes are conducted transparently and efficiently. The PFM framework only captures the environment of procurement practices and does not evaluate the practice of procurement in each district and city. Although procedures may exist, adherence may remain weak and leakages and corruption can, of course, take place in an environment where adherence and enforcement is weak. However, some local governments have clearly undertaken efforts to improve this much-

maligned area of government activity. A first step is to create the legal framework, enforce procedures and then rigorously follow up suspected anomalies.

5.5 Strategic Area 5: Accounting and reporting

Accounting and reporting are inescapable components of financial management. This area requires well-defined procedures and staff trained to record financial data. The strategic aim is to establish an accounting system that ensures prompt accounting of all financial transactions and produces reliable, fair and timely external and internal financial reports. It comprises four outcomes: human and institutional capacity; integrated accounting and reporting systems; prompt and accurate recording of all local government financial transactions; and, reliable financial management information reports.

Chart 10: Accounting and reporting



Accounting and reporting: good performers and poor performers

Accounting and reporting scores below the overall average (38 percent compared with 41 percent). Again, Aceh Utara and Aceh Jaya provide the outliers, with Aceh Utara achieving a high 63 percent set against only 11 percent for Aceh Jaya. While Aceh Utara has made solid progress, Aceh Jaya has achieved very little, if any, progress in this area since its formation in 2002.

Despite its high overall score for accounting and reporting, Aceh Utara does not possess a Regional Audit Agency (Badan Pengawasan Keuangan Daerah, or BPKD) and, hence, it scores zero for outcome one. However, it scores well for the outcome “transactions and balances are accurately recorded on time” and also for “financial reports and management information are reliable”. Assets are properly valued and documented, double-entry book-keeping practices are used and accounting records and bank records are periodically reconciled. For outcome 4,

balance sheets, budget realization and cash flow reports are prepared and annual financial reports are submitted to the audit agency in a timely manner.

Aceh Jaya, by contrast, scores zero for three outcomes. Human and institutional capacity is very weak, accounting and management systems are not integrated and financial transactions and balances are not recorded promptly or accurately. With such weak systems for accounting and reporting, Aceh Jaya needs support in order to put into place the necessary systems and support to develop a skilled staff base.

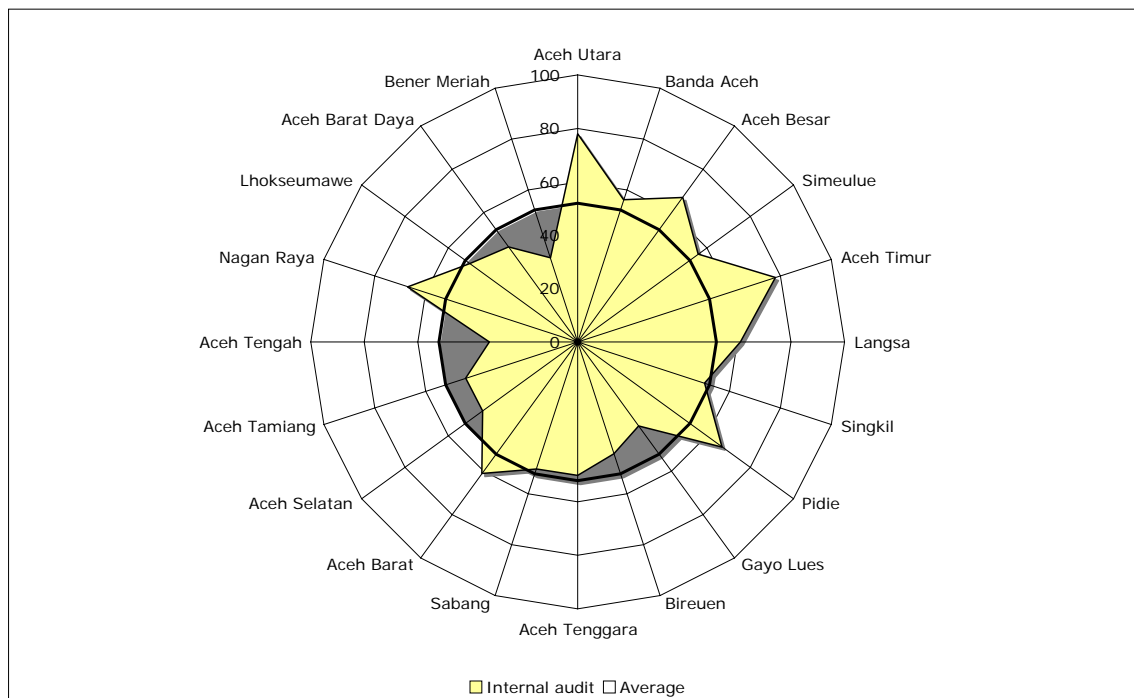
While Aceh Jaya provides a sharp contrast, it is not the only local government in Aceh with very poor outcomes for accounting and reporting. Bener Meriah, Aceh Tenggara, Nagan Raya and Aceh Barat Daya all score below 20 percent (*very poor*).

5.6 Strategic Area 6: Internal audit

An effective internal audit is a crucial aspect of financial management. An effective internal local government audit requires proper record-keeping and efficiency in local government departments, and reduces the scope for corruption and leakages. The strategic objective for internal audit is the establishment and maintenance of an effective and efficient internal audit function. To assess the extent to which this strategic objective is met there are three outcomes: (1) the local government’s internal audit agency is organized and empowered to operate effectively; (2) standards and procedures are acceptable; and (3) findings are followed up adequately.

The PFM framework can only capture the formal arrangements for internal audit. It does not evaluate the effectiveness of the audit. An internal audit annual report, which finds no evidence of financial inconsistencies or misappropriation of funds, does not imply that the internal audit was conducted properly.

Chart 11: Internal audit



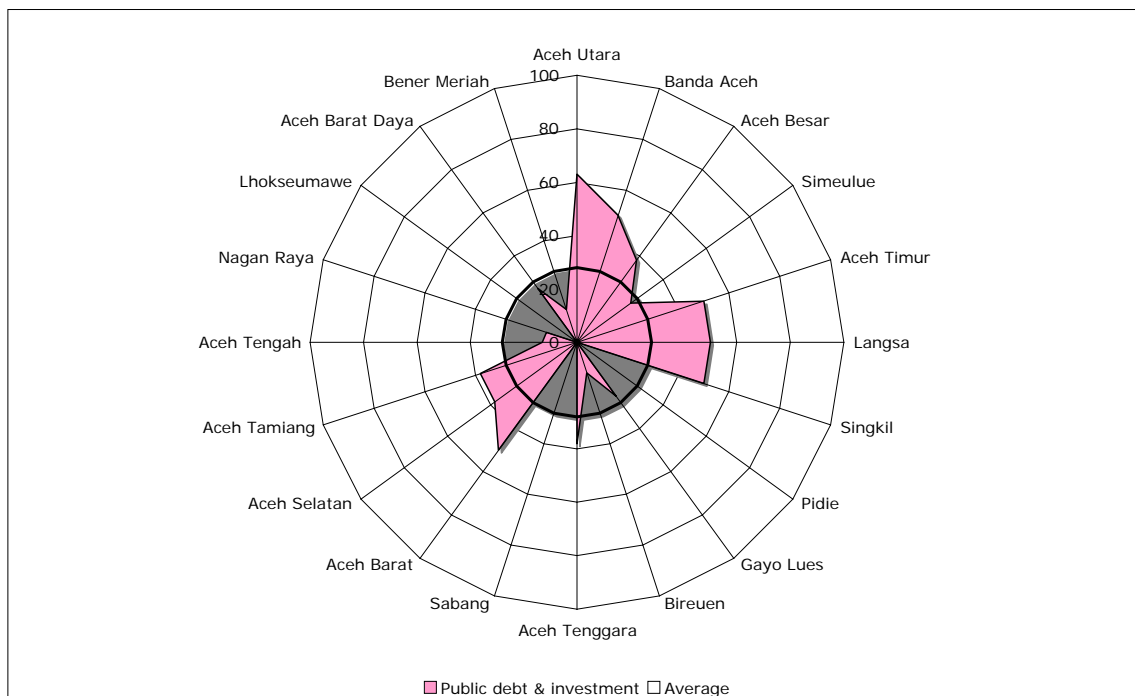
Internal audit: good performers and poor performers

Internal audit scores 52 percent overall. Aceh Timur and Aceh Utara both score 78 percent with Aceh Jaya again achieving the lowest score of 11 percent. In Aceh Timur, roles and responsibilities of the Bawasda are clearly defined and it has the authority to carry out its functions supported by routine staff training. However, staff are under qualified and equipment is inadequate. For outcome two on acceptable standards and procedures Aceh Timur scores well given its follow-up action based on audit findings. Meanwhile, Aceh Jaya only meets the indicators on clearly defined roles and responsibilities, and authority to carry out its tasks. Acceptable standards and procedures are totally lacking and internal audit findings are not followed up properly.

5.7 Strategic Area 7: Debt and investment

This strategic area of debt and investment only has one outcome with eight indicators. The strategic aim is to implement careful management of local government debt and investment including the managing of local state-owned enterprises (Badan Usaha Milik Daerah, or BUMD). The desired outcome is to establish and implement policies, procedures and controls for the management of regional debt and investment.

Chart 12: Public debt and investment



Debt and investment scores only 28 percent, the lowest among the strategic areas. Several local governments have neither accrued debt nor do they engage in long-term investment. For example, Aceh Barat Daya, which scores 25 percent, has no record of debt and investment in its relatively short history. Seven local governments have borrowing records: Aceh Barat, Aceh

Selatan, Aceh Tengah, Aceh Tenggara, Aceh Timur, Aceh Utara and Banda Aceh. All score above average for this strategic area except Aceh Tengah. Ministry of Finance data for 2004⁴ show that local governments borrowed Rp 25 billion, while the provincial government borrowed Rp 24 billion. Local water authorities (Perusahaan Daerah Air Minum, or PDAMs) in districts and cities borrowed an additional Rp 40 billion. Total outstanding debt reached Rp 66 billion for local governments in 2004. Total borrowing increased from Rp 55 billion in 2001 to Rp 90 billion in 2004 (local and provincial governments combined). The increase comes solely from local governments with no additional provincial government debt. Despite the increase, accumulated debt remains well below the national provincial average. National law limits total permissible arrears, so some local governments would be precluded from additional borrowing. Even with the restrictions, local governments in Aceh can borrow up to Rp 500 billion (see: Aceh Public Expenditure Analysis, World Bank, 2006).

Debt and investment: good performers and poor performers

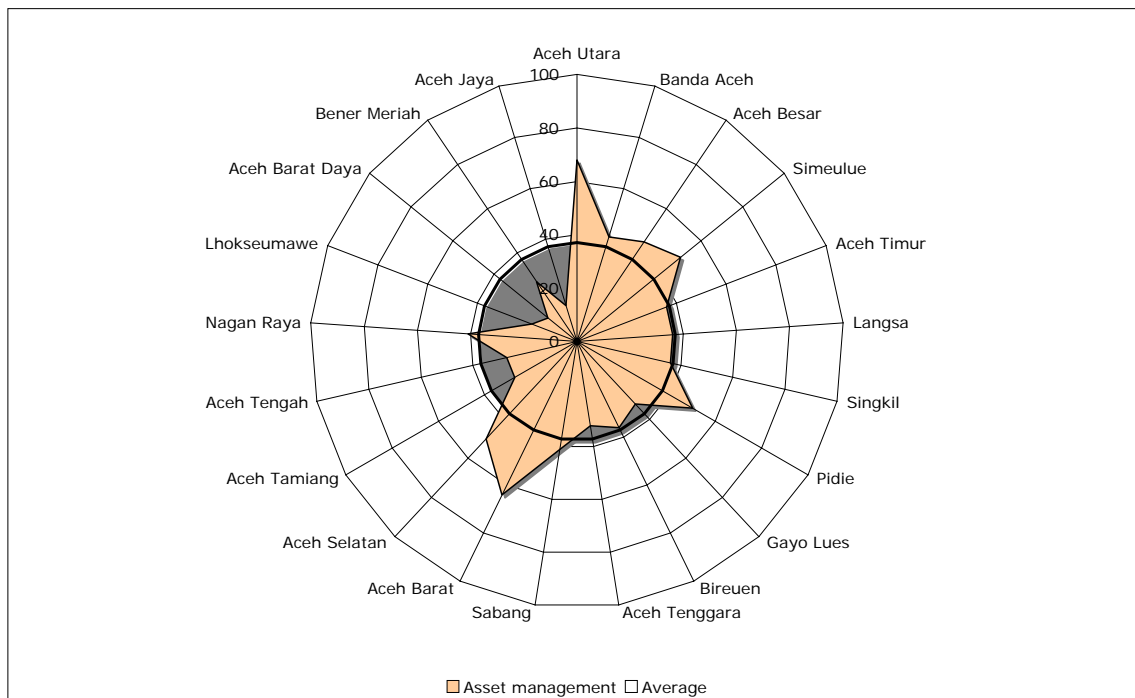
Aceh Utara scores the highest (63 percent) and Aceh Tengah scores the lowest (13 percent) of all local governments with a borrowing record. Five other local governments score zero, with no framework for managing debt and investment. In Aceh Utara, roles and authorities of local parliament members and government officials are clearly defined, the annual budget includes proposed borrowing and long-term investments, long-term investments must be approved by local parliament, and debt and investment transactions are promptly reported in financial records to the *bupati*. However, management policies are inconsistent with the national policy framework, there are no specific controls on borrowing levels and there are no policies to specify the purposes for which loans and guarantees can be made. In Aceh Tengah only one of the eight indicators is met: the local parliament must approve long-term investment transactions.

Given the scope for local governments (and the provincial government) to borrow and invest, it is important that governments have a framework in place to effectively manage their debts and investments. Given the relative size of the financial flows to Aceh's local governments in the coming years, it is all the more important that local governments develop clear strategies in order to make effective longer-term investments.

5.8 Strategic Area 8: Asset management

The strategic objective for asset management is for the effective management of regional assets through the utilization of long-term asset management plans. The emphasis is explicitly on long-term management and these assets should support local service-delivery objectives. The framework does not measure the value of the assets to the local economy, or whether they are net contributors or net recipients of revenue but it does assess the ways in which these assets are managed. Capacity in asset management is divided into four outcomes: outcome one concerns procedures and mechanisms for ensuring local enterprises are effectively governed; outcome two concerns policies, procedures and controls for the acquisition of new assets and the effective management of long-term assets; outcome three concerns an information base for supporting asset management; and outcome four concerns the links between asset management and plans and budgets.

Chart 13: Asset management



Asset management: good performers and poor performers

The average score is 37 percent. Aceh Utara yet gain scores the highest for asset management (68 percent). Aceh Jaya and Aceh Barat Daya score the lowest (14 percent). Aceh Utara scores well for outcome one, with proposed activities of local government-owned enterprises consistent with strategic development plans, draft business plans are evaluated by the local government when considering the establishment of new enterprises and transactions of enterprises are reviewed by internal auditors. Outcome two scores poorly, with two of the three indicators not met. Aceh Utara does not have local legislation prescribing policies and plans for the management of local property and it also does not have a comprehensive asset management and procedure manual for asset management guidance. Outcome three is largely achieved, with adequate physical description of assets provided along with the proper recording of assets. Outcome four, with only one indicator, “district plans and budgets reflect maintenance costs of assets is recorded in maintenance plans”, is unrealized.

Aceh Barat Daya scores zero for outcomes one, two and four. For outcome two concerning policies, procedures and controls it scores zero because the local administration relies on a Ministry of Home Affairs Decree (Kepmendagri) and SK Bupati rather than creating new Perda. Outcome three scores better, as assets are given a unique identification number, the location of assets is properly recorded and the names of the responsible officials are recorded. Every other indicator for the strategic area of asset management is unrealized. Since separation from Aceh Barat, most of the assets within the newly formed district are still under the authority of the original district. No locally-owned enterprises are currently listed although formation and selection are underway. Kota Lhokseumawe also scores poorly (18 percent) but this low score is partly offset by the total lack of locally owned enterprises by the end of 2006 and in the medium-term development plan there are no plans to form locally-owned enterprises. Aceh Utara, the ‘mother’ district, maintains control of all locally owned enterprises. The frequent replacement of the city mayor and department heads has resulted in a lack of strategic planning

in this area. Other government assets, such as offices, are inadequate and procedures to ensure the upkeep of assets are lacking.

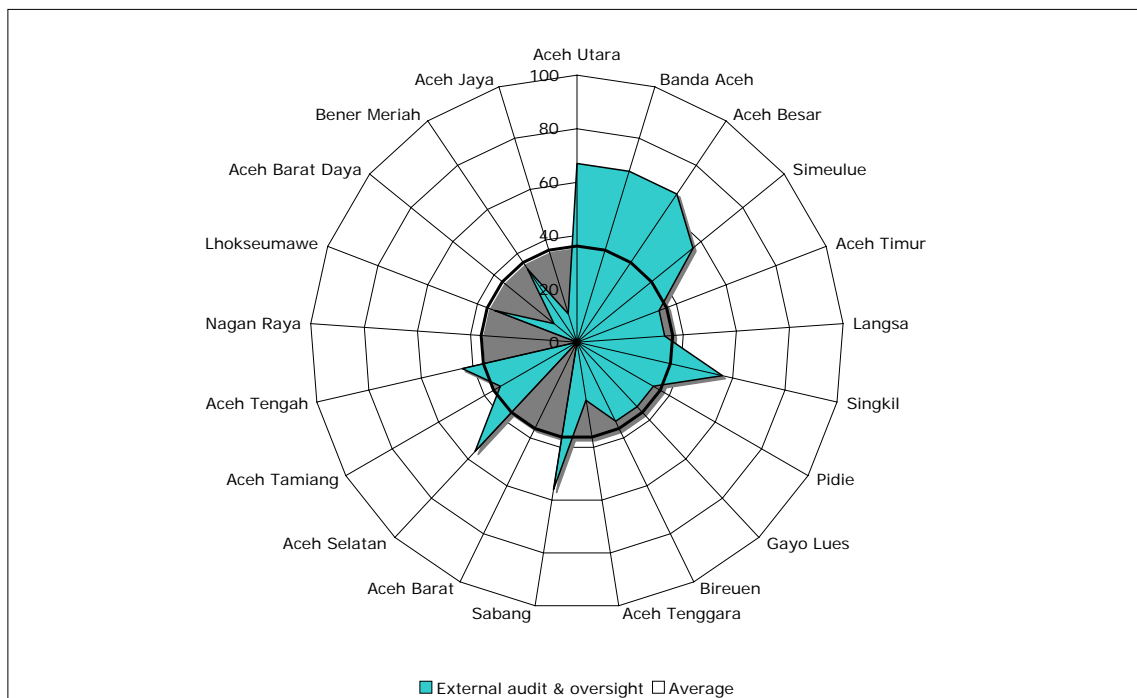
Twelve local governments in Aceh score below 40 percent (*poor/very poor*) for asset management. This means more than half of the administrations are currently failing in this area of financial management. The poor financial management of district-owned assets means these assets are under-performing. This is of particular concern given the scale of reconstruction in Aceh and the importance of maintaining these newly acquired assets. Capacity needs to be developed in this area and, as a matter of some urgency, regulations and policies need to be put in place and implemented to ensure local governments can properly manage these assets.

5.9 Strategic Area 9: External audit

An effective external audit mechanism plays a key role in creating and maintaining an accountable local government. The state audit agency (Badan Pemeriksaan Keuangan, or BPK) is tasked with carrying out external audits and the results of its audits are made available to, and supposed to be discussed by, the local parliament. A key role of the local parliament is to provide independent oversight of the functions of the local government, the executive. The weaker the internal audit the more important the role of the external audit.

External audit has two outcomes and nine indicators. Outcome one concerns the implementation of regular external audits to provide effective accountability of local government. Outcome two focuses on the existence of an effective independent oversight of local government financial management.

Chart 14: External audit and oversight



External audit: good performers and poor performers

The average score for external audit is 36 percent. Three local governments score *acceptable* and 13 score *poor/very poor*.

Banda Aceh, Aceh Besar and Aceh Utara all score 67 percent meeting six of the nine indicators. Aceh Barat and Nagan Raya do not meet any of the indicators, scoring zero for external audit. Aceh Besar meets three of the four indicators for outcome one. Annual financial statement are submitted for audit to the BPK within the legally required time frame, the public can attend the local parliament session when audit reports are discussed and the external audit report contains an unqualified audit opinion. However, audit reports are not published in the local media or shown to the public on an official announcement board. For the desired outcome of effective independent oversight, the DPRD monitors and evaluates the local government's performance, approved the last annual report without reservations, either did not issue sanctions or ensured sanctions were enforced and audit reports have not sought to initiate corruption investigations.

Nagan Raya and Aceh Barat have no external audit. Although the scores for internal audit are above 60 percent in both districts, the complete lack of any mechanism for an external audit by an independent body is of concern.

5. Key issues

- **Incomplete legal framework**

Five years since the implementation of decentralization, financial management capacity remains weak in most local governments in Aceh. An immediate priority for local governments is to ensure that they have a legal framework in place that is complete, entirely appropriate and enforceable. Financial management practices need to adhere to these regulations and good practice should become the norm—part of the culture of local government. The issuance of SK Bupati decrees and a reliance on previous national level Keppres are both unsatisfactory, as these bypass the local legislative. In particular, SK Bupati decrees are not properly discussed and debated before being issued. As a result, they are likely to fail to become part of the culture of the local legal framework, particularly as a new *bupati/walikota* may not recognize previous SK Bupati decrees. As such, they are an unsatisfactory short cut to meeting the legal obligations set at the national level.

- **Lack of qualified and skilled staff**

Inadequately qualified and/or trained staff constitute a major obstacle to achieving good performance. The research team in Aceh Utara identified good quality human resources as a key factor in driving good financial management outcomes across a number of strategic areas. On-site training may be useful to provide skills, for example, in computerized book-keeping. While additional staff training provided by either the local government itself, or the national government or other agencies, may be useful, the underlying issue is to encourage and, if necessary, assist local governments in attracting candidates with the right technical skills for effective financial management. The long-term solution is to train candidates to a minimum identified standard before they enter the civil service and subsequently to ensure that selection and promotion of civil servants are based on ability and competence for defined roles. This is even more important for the internal audit body, which clearly needs employees with a high level of competence in financial management. Related to this, a clearly defined incentive and sanction structure for staff should be established and strictly adhered to in order to encourage improvements in staff performance.

- **Lack of financial resources**

Lack of financial resources to purchase equipment such as computers will reduce the scope for improvements in financial management capacity. Respondents often identified this as a hindrance to good financial management outcomes. However, as identified in the *Aceh Public Expenditure Analysis*,⁵ routine expenditure has continued to grow at the expense of development spending. Routine expenditure should clearly be related to improving local government performance.

- **Lack of transparency**

Crucial to effective financial management are clear lines of accountability. A key part of this is public participation and public monitoring of finances. Despite assurances, local government financial information is often hard to access for members of the public, media and society groups. While there has been progress in encouraging more participation, higher standards are still not much in evidence across local governments. Where local governments claim to have encouraged participation it remains unclear whether there is any substantive participation. Changing the culture of government in this regard is a long-term project and further progress will be made by bringing pressure on local governments internally, through local media and societal groups.

⁵ *Aceh Public Expenditure Analysis – Spending for Reconstruction and Poverty Reduction*. World Bank, 2006.

- Weak internal audit**

An effective internal audit is probably unrealized even in local governments with a reasonable PFM score. For example, one local government scored reasonably well for this strategic area, but upon brief inspection of the annual audit report the immediate impression was that there had been no effective internal audit. To empower the auditing body, to recruit the right staff, to ensure separation between the auditor and the audited, to ensure anomalies and misappropriations are properly followed up and sanctions applied where proven is, undoubtedly, a daunting task. Yet progress is essential, even more so in Aceh given the scale of funding over the next few years, with oil and gas revenue, reconstruction revenue and additional DAU revenue. Mismanagement of these funds would constitute a grave missed opportunity for Aceh. More effective internal audits would, at the very least, go some way in ensuring funds were properly recorded and traceable.
- Realistic and pro-poor budgeting**

While some local governments seem to be making real progress towards creating pro-poor budgets, others pay only lip service to poverty sensitive planning and budgeting, and others not even that. Some local governments do not have the capacity to conduct a detailed poverty analysis and lack the capacity to ensure budgets really are pro-poor. Also, the frequently wide gap between planned and realized expenditure over several budget cycles illustrates a lack of capacity in developing realistic budgets.
- Regional separation**

Aceh Utara and Lhokseumawe provide an insightful comparison as they score very differently (69 percent compared with 29 percent) even though they formed the same district five years ago. In addition, Aceh Utara, has achieved relatively good outcomes despite its relative poverty. While this survey has not sought to relate financial management outcomes with poverty rates or other indicators it is, nevertheless, notable that good outcomes have been achieved despite a relatively high poverty rate. Many of the respondents point to a high level of political will and commitment from the local government leadership as a key driver of financial management reform rather than strong economic indicators. Government reform efforts have been supported by the legislative body, NGOs and community groups according to the qualitative findings of the research team. This contrasts with several of the lower-scoring local governments which, at the time of the survey, did not have a definitive *bupati* (i.e. an elected *bupati* with a five-year term of office). Lhokseumawe still does not have a definitive *walikota* (city mayor) five years after administrative separation from Aceh Utara. The tug-of-war between Aceh Utara and Lhokseumawe has, according to Lhokseumawe government officials, meant that policy execution has been minimal. Even now, several of the local government departments do not have a dedicated office and are forced to rent office space. In addition, since administrative separation from Aceh Utara, there have been three mayors in Lhokseumawe and each change in leadership has led to a change in leadership across local government departments. One obvious bottleneck this creates is in passing new legislation. More generally, the continuous turnover of leadership from the top down to the level of local government departments severely reduces the scope to implement a coherent development strategy. Given the pace of regional separation, not only in Aceh but across Indonesia, this has profound implications.
- Provincial and national support**

Local governments should be given clear guidance on how to take forward the management of their own finances. A piece-meal approach will not be sufficient. While there is clearly a role for individual local government innovation (and this should be supported and information disseminated) there needs to be provincial and/or national

guidance to ensure consistency across local governments and to set minimum standards for local governments. For Aceh, the province has a pivotal role and, with the backing of the new provincial government, much can be done to raise the standards of financial management across Aceh.

6. Going forward

Results generated by the implementation of the PFM framework have been disseminated to the local governments in Aceh. A 'road show' in March - April 2007, disseminated the results, along with the results from the Aceh Public Expenditure Review. Each local government is able to judge its own performance against those of its counterparts. Particular weaknesses have been identified, together with practical steps that should be taken to improve capacity in particular areas.

It is important to share knowledge between local governments so that local governments that are performing well in particular areas can assist other less well-performing local governments. Development partners could help facilitate this. Horizontal learning between local governments could be more effective in developing financial management capacity than capacity-building interventions by donors and NGOs. Given its reasonably high scores across the strategic areas, Aceh Utara could play a pivotal role in disseminating information on how to raise capacity. A suitable mechanism should be developed to enable effective information-sharing from better-performing local governments to less well-performing local governments. Qualitative research will be conducted in well-performing local governments to establish more precisely why they perform better, together with parallel research into less well-performing districts to better understand the obstacles preventing positive outcomes.

Local governments should be supported in taking the initiative in developing financial management capacity. In order to support capacity-building, there is also a role for non-governmental agencies. Close cooperation between these agencies will be essential as the PFM framework is rolled out beyond Aceh and support for capacity building provided. It is suggested that a website be developed specifically for the PFM results so that results can be added and local governments and other actors can access the results. Openness is essential to ensure that local governments remain at the center of these processes. It is also essential that the PFM scores not regarded as a grading exercise among local governments. It is crucial that government officials feel that it is unequivocally in their own best interests to provide accurate responses, if follow-up PFM surveys in the same local governments to collect accurate data are to reflect changes in financial management performance.

In the short term, it is advisable to focus on a limited number of areas to achieve tangible results within a limited time frame. Suggested areas include Planning and Budgeting, a key area and one in which many local governments score poorly. Given the scale of fund flows to local governments in Aceh this is an area of weaknesses that needs urgent attention. Other areas should include those that can be improved comparatively easily. For example, if local governments have a strong regulatory framework there might be scope to transfer this to other local governments relatively easily.

Local governments can also be provided with incentives to develop capacity. Improvements in financial management capacity could be linked with revenue, either through DAU funds (the 2 percent *dana otsus*) or even through earmarked funds such as the DAK. For example, if a local government were able to prove that it had improved its capacity to manage its own finances then additional funding could be provided. In order to make this viable a mechanism is required whereby it is always in the respondents' best interests to answer truthfully.

Annex 1. The PFM Framework: Strategic Areas and Outcomes

Strategic area		Outcomes	No. of indicators
1	Local regulatory framework	A comprehensive local regulatory framework required by national legislation on local financial management exists.	12
		The local regulatory framework provides for an effective law enforcement and organizational structure.	7
		The local regulatory framework includes measures to increase transparency and public participation.	6
			25
2	Planning and Budgeting	A consistent link between bottom-up planning processes, local development plans, sector plans and the budget exists.	17
		Budgets are based on a medium-term time horizon.	3
		Budget outturns are reasonable and indicate realistic budget making processes.	9
		Budgets are pro-poor.	8
		A comprehensive participatory monitoring and evaluation system for planning and budgeting processes is established.	9
		Expenditure control is used to ensure budget efficiency	4
			53
3	Cash management	Policies, procedures and controls to promote efficient cash management are in place.	10
		Cash receipts cash payments and temporary cash surpluses are managed and controlled effectively.	11
		An efficient system for billing and collecting local revenues is established.	17
		Local-owned revenue is well managed	6
			44
4	Procurement	Policies, procedures and controls to promote efficient and competitive procurement of goods and services are established and implemented.	47

		Complaints handling system is operating.	3
			50
5	Accounting and Reporting	Adequate human and institutional capacity for accounting and finance functions exists.	7
		Accounting and management information systems are integrated.	3
		All local government financial transactions and balances are recorded promptly and accurately.	9
		Reliable financial and management information reports are produced.	8
			27
6	Internal Audit	The local government's internal audit agency is organized and empowered to operate effectively.	5
		Internal audits standards and procedures applied are acceptable	11
		Internal audit findings are followed up adequately.	2
			18
7	Public Debt and Investment	Risk-based policies, procedures and controls for management of local borrowings and investments are established and implemented.	8
			8
8	Asset management	Procedures and mechanisms for ensuring effective governance of local enterprises are established.	10
		Policies, procedures and controls for acquisition of new assets and effective management of existing long-term physical assets are established and implemented.	3
		Supporting asset management information base is established and maintained.	8
		Asset management is linked to plans and budgets.	1
			22
9	External audit and oversight	External audits provide effective accountability of local government.	4
		Effective independent oversight of local government financial management exists.	5
			9
			256

Annex 2: Complete Framework: Strategic Areas, Outcomes and Indicators

STRATEGIC AREA 1: LOCAL REGULATORY FRAMEWORK			
STRATEGIC OBJECTIVE: Creation of supporting local regulatory frameworks to promote effective financial governance that are consistent with national Legislation			
INDICATOR	YES	NO	GUIDANCE
OUTCOME NO. 1 A comprehensive local regulatory framework required by national legislation on local financial management exists			Confirm if the local legislation have been issued (compliance with national legislative framework)
Local legislation on compilation of planning documents and public consultation processes exists			Local legislation: Local legislation, SK/Peraturan Kepala Daerah (Decree)
Local legislation on Local Medium Term Development Plan exists			
Local legislation on guideline for sectoral work plan, sectoral budget (RKA-SKPD) and implementation exists			
Local legislation on annual budget and budget revision exists			LOCAL BUDGET
Local legislation on Budget Execution Accountability Report (LKPJ) exists			
Local legislation on guideline for budget compilation, execution, monitoring, reporting, auditing and accountability exists			Check if legislation includes all of the mentioned issues
Local legislation on reserve funds exists			
Local legislation on local procurement exists			
Local legislation on local-owned enterprises exists			
Local legislation on local taxes, tax share for villages, tax tariffs and local fees exists			
Local legislation on local obligations exists			
Local legislation on local private/public investment exists			
OUTCOME SCORE			
OUTCOME NO.2 The local regulatory framework provides for an effective law enforcement and organizational structure			

Local legislation on financial management is supported by technical working guidelines			Check for technical guidance (juknis/juklak)
Local legislation on financial management is internally socialized in a timely and comprehensive manner			Timely: Within 2 months after passing Comprehensive: all related working units were included in socialization
Responsibility for implementation of local legislation clearly defined and confirmed in annual statement of accountability by Regent/Mayor to local parliament			Does the LPJ provide for information on implementation of local legislation?
Clear delineation of financial management roles, responsibilities and delegations for local parliament, Regent/Mayor and local officials in local legislation with specified with financial limits where appropriate			Check local legislation on financial management for EXPLICIT delineation of roles etc.
An integrated organizational structure for PFM is implemented (BPKD format)			BPKD format includes integration of Expenditure Unit Revenue Unit, Treasury and Accounting
Staff performance is being monitored based on measurable indicators			Measurable: Qualitative and quantitative indicators that reflect performance levels
Incentive and sanction structure for staff is institutionalized			Review local legislation for incentives/sanctions
OUTCOME SCORE			
OUTCOME NO.3 The local regulatory framework includes measures to increase transparency and public participation			
Procedures for public participation in the bottom-up planning process are adopted in local legislation			
Budgeting process includes some participatory elements			Examples of these elements might include consultation with civil society, stakeholder forums etc.
Participatory elements in policy making processes are established			This could include public consultation for draft local regulation through institutions such as stakeholder forums
Local legislation on consultations processes includes consultation processes in development planning, budgeting, policy decisions and evaluation of implemented activities			Check comprehensiveness of local legislation on consultation processes- all listed activities must be included. Activity could also be a newspaper article on draft budgets where inputs and comments made
Local legislation on transparency exists			Examples of this could include availability of documents on planning, budgeting, procurement etc.
The public has access to budget sessions in the local parliament			This access could be of physical nature or through radio etc.
OUTCOME SCORE			
STRATEGIC AREA 1 TOTAL SCORE			TOTAL ACHIEVABLE SCORE: 26

STRATEGIC AREA 2: PLANNING AND BUDGETING

STRATEGIC OBJECTIVE: Creation of rigorous regional multi-year budgets clearly linked to regional plans

INDICATOR	YES	NO	GUIDANCE
OUTCOME NO. NO. 1 Consistent link between participatory bottom-up planning process, local development plans, sector plans and budget exists			
Bottom-up planning process is based upon development plans and priorities			Check if any information on plans/priorities has been provided to villages before bottom-up starts
Bottom-up planning outcome does not include an unrealistic number of proposals ("Shopping List")			Unrealistic – more than 3 proposals per village for bottom-up planning outcome
The medium-term local development plan is a realistic document and strategies, programs (and activities) relate to the objectives			Can the objectives be achieved by these activities and programs? Or are they very broad and general. Check with planning documents
Sector plans are based on the medium-term development plan and reflect development priorities			
Budgets are based on adopted minimum service standards set out in plans			Are the Minimum Service Standards considered?
Plans and activities in the budgets employ a consistent structure			Is the consistency clear? Check DASK of selected agencies and plans
Annual budget policy includes measurable outcome indicators			
Budgets include measurable outcome indicators that refer to programs/strategy			Do the outcomes defined relate to respective programs? Check DASK of selected agencies and plans
Development plans include cost projections and take overall budget constraints into account			
Development plans and budgets include activities funded by non local budget funds			Check if "deconcentration" funds are documented and included in plans and budget
Plans and budget ceilings are based on the same set of realistic on common financial revenue projections			Check with Finance Unit if budget ceilings exist at all and what is its basis
Budget ceilings for each sector are determined before the budgeting process starts that are in line with planning and budget priorities			When are budget ceilings determined? Check with selected sector
Consistency between plans, budget and accountability report is evident			Evident:: consistency in format and substance can be seen at glance
Integrity review is being done between plans/budget/accountability report in accordance with specified assignments			Are Bappeda/respective sectors conducting any reviews of integrity?
Local legislation regulates clear compulsory working guidelines for the Executive Budget Committee for the budgeting process			Check the working basis for Executive Budget Committee

Local parliament has been informed about sector programs and sector priorities			Important to assess the quality of budget sessions. Does the parliament know about sector programs and priorities that were not passed as local legislation?
Local parliament discusses promised outcomes when accountability speech by Regent/Mayor is delivered			Check with legislative/executive if discussion is outcome oriented
OUTCOME SCORE			
OUTCOME NO.2			
Budgets are based on a medium-term time horizon			
Medium-term expenditure framework (MTEF) is implemented			Stipulated by law 17/2003, basis for multi-year budgeting
A multi-year time horizon is used in plans and budget forecasts			Is there any medium-term budget consideration at all? Check with Finance Unit
5-year accountability report to local parliament also refers to planned and realized revenue and expenditures			
OUTCOME SCORE			
OUTCOME NO.3			
Budget outturns are reasonable and indicate realistic budget making processes			
Budget is approved within time limit specified in budget calendar			Approval by Dec. 31 at the latest
Monthly and quarterly revenue projections are provided in the budget			Check local budget
Strategy for revenue increase exists that is in line with national legislation			Is there a strategy on how to increase PAD? Local legislation might have been approved by MoHA or MoF
Variation of total expenditure as % of budgeted expenditure is less than 10%			Off-budget funds-especially deconcentration funds
Variation of total revenue as % of budgeted revenue is less than 10%			Check for years 2003-2005 as new budget format has been introduced for 2003, making comparison with older data difficult
Average budget deficit over the past 3 years is less than 5%			Check local budget and consult with Finance Unit
The rules for governing the use of contingency funds is clear			Is there any guideline on contingency funds? Check with Finance Unit
The actual use of contingency funds is accounted for adequately			Any reporting? Check local budget, accountability report
Clear rules for in-year budget flexibility exist			Only possible with permission of local parliament?
Authorization of use of funds outside the budget is clearly regulated			Who is keeping track of off-budget funds, especially deconcentration funds?
Subsidies for locally-owned enterprises are recorded in the operational budget			

OUTCOME SCORE			
OUTCOME NO.4 Budget to be pro-poor			
Poverty assessment has been conducted using qualitative and quantitative data and households, groups and localities that are poor, vulnerable or have unequal access to public services are identified			Basis for poverty programs if any?
Participatory methods and approaches were used to collect data and input from low income households, groups and localities that are poor, vulnerable or have unequal access to public services			
Specific reliable data on the multi-dimensional aspects of poverty is available and reflected in the priorities of development plans, especially for sectors like health and education			Various sources of local poverty data at Dinas, BKKBM, NGO's and national level exists (SUSENAS, PODES). What data has been used?
Pro-poor policy exists and is reflected in sector plans			Local poverty reduction strategy is required by national government, but local governments have different approaches (Renstra miskin etc.)
Budget priorities reflect pro-poor policies and priorities			Check in budget policy (AKU) and annual plan
Pro-poor expenditure can be explicitly identified as such in the budget			Check if activities in the budget are earmarked as pro-poor
Expenditure for public services have increased over the past three years			The ratio between apparatus expenditure and public expenditure has increased over the past three years
Budgeted expenditure on health, education and infrastructure account for the largest share in the budget (in aggregate)			% of overall expenditure per sector in aggregate
Relevant village block grants have been established			How big are the grants per village? Relevant - At least Rp. 10-20m available for development activities
OUTCOME SCORE			
OUTCOME NO.5 Comprehensive participatory monitoring and evaluation system for planning and budgeting process is established			
Planned activities not taken up in the budget are reviewed and are included during budget revisions or the subsequent budget year			What happens with the planned activities not being budgeted?
Each sector holds record of planned and realized activities, including realized budget vs. planned budget			Check with selected sectors if they keep track of expenditure developments
Budget outcome indicators are measured at least every six months			Verify with Finance Unit
Sector performance reports and responsibility reports are verified by Internal Audit Agency			Ask internal audit unit for report and their audit plan
Record of activities being budgeted that what is decided upon during bottom-up process is brought back and made public to villages and sub-districts			Any evaluation?
Planning and budgeting documents are publicly disclosed and easily accessible by the public			Where announced?
Comprehensive budget progress reports are compiled and submitted to the Regent/Mayor			Do budget progress reports exist?

Planning and budgeting monitoring and evaluation system is authorized by local legislation			Consult with Bappeda, Finance Unit and/or Legal Office
The public is involved in the monitoring and evaluation of implemented activities and this participation is institutionalized			Check for participatory elements in the M&E and its institutionalization
OUTCOME SCORE			
OUTCOME NO. 6 Expenditure controls are in place to maximize budget output			
The Local Government uses a quarterly SKO system			Check SKO, SPMU, SPM and SPP
Work units use a SKO to propose payments (SPP and SPM)			
The Local Government uses set output criteria for work units' activities			
No work units exceed the budget in proposing budget revisions			
OUTCOME SCORE			
STRATEGIC AREA 2 TOTAL SCORE			TOTAL ACHIEVABLE SCORE: 53

STRATEGIC AREA 3: CASH MANAGEMENT

STRATEGIC OBJECTIVE: Implementation of effective cash management practices to ensure efficient management of funds for service delivery

INDICATOR	YES	NO	GUIDANCE
OUTCOME NO. 1 Policies, procedures and controls to promote efficient cash management are in place			
Written guidelines on cash management policies and procedures exist			Cash management policies exist; these require collecting and banking receipts promptly, making payments when they are due and providing accurate cash flow forecasts
Local legislation has assigned specific cash management duties to particular officials			Check whether the institutional arrangements in sections 2 to 4 have been established in local legislation
Delegations of authority are made for approving cash payments			Accommodated in local legislation?
Procedures for authorization of signatories to bank accounts are specified			Accommodated in local legislation?
Procedures for establishment of bank accounts are specified			Accommodated in local legislation?
Procedures for operation of bank accounts are specified			Accommodated in local legislation?
Procedures for making payments to suppliers of goods and services are specified			Accommodated in local legislation?
Local cash management legislation is consistent with national policy framework			Check if local legislation is consistent with Law 1/2004
Regular relevant training for cash management staff is conducted			Regular: at least annually Relevant: training on new national legislation
Internal Audit Agency undertakes annual cash management compliance review			Any report existing? Check with internal audit unit
OUTCOME SCORE			
OUTCOME NO. 2 cash receipts, cash payments and temporary cash surpluses are managed and controlled efficiently			
All receipts are deposited into a single bank account or alternatively funds are pooled in the Treasury			Check with treasury
All cash receipts are banked on day of receipt			Check with treasury staff and ask for proof
Daily reconciliation of cash receipts and cash deposits			Ask for reconciliation sheet

Basis for assessment of local revenues is determined by revenue department (this does not apply to street lighting tax)			Check with revenue department or Financial Management Unit
All payments in excess of 5 million rupiah are generally made by bank transfer			Check whether the following features of good accounts payable management are applied
Payments to contractors are made in accordance with contractual terms and conditions			Check if contracts include payment modes
Record keeping for payments and receipts at the treasury are computerized			Is there any software or manual input?
Cash flow forecasting undertaken for rolling periods and variances analyzed			Review the frequency with which cash flow forecasts are prepared
Regular reconciliations of bank accounts, short-term deposits, accounts receivable and accounts payable records with general ledger balances			Check for timing of reconciliations
Cash surpluses are regularly identified and placed in short-term investments in accordance with stated policy			Is there any action on cash surpluses? Bank deposit? Check if there is a policy on this
Regular reports on cash balances provided to the Regent/Mayor, local treasurer and head of finance			Is head of region informed about cash balances? Ask for report
OUTCOME SCORE			
OUTCOME NO. 3			
An efficient system for billing and collecting local revenues is established			
Policies for local levies and taxes are set out in local legislation			Check content of local legislation on taxes and fees
Details of arrangements for the administration of local levies and taxes are set out in a revenue manual			Does a revenue manual exist at all? Check with Revenue unit or financial management unit
Local revenue management legislation is consistent with national policy framework			Is the local legislation on taxes and fees approved by MoHA and MoF?
Detailed supporting billing information is available on each local taxpayer			Details of the name, address, reference number and amount billed is recorded for each local taxpayer
Local revenue tax base is verified annually			Check with Revenue unit or financial management unit whether annual verification is undertaken
Accurate account notices are produced on a timely basis and delivered promptly to local taxpayers			Ask for copy of notices at revenue unit or financial management unit
Local levy and tax account notices are checked prior to being delivered to local taxpayers			Verify with the person in charge
A sound receipting system is used to prevent fraud and ensure clarity in the event of disputes			Computerized and comprehensive? Easy to fraud? Check receipts and look at revenue unit or financial management unit
Payments from customers are collected relatively promptly			Promptly: at the latest within one 1 week after the due date Verify with staff from revenue unit, financial management unit and ask for documentation
Billing and collection systems are integrated			Verify at revenue unit or financial management unit
Management information about outstanding debtors is able to be produced promptly			Promptly: immediately and at all times. Verify at revenue unit or financial management unit

Penalties are imposed on late payments of local levies and taxes			Verify at revenue unit or financial management unit
A firm approach is employed in following up outstanding debtors			Any penalties or commonly applied procedure? Verify at revenue unit or financial management unit
A service for addressing taxpayer queries is provided			Verify at revenue unit or financial management unit
Monthly reconciliations of bank deposits and revenue collection figures is conducted by accounting officials			Verify at revenue unit or financial management unit
Appropriate training given to revenue staff			Appropriate: Training on computer, revised legislation?
Internal audit unit annually reviews revenue administration procedures			Check with internal audit unit and ask for report
OUTCOME SCORE			
STRATEGIC AREA 3 TOTAL SCORE			TOTAL ACHIEVABLE SCORE: 38

STRATEGIC AREA 4: PROCUREMENT

STRATEGIC OBJECTIVE: Increase the efficiency in regional procurement activities that foster increased competition, provide improved value for money in regional expenditure, create more transparency and result in greater accountability

INDICATOR	YES	NO	GUIDANCE
OUTCOME NO. 1 policies, procedures and controls to promote efficient competitive procurement of goods and services are established and implemented			
Adopted local legislation on procurement consistent with Presidential Decree 80/2003; Presidential Decree 61/2004 exists and no contrary procurement legislation exists			Check legal basis of procurement local legislation
Local legislation has assigned specific responsibilities and duties for the commissioning and undertaking of procurement and for the exercising of overall responsibility for procurement to particular officials			Check procurement local legislation
Local parliament members do not participate in procurement committees in any manner			Check whether local legislation prevents local parliament members from participating
Procurement committees have the minimum required number of members prescribed in local legislation on procurement and the members are certified			Check whether the procurement committee is operating effectively
Procurement committee members are selected using a process prescribed in local legislation			Does the local legislation include regulations on committee members?
A local procurement manual that provides guidance on all procurement forms, mechanisms, procedures and processes has been prepared			Check whether a procurement manual exists and addresses these matters
Contracts are only signed after proposed expenditure has been included in the latest approved budget			Procurements are linked to approved budgets and available funding
All work units purchasing external goods and services compile annual procurement plans for approved budgeted activities			Check scope of procurement planning
Estimated prices prepared for all planned procurements are prepared and at least annually revised			Check with Public Works on this practice
At least 75% of procurements by number are completed using public bids			Check that most procurements are completed using public bids
The procurement committee makes information available to the public			Check if and how this is done
Committee members only receive gifts openly			
Where public bids are not used in procurements, it meets the conditions specified in Presidential Decree 80/2003 and Presidential Decree 61/2004			Check if local legislation on procurement provides for this issue
Format for presenting and evaluating bids is specified in procurement documentation			Check with Public Works and Financial Management Unit.
Briefing sessions held for all public bid procurements and attendance record kept			Check with Public Works and Financial Management Unit.

All bid documents are kept confidential in a secure environment prior to opening			Check with Public Works and Financial Management Unit.
Contracts that are not awarded to lowest bidder comply with procurement rules			Check with Public Works and Financial Management Unit.
Contractor performance is monitored and reported back to the procurement committee for future reference			Check with Public Works and Financial Management Unit.
Records kept of all communications seeking clarification of tenders			Check with Public Works and Financial Management Unit.
Records are maintained of all procurement decisions to assist conduct of procurement audits			Any procurement audits undertaken?
Procurement documents are compiled and followed up			Check the evaluation criteria and if the documents are discussed with the users
Detailed information provided in the debriefing process to unsuccessful bidders is recorded and held on file			The practice of this issue needs to be checked with public works or other agency that is heavily involved in procurement. Check with Financial Management unit
At least six monthly reports summarizing procurement activities are submitted to Regent/Mayor			Check whether these procurement reports are issued
All procurement activities are audited by Internal Audit Agency, and results of audit included in regular audit report			Check with Internal audit unit and ask for report
No serious issues have been raised relating to procurement in Internal Audit Agency reports in the proceeding years			Ask for access to the reports. Cases of Corruption, Collusion, Nepotism or other illegal practices?
All procurement internal controls and Internal Audit Agency audit reports are followed-up and resolved			Check report and documentation on follow-up
Local legislation specifies sanctions where procurement officials do not comply with procurement policy			Confirm if any sanctions have been applied
Rules requiring members of procurement committee and procurement officials to have no family relationship with the official appointing them, are enforced			Does this rule exist in a written form? Check local legislation on procurement, code of ethics etc.
Guidance is provided to officials on minimizing conflicts of interest			Are the officials aware of conflicts of interest?
Non-compliant bids rejected and bids associated with irregular actions are rejected			Check sample of procurement transactions to confirm whether action has been taken if bidding irregularities
Bids made by blacklisted goods and services providers are rejected			
Action is taken against suppliers found guilty of collusive practices after contracts have been issued			Such instances may be evident from Internal Audit Agency audit reports and the register of public complaints
Contractual financial guarantees are stated in the tender documents			Verify with Dinas PU staff
Law 5/1999 on monopolies and unhealthy competition is adhered to			Check the existence of KPPU (Committee for oversight of enterprise competition)
Proposals for awarding contracts is stated in the tender document			Verify with Dinas PU staff
Pre-qualification results are publicized in local media and on official announcement boards			Is there any announcement board? Check local media clippings

Public bid tenders are opened in public			Verify with staff from public works or other agency
Announcements on procurements are made in local media and on official announcement boards			Is there any announcement board? Check local media clippings
Briefings provided to unsuccessful bidders for public bids and attendance records are kept			Verify with staff from public works or other agency
Immovable property to be sold principally on basis of competitive bids or at auction			The practice of this issue needs to be checked with public works or other agency that is heavily involved in procurement. Check with Financial Management Unit
Proposed contract financial obligations are disclosed in bidding documents			Verify with staff from public works or other agency
Proposed process for awarding contracts is disclosed in bidding documents			Verify with staff from public works or other agency
Pre-qualification instructions are criteria are socialized			Verify with BAWASDA and external auditor, contractors and public
The results of pre-qualification selection are clear			
Proposed contract financial obligations are disclosed in bidding documents			Verify with staff from public works or other agency
Procurement staff are qualified and competent			
There is a project completion process			
OUTCOME SCORE			
OUTCOME NO. 2 A complaint handling system is operating			
Formal complaints process and procedures is provided for in local legislation			Check whether the local legislation on procurement includes complaint procedures
Complaints are registered			Check whether the local legislation on procurement includes complaint procedures
Complaints are processed in accordance with procedures set out in local legislation			Check whether the local legislation on procurement includes complaint procedures
OUTCOME SCORE			
STRATEGIC AREA 4 TOTAL SCORE			TOTAL ACHIEVABLE SCORE: 52

STRATEGIC AREA 5: ACCOUNTING AND REPORTING

STRATEGIC OBJECTIVE: Establishment of an accounting system that ensures prompt accounting of all financial transactions and produces reliable, fair and timely external and internal financial reports

INDICATOR	YES	NO	GUIDANCE
OUTCOME NO. 1 Adequate human and institutional capacity for accounting and finance functions exists			Indicators 1-3 only apply for local governments who have implemented BPKD. Others automatically score 0
The Financial management unit (BPKD) exists, functions and has sufficient qualified staff			Exists: Building, Functions: institutional capacity Qualified staff: Accountants? Check for comprehensiveness of legal basis for Financial Management Unit? Office available? Staff assigned?
An integrated organizational structure for FM is implemented (BPKD format)			BPKD format includes integration of Expenditure Unit, Revenue Unit, Treasury and Accounting
The Financial management unit has clear descriptions for all its functions			Local legislation on financial management unit? Technical regulations?
Manual on accounting procedures and processes exists			Check with head of financial management unit
The Heads of each department in the Financial management unit have an accounting or finance degree			Check with head of financial management unit
At least 10 percent of the Financial management unit staff have a diploma or a higher degree in accounting			Check with head of financial management unit
The Financial management unit has adequate computer resources to fulfill its mandate			Sufficient software, hardware?
OUTCOME SCORE			
OUTCOME NO. 2 Accounting and management information systems are integrated			
The accounting and management information reports are produced on the same system			Check whether the integrated financial information system covers the following activities: budgeting, treasury, revenue, cash, investment, fixed asset, debt, accounting and reporting
Accounting and managerial reports are produced using integrated financial management information system			Reports can be produced on either a user need or user-defined basis. Performance and external reports can be produced quarterly, semester and yearly
Managerial and ad-hoc reports are produced regularly			Check whether there are processes to ensure that financial reports are reviewed and action taken when necessary; financial reports are often just documented
OUTCOME SCORE			

OUTCOME NO. 3 All Local Government financial transactions and balances are recorded promptly and accurately			
Supporting documents for ownership of assets exist			Check for: Cash & bank deposit documents , Investment documents. Land, building and vehicle ownership documents
Documents for bank and government loan agreements and grants exist			Check with Financial Management Unit for existence
Tangible assets and external liabilities are verified and valued to provide a basis for determining opening balance sheet balances			Check for inventory of Cash, land, building, investment, infrastructure and machinery assets and supporting valuations. Check for inventory of borrowings from banks and central government
Double entry bookkeeping practices are applied and accounting trial balances are matched			Check this practice with Financial Management Unit staff
Opening balance sheet has been made			Check this practice with Financial Management Unit staff
Cash revenue journals have been made			Check this practice with Financial Management Unit staff
Cash expenditure journals have been made			Check this practice with Financial Management Unit staff
General journals have been made			
Periodic reconciliations of accounting records with bank records. External party records requiring confirmation or reconciliation include investments, deposits, debtors and account payables			Modest differences: Less than 5% of reported balances
OUTCOME SCORE			
OUTCOME NO. 4 Reliable financial and management information reports are produced			
Expenditures are classified by organization, function and economic category			Check local budget randomly
Internal financial management reports are regularly reviewed by the Regent/Mayor and initiate corrective action where required			Check for: Internal reports present budgeted and actual figures and any deviation. Internal reports are presented to manager or decision maker on a timely basis. Managers review internal reports and make decisions based on internal reports
Reports on targeted and actual budget inputs, outputs, outcomes, benefits, and impacts are produced regularly and in time			Regularly: at least every 6 months In time: within 1 month after period has ended. Check this practice with Financial Management Unit staff
Balance sheet is prepared			Should be prepared at least six-monthly
Budget realization report is prepared			Should be prepared at least six-monthly
Cash flow report is prepared			Should be prepared at least six-monthly

Notes are included in the financial statements			Should be prepared at least six-monthly
Annual financial statements for audit are submitted in a timely manner			Local government submits annual report to Supreme Audit Agency within 4 months after end of fiscal year
OUTCOME SCORE			
STRATEGIC AREA 5 TOTAL SCORE			TOTAL ACHIEVABLE SCORE: 26

STRATEGIC AREA 6: INTERNAL AUDIT

STRATEGIC OBJECTIVE: Establishment and maintenance of an effective and efficient internal audit function

INDICATOR	YES	NO	GUIDANCE
OUTCOME NO. 1 The local government's internal audit AGENCY is organized and empowered to operate effectively			Most of the following indicators need to be clarified with Internal audit unit
The roles and responsibilities of all internal audit agency officials are clearly defined in local legislation			Check whether Local legislation on internal audit exists and if regulates this issue
Internal audit agency has the necessary authority for conducting its operations			Check whether the internal auditors are authorized to have full, free and unrestricted access to all functions, property, personnel, records, accounts and files.
Internal Audit Agency has adequate qualified staff that include some certified auditors and accountants			Check with Internal audit unit staff, any staff take-over from financial management unit? Ask for audit certification
Regular relevant trainings are conducted			Check with Internal audit unit staff. Any training plan?
Internal audit agency has adequate supporting operating resources			Cars, computers etc.
OUTCOME SCORE			
OUTCOME NO. 2 Internal audit standards and procedures applied are acceptable			
The internal audit is conducted according to the internal audit plan			Ask Internal audit unit staff for Audit plan
Internal audit reviews all activities of the local government including any commercial activities			Are PDAM and other regional-owned enterprises included in the audit?
Internal Audit regularly examines the internal controls of all significant accounting operations that affect financial reports			Check with Internal audit unit staff, does audit also include accounting issues.
Internal audit programs exist for all local government asset and liability categories and activities			Check with Internal audit unit staff
Internal audit standards/procedures are documented in an internal audit manual			Check whether this manual exists
Audit programs are regularly revised and reviewed			Verify with Internal audit unit staff
Internal auditors maintain independence			Check if Internal Audit Agency staff has no family relationship with the Regent/Mayor, local secretary, and head of working units
Internal audit reports require findings on deviations from procedures, internal control weaknesses, inefficiencies and fraud and make recommendations for improvement			Check audit reports randomly

Internal audit reports state scope of work prior to opinion/conclusion			Including what was audited, procedures followed, time frame of activities covered, duration of assignment, clarifications or qualifications if any, procedures and tests that could not be carried out, limitation in scope, compliance with applicable legislation
Internal audit reports are sent to Regent/Mayor			Check with head of region
Internal audit reports are available to the external auditor			Has Supreme Audit Agency (BPK) audited these reports?
OUTCOME SCORE			
OUTCOME NO. 3 Internal audit findings are followed up adequately			
Internal audit reports are addressed to managers who have the immediate responsibility for these operations			Check audit reports randomly
Sanctions have been imposed by regent/mayor following receipt of adverse internal audit findings			Check with head of region
OUTCOME SCORE			
STRATEGIC AREA 6 TOTAL SCORE			TOTAL ACHIEVABLE SCORE: 19

STRATEGIC AREA 7: PUBLIC DEBT AND INVESTMENT

STRATEGIC OBJECTIVE: Establishment of prudent management of regional borrowings, regional investments and interests in regional enterprises

INDICATOR	YES	NO	GUIDANCE
OUTCOME NO. 1 Risk-based policies, procedures and controls for management of local borrowings and investments are established and implemented			
Local borrowing and investment management policies, consistent with the national policy framework, are implemented			Check for existence and implementation with financial management unit staff
Accountability is promoted by defining roles and authorities of local parliament members and government officials, procedures and processes for borrowing and investment management activities together with delegations of authority for borrowing and investment management activities			Does the local legislation on Financial Management include roles and responsibilities? Or does separate local legislation exist?
Proposed borrowing transactions and long term investments in local enterprises are disclosed in annual budget			Check local budget
Policies specify purposes for which loans and guarantees can be made			Check with policy (if existent)
Specific controls are introduced that limit the total level of external borrowing outstanding			What is the policy on external borrowing? Any controls introduced?
Investment policies specify objectives associated with new portfolio investments and long-term investments in local enterprises			Check with Financial Management Unit staff
Local parliament must approve local government long-term investment transactions by local parliament resolution			Check with local legislation on financial management
Debt and investment transactions are promptly reported in financial reports to the Regent/Mayor			Debt and investment transactions reported to local treasurer on day of transaction
OUTCOME SCORE			
STRATEGIC AREA 7 TOTAL SCORE			TOTAL ACHIEVABLE SCORE: 8

STRATEGIC AREA 8: ASSET MANAGEMENT

STRATEGIC OBJECTIVE: Effective management of regional assets by utilizing long-term asset management plans to ensure that these assets best support regional service delivery objectives

INDICATOR	YES	NO	GUIDANCE
OUTCOME NO. 1 Procedures and mechanisms for ensuring effective governance of local enterprises are established			
Proposed activities of local enterprises are consistent with local governments' strategic plans			Check RENSTRA/RPJMD if local enterprises are included
Detailed draft business plans are considered by local governments when evaluating merits of establishing new local enterprises			Do local business plans exist? Does the local government intend to establish a new enterprise?
Local legislation on financial management is expanded to include financial management and reporting of local enterprises			Check local legislation on Financial Management
Annual financial statements on local enterprises are audited by external auditors appointed by local governments			Check with head of randomly chosen local-owned enterprise on this issue and verify with Financial Management Unit staff
Transactions of local enterprises are reviewed by internal auditors			Verify with Internal audit unit
Remuneration of commissioners, directors and senior officials of local enterprises must be approved by parent local governments			Check with regional secretary and/or head of local enterprise
Budgets of local enterprises include supporting performance indicators and measures			Check budget of local enterprise
Budgets/business plans of local enterprises are approved by parent local governments and boards of commissions			Check with regional secretary and/or head of local enterprise
Local government appoint non-political appointees as commissioners and directors in all local enterprises that are either wholly or partly owned by local governments in accordance with process prescribed in local legislation			Check with regional secretary and/or head of local enterprise
Local government has established processes for monitoring performance of local enterprises by regent/mayor			Check with regional secretary and/or head of local enterprise
OUTCOME SCORE			
OUTCOME NO. 2 Policies, procedures and controls for acquisition of new assets and effective management of existing long-term physical assets are established and implemented			
Adopted local legislation prescribes policies and plans for the management of local property including non-current physical assets			Check local legislation on financial management for inclusion of asset management. Or separate local legislation?

The duties of the officials who have been assigned specific asset management responsibilities are prescribed in local legislation			Check local legislation on financial management for this issue. Or separate local legislation? Ask Financial Management Unit for practice
Comprehensive asset management policy and procedure manual has been prepared that provides detailed guidance on local asset management activities			Verify with Financial Management Unit
OUTCOME SCORE			
OUTCOME NO. 3 Supporting asset management information base is established and maintained			
Assets physical description is described			Check this practice with Financial Management Unit and ask for sample
Asset is given unique identification number			Check this practice with Financial Management Unit and ask for sample
Purchase details is recorded			Check this practice with Financial Management Unit and ask for sample
Location of asset is recorded			Check this practice with Financial Management Unit and ask for sample
Name of official responsible for asset is recorded			Check this practice with Financial Management Unit and ask for sample
Current asset condition is recorded			Check this practice with Financial Management Unit and ask for sample
Accounting information is recorded (book value)			Check this practice with Financial Management Unit and ask for sample
Movable assets are physically verified at least once a year and results compared with the records			Check this practice with Financial Management Unit and ask for sample
OUTCOME SCORE			
OUTCOME NO. 4 Asset management is linked to plans and budgets			
District plans and budgets reflect maintenance expenditures recorded in maintenance plans			Check annual plan and local budget
OUTCOME SCORE			
STRATEGIC AREA 8 TOTAL SCORE			TOTAL ACHIEVABLE SCORE: 22

STRATEGIC AREA 9: EXTERNAL AUDIT AND OVERSIGHT

STRATEGIC OBJECTIVE: Increase of accountability for financial management through effective and independent oversight

INDICATOR	YES	NO	GUIDANCE
OUTCOME NO. 1 Regular external audits provide effective accountability of local government			
Annual financial statements are submitted for audit to Supreme Audit Agency within legally required time frame			Verify with financial management unit if financial statements have been sent to BPK
If existent, audit reports are publicized in the local mass media and on the official announcement board			If no external audit has been conducted in the last two years, no ratings are to be given
The public is able to attend local parliament session when audit reports are discussed			Verify with DPRD members
The external audit report contains an unqualified audit opinion			Check audit report if possible, easily accessible?
OUTCOME SCORE			
OUTCOME NO. 2 Effective independent oversight of local government financial management exists			
Local parliament monitors and evaluates local governments' performance based on financial reports, audit reports and accountability reports			Check with local DPRD members
Local parliament has approved the last annual report without reservations			Are minutes of meeting available?
a. No sanctions against officials were recommended by Supreme Audit Agency			Answer only question a OR b (whichever is applicable)
b. In case sanctions were recommended by Supreme Audit Agency, sanctions were enforced			Check with regional secretary
No payment of penalty is imposed as consequence of audit finding			Ask for Supreme Audit Agency report
External audit reports do not suggest to initiate investigations into public sector corruption			Ask for Supreme Audit Agency report
OUTCOME SCORE			
STRATEGIC AREA 9 TOTAL SCORE			TOTAL ACHIEVABLE SCORE: 9

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1	Banda Aceh		
Strategic area	Outcomes	Indicators achieved	No. of indicators
Local regulatory framework	A comprehensive local regulatory framework required by national legislation on local financial management exists.	6	12
	The local regulatory framework provides for an effective law enforcement and organizational structure.	4	7
	The local regulatory framework includes measures to increase transparency and public participation.	2	6
		48%	25
Planning and Budgeting	A consistent link between bottom-up planning processes, local development plans, sector plans and the budget exists.	8	17
	Budgets are based on a medium-term time horizon.	1	3
	Budget outturns are reasonable and indicate realistic budget making processes.	10	11
	Budgets are pro-poor.	3	9
	A comprehensive participatory monitoring and evaluation system for planning and budgeting processes is established.	4	9
	Expenditure control is used to ensure budget efficiency.	2	4
		53%	53
Cash management	Policies, procedures and controls to promote efficient cash management are in place.	6	10
	Cash receipts cash payments and temporary cash surpluses are managed and controlled effectively.	8	11
	An efficient system for billing and collecting local revenues is established.	10	17
	Local-owned revenue is well managed.	3	6
		61%	44
Procurement	Policies, procedures and controls to promote efficient and competitive procurement of goods and services are established and implemented.	32	47
	Complaints handling system is operating.	2	3
		68%	50
Accounting and Reporting	Adequate human and institutional capacity for accounting and finance functions exists.	0	7
	Accounting and management information systems are integrated.	0	3
	All local government financial transactions and balances are recorded promptly and accurately.	8	9
	Reliable financial and management information reports are produced.	8	8
		59%	27
Internal Audit	The local government's internal audit agency is organized and empowered to operate effectively.	2	5
	Internal audits standards and procedures applied are acceptable.	6	11
	Internal audit findings are followed up adequately.	2	2
		56%	18
Public Debt and Investment	Risk-based policies, procedures and controls for management of local borrowings and investments are established and implemented.	4	8
			50%
Asset management	Procedures and mechanisms for ensuring effective governance of local enterprises are established.	4	10
	Policies, procedures and controls for acquisition of new assets and effective management of existing long-term physical assets are established and implemented.	0	3
	Supporting asset management information base is established and maintained.	5	8
	Asset management is linked to plans and budgets.	0	1
		41%	22
External audit and oversight	External audits provide effective accountability of local government.	2	4
	Effective independent oversight of local government financial management exists.	4	5
		67%	9
Average		56%	256

2	Aceh Besar		
Strategic area	Outcomes	Indicators achieved	No. of indicators
Local regulatory framework	A comprehensive local regulatory framework required by national legislation on local financial management exists.	6	12
	The local regulatory framework provides for an effective law enforcement and organizational structure.	5	7
	The local regulatory framework includes measures to increase transparency and public participation.	3	6
		56%	25
Planning and Budgeting	A consistent link between bottom-up planning processes, local development plans, sector plans and the budget exists.	6	17
	Budgets are based on a medium-term time horizon.	1	3
	Budget outturns are reasonable and indicate realistic budget making processes.	4	9
	Budgets are pro-poor.	6	8
	A comprehensive participatory monitoring and evaluation system for planning and budgeting processes is established.	3	9
	Expenditure control is used to ensure budget efficiency	2	4
		42%	53
Cash management	Policies, procedures and controls to promote efficient cash management are in place.	4	10
	Cash receipts cash payments and temporary cash surpluses are managed and controlled effectively.	5	11
	An efficient system for billing and collecting local revenues is established.	10	17
	Local-owned revenue is well managed	2	6
		48%	44
Procurement	Policies, procedures and controls to promote efficient and competitive procurement of goods and services are established and implemented.	29	47
	Complaints handling system is operating.	2	3
		62%	50
Accounting and Reporting	Adequate human and institutional capacity for accounting and finance functions exists.	0	7
	Accounting and management information systems are integrated.	3	3
	All local government financial transactions and balances are recorded promptly and accurately.	5	9
	Reliable financial and management information reports are produced.	8	8
		59%	27
Internal Audit	The local government's internal audit agency is organized and empowered to operate effectively.	3	5
	Internal audits standards and procedures applied are acceptable	8	11
	Internal audit findings are followed up adequately.	1	2
		67%	18
Public Debt and Investment	Risk-based policies, procedures and controls for management of local borrowings and investments are established and implemented.	3	8
		38%	8
Asset management	Procedures and mechanisms for ensuring effective governance of local enterprises are established.	0	10
	Policies, procedures and controls for acquisition of new assets and effective management of existing long-term physical assets are established and implemented.	2	3
	Supporting asset management information base is established and maintained.	7	8
	Asset management is linked to plans and budgets.	1	1
		45%	22
External audit and oversight	External audits provide effective accountability of local government.	3	4
	Effective independent oversight of local government financial management exists.	3	5
		67%	9
Average		54%	256

3	Aceh Barat		
Strategic area	Outcomes	Indicators achieved	No. of indicators
Local regulatory framework	A comprehensive local regulatory framework required by national legislation on local financial management exists.	1	12
	The local regulatory framework provides for an effective law enforcement and organizational structure.	0	7
	The local regulatory framework includes measures to increase transparency and public participation.	1	6
		8%	25
Planning and Budgeting	A consistent link between bottom-up planning processes, local development plans, sector plans and the budget exists.	3	17
	Budgets are based on a medium-term time horizon.	0	3
	Budget outturns are reasonable and indicate realistic budget making processes.	1	9
	Budgets are pro-poor.	5	8
	A comprehensive participatory monitoring and evaluation system for planning and budgeting processes is established.	1	9
	Expenditure control is used to ensure budget efficiency	4	4
		26%	53
Cash management	Policies, procedures and controls to promote efficient cash management are in place.	1	10
	Cash receipts cash payments and temporary cash surpluses are managed and controlled effectively.	9	11
	An efficient system for billing and collecting local revenues is established.	11	17
	Local-owned revenue is well managed	1	6
		50%	44
Procurement	Policies, procedures and controls to promote efficient and competitive procurement of goods and services are established and implemented.	34	47
	Complaints handling system is operating.	1	3
		70%	50
Accounting and Reporting	Adequate human and institutional capacity for accounting and finance functions exists.	1	7
	Accounting and management information systems are integrated.	1	3
	All local government financial transactions and balances are recorded promptly and accurately.	1	9
	Reliable financial and management information reports are produced.	3	8
		19%	27
Internal Audit	The local government's internal audit agency is organized and empowered to operate effectively.	3	5
	Internal audits standards and procedures applied are acceptable	6	11
	Internal audit findings are followed up adequately.	2	2
		61%	18
Public Debt and Investment	Risk-based policies, procedures and controls for management of local borrowings and investments are established and implemented.	4	8
			50%
Asset management	Procedures and mechanisms for ensuring effective governance of local enterprises are established.	5	10
	Policies, procedures and controls for acquisition of new assets and effective management of existing long-term physical assets are established and implemented.	1	3
	Supporting asset management information base is established and maintained.	7	8
	Asset management is linked to plans and budgets.	1	1
		64%	22
External audit and oversight	External audits provide effective accountability of local government.	0	4
	Effective independent oversight of local government financial management exists.	0	5
		0%	9
Average		39%	256

4	Aceh Jaya		
Strategic area	Outcomes	Indicators achieved	No. of indicators
Local regulatory framework	A comprehensive local regulatory framework required by national legislation on local financial management exists.	3	12
	The local regulatory framework provides for an effective law enforcement and organizational structure.	2	7
	The local regulatory framework includes measures to increase transparency and public participation.	0	6
		20%	25
Planning and Budgeting	A consistent link between bottom-up planning processes, local development plans, sector plans and the budget exists.	3	17
	Budgets are based on a medium-term time horizon.	1	3
	Budget outturns are reasonable and indicate realistic budget making processes.	3	9
	Budgets are pro-poor.	3	8
	A comprehensive participatory monitoring and evaluation system for planning and budgeting processes is established.	1	9
	Expenditure control is used to ensure budget efficiency	2	4
		25%	53
Cash management	Policies, procedures and controls to promote efficient cash management are in place.	2	10
	Cash receipts cash payments and temporary cash surpluses are managed and controlled effectively.	4	11
	An efficient system for billing and collecting local revenues is established.	0	17
	Local-owned revenue is well managed	0	6
		14%	44
Procurement	Policies, procedures and controls to promote efficient and competitive procurement of goods and services are established and implemented.	17	47
	Complaints handling system is operating.	0	3
		34%	50
Accounting and Reporting	Adequate human and institutional capacity for accounting and finance functions exists.	0	7
	Accounting and management information systems are integrated.	0	3
	All local government financial transactions and balances are recorded promptly and accurately.	0	9
	Reliable financial and management information reports are produced.	3	8
		11%	27
Internal Audit	The local government's internal audit agency is organized and empowered to operate effectively.	2	5
	Internal audits standards and procedures applied are acceptable	0	11
	Internal audit findings are followed up adequately.	0	2
		11%	18
Public Debt and Investment	Risk-based policies, procedures and controls for management of local borrowings and investments are established and implemented.	0	8
		0%	8
Asset management	Procedures and mechanisms for ensuring effective governance of local enterprises are established.	0	10
	Policies, procedures and controls for acquisition of new assets and effective management of existing long-term physical assets are established and implemented.	0	3
	Supporting asset management information base is established and maintained.	3	8
	Asset management is linked to plans and budgets.	0	1
		14%	22
External audit and oversight	External audits provide effective accountability of local government.	0	4
	Effective independent oversight of local government financial management exists.	1	5
		11%	9
Average		15%	256

5	Nagan Raya		
Strategic area	Outcomes	Indicators achieved	No. of indicators
Local regulatory framework	A comprehensive local regulatory framework required by national legislation on local financial management exists.	2	12
	The local regulatory framework provides for an effective law enforcement and organizational structure.	0	7
	The local regulatory framework includes measures to increase transparency and public participation.	1	6
		12%	25
Planning and Budgeting	A consistent link between bottom-up planning processes, local development plans, sector plans and the budget exists.	2	17
	Budgets are based on a medium-term time horizon.	0	3
	Budget outturns are reasonable and indicate realistic budget making processes.	1	9
	Budgets are pro-poor.	4	8
	A comprehensive participatory monitoring and evaluation system for planning and budgeting processes is established.	2	9
	Expenditure control is used to ensure budget efficiency	4	4
		25%	53
Cash management	Policies, procedures and controls to promote efficient cash management are in place.	1	10
	Cash receipts cash payments and temporary cash surpluses are managed and controlled effectively.	4	11
	An efficient system for billing and collecting local revenues is established.	5	17
	Local-owned revenue is well managed	0	6
		23%	44
Procurement	Policies, procedures and controls to promote efficient and competitive procurement of goods and services are established and implemented.	30	47
	Complaints handling system is operating.	2	3
		64%	50
Accounting and Reporting	Adequate human and institutional capacity for accounting and finance functions exists.	1	7
	Accounting and management information systems are integrated.	0	3
	All local government financial transactions and balances are recorded promptly and accurately.	2	9
	Reliable financial and management information reports are produced.	2	8
		19%	27
Internal Audit	The local government's internal audit agency is organized and empowered to operate effectively.	4	5
	Internal audits standards and procedures applied are acceptable	6	11
	Internal audit findings are followed up adequately.	2	2
		67%	18
Public Debt and Investment	Risk-based policies, procedures and controls for management of local borrowings and investments are established and implemented.	1	8
			12%
Asset management	Procedures and mechanisms for ensuring effective governance of local enterprises are established.	4	10
	Policies, procedures and controls for acquisition of new assets and effective management of existing long-term physical assets are established and implemented.	0	3
	Supporting asset management information base is established and maintained.	5	8
	Asset management is linked to plans and budgets.	0	1
		41%	22
External audit and oversight	External audits provide effective accountability of local government.	0	4
	Effective independent oversight of local government financial management exists.	0	5
		0%	9
Average		29%	256

6	Aceh Timur		
Strategic area	Outcomes	Indicators achieved	No. of indicators
Local regulatory framework	A comprehensive local regulatory framework required by national legislation on local financial management exists.	9	12
	The local regulatory framework provides for an effective law enforcement and organizational structure.	5	7
	The local regulatory framework includes measures to increase transparency and public participation.	3	6
		68%	25
Planning and Budgeting	A consistent link between bottom-up planning processes, local development plans, sector plans and the budget exists.	10	17
	Budgets are based on a medium-term time horizon.	0	3
	Budget outturns are reasonable and indicate realistic budget making processes.	3	9
	Budgets are pro-poor.	6	8
	A comprehensive participatory monitoring and evaluation system for planning and budgeting processes is established.	6	9
	Expenditure control is used to ensure budget efficiency	2	4
		51%	53
Cash management	Policies, procedures and controls to promote efficient cash management are in place.	5	10
	Cash receipts cash payments and temporary cash surpluses are managed and controlled effectively.	2	11
	An efficient system for billing and collecting local revenues is established.	8	17
	Local-owned revenue is well managed	0	6
		34%	44
Procurement	Policies, procedures and controls to promote efficient and competitive procurement of goods and services are established and implemented.	32	47
	Complaints handling system is operating.	0	3
		64%	50
Accounting and Reporting	Adequate human and institutional capacity for accounting and finance functions exists.	4	7
	Accounting and management information systems are integrated.	0	3
	All local government financial transactions and balances are recorded promptly and accurately.	3	9
	Reliable financial and management information reports are produced.	7	8
		52%	27
Internal Audit	The local government's internal audit agency is organized and empowered to operate effectively.	3	5
	Internal audits standards and procedures applied are acceptable	9	11
	Internal audit findings are followed up adequately.	2	2
		78%	18
Public Debt and Investment	Risk-based policies, procedures and controls for management of local borrowings and investments are established and implemented.	4	8
		50%	8
Asset management	Procedures and mechanisms for ensuring effective governance of local enterprises are established.	4	10
	Policies, procedures and controls for acquisition of new assets and effective management of existing long-term physical assets are established and implemented.	0	3
	Supporting asset management information base is established and maintained.	4	8
	Asset management is linked to plans and budgets.	0	1
		36%	22
External audit and oversight	External audits provide effective accountability of local government.	1	4
	Effective independent oversight of local government financial management exists.	2	5
		33%	9
Average		52%	256

7	Aceh Utara		
Strategic area	Outcomes	Indicators achieved	No. of indicators
Local regulatory framework	A comprehensive local regulatory framework required by national legislation on local financial management exists.	10	12
	The local regulatory framework provides for an effective law enforcement and organizational structure.	4	7
	The local regulatory framework includes measures to increase transparency and public participation.	3	6
		68%	25
Planning and Budgeting	A consistent link between bottom-up planning processes, local development plans, sector plans and the budget exists.	14	17
	Budgets are based on a medium-term time horizon.	1	3
	Budget outturns are reasonable and indicate realistic budget making processes.	4	9
	Budgets are pro-poor.	9	8
	A comprehensive participatory monitoring and evaluation system for planning and budgeting processes is established.	7	9
	Expenditure control is used to ensure budget efficiency	4	4
		74%	53
Cash management	Policies, procedures and controls to promote efficient cash management are in place.	6	10
	Cash receipts cash payments and temporary cash surpluses are managed and controlled effectively.	7	11
	An efficient system for billing and collecting local revenues is established.	11	17
	Local-owned revenue is well managed	1	6
		57%	44
Procurement	Policies, procedures and controls to promote efficient and competitive procurement of goods and services are established and implemented.	36	47
	Complaints handling system is operating.	3	3
		78%	50
Accounting and Reporting	Adequate human and institutional capacity for accounting and finance functions exists.	0	7
	Accounting and management information systems are integrated.	2	3
	All local government financial transactions and balances are recorded promptly and accurately.	8	9
	Reliable financial and management information reports are produced.	7	8
		63%	27
Internal Audit	The local government's internal audit agency is organized and empowered to operate effectively.	4	5
	Internal audits standards and procedures applied are acceptable	8	11
	Internal audit findings are followed up adequately.	2	2
		78%	18
Public Debt and Investment	Risk-based policies, procedures and controls for management of local borrowings and investments are established and implemented.	5	8
		63%	8
Asset management	Procedures and mechanisms for ensuring effective governance of local enterprises are established.	9	10
	Policies, procedures and controls for acquisition of new assets and effective management of existing long-term physical assets are established and implemented.	0	3
	Supporting asset management information base is established and maintained.	6	8
	Asset management is linked to plans and budgets.	0	1
		68%	22
External audit and oversight	External audits provide effective accountability of local government.	3	4
	Effective independent oversight of local government financial management exists.	3	5
		67%	9
Average		69%	256

8	Bireuen		
Strategic area	Outcomes	Indicators achieved	No. of indicators
Local regulatory framework	A comprehensive local regulatory framework required by national legislation on local financial management exists.	3	12
	The local regulatory framework provides for an effective law enforcement and organizational structure.	1	7
	The local regulatory framework includes measures to increase transparency and public participation.	4	6
		32%	25
Planning and Budgeting	A consistent link between bottom-up planning processes, local development plans, sector plans and the budget exists.	10	17
	Budgets are based on a medium-term time horizon.	0	3
	Budget outturns are reasonable and indicate realistic budget making processes.	5	9
	Budgets are pro-poor.	1	8
	A comprehensive participatory monitoring and evaluation system for planning and budgeting processes is established.	5	9
	Expenditure control is used to ensure budget efficiency	4	4
		47%	53
Cash management	Policies, procedures and controls to promote efficient cash management are in place.	1	10
	Cash receipts cash payments and temporary cash surpluses are managed and controlled effectively.	4	11
	An efficient system for billing and collecting local revenues is established.	8	17
	Local-owned revenue is well managed	3	6
		36%	44
Procurement	Policies, procedures and controls to promote efficient and competitive procurement of goods and services are established and implemented.	35	47
	Complaints handling system is operating.	1	3
		72%	50
Accounting and Reporting	Adequate human and institutional capacity for accounting and finance functions exists.	1	7
	Accounting and management information systems are integrated.	1	3
	All local government financial transactions and balances are recorded promptly and accurately.	2	9
	Reliable financial and management information reports are produced.	7	8
		41%	27
Internal Audit	The local government's internal audit agency is organized and empowered to operate effectively.	1	5
	Internal audits standards and procedures applied are acceptable	5	11
	Internal audit findings are followed up adequately.	2	2
		44%	18
Public Debt and Investment	Risk-based policies, procedures and controls for management of local borrowings and investments are established and implemented.	1	8
		12%	8
Asset management	Procedures and mechanisms for ensuring effective governance of local enterprises are established.	2	10
	Policies, procedures and controls for acquisition of new assets and effective management of existing long-term physical assets are established and implemented.	0	3
	Supporting asset management information base is established and maintained.	5	8
	Asset management is linked to plans and budgets.	1	1
		36%	22
External audit and oversight	External audits provide effective accountability of local government.	0	4
	Effective independent oversight of local government financial management exists.	3	5
		33%	9
Average		39%	256

9	Pidie		
Strategic area	Outcomes	Indicators achieved	No. of indicators
Local regulatory framework	A comprehensive local regulatory framework required by national legislation on local financial management exists.	4	12
	The local regulatory framework provides for an effective law enforcement and organizational structure.	0	7
	The local regulatory framework includes measures to increase transparency and public participation.	4	6
		32%	25
Planning and Budgeting	A consistent link between bottom-up planning processes, local development plans, sector plans and the budget exists.	5	17
	Budgets are based on a medium-term time horizon.	0	3
	Budget outturns are reasonable and indicate realistic budget making processes.	4	9
	Budgets are pro-poor.	3	8
	A comprehensive participatory monitoring and evaluation system for planning and budgeting processes is established.	4	9
	Expenditure control is used to ensure budget efficiency	3	4
		36%	53
Cash management	Policies, procedures and controls to promote efficient cash management are in place.	1	10
	Cash receipts cash payments and temporary cash surpluses are managed and controlled effectively.	5	11
	An efficient system for billing and collecting local revenues is established.	11	17
	Local-owned revenue is well managed	4	6
		48%	44
Procurement	Policies, procedures and controls to promote efficient and competitive procurement of goods and services are established and implemented.	36	47
	Complaints handling system is operating.	0	3
		72%	50
Accounting and Reporting	Adequate human and institutional capacity for accounting and finance functions exists.	1	7
	Accounting and management information systems are integrated.	1	3
	All local government financial transactions and balances are recorded promptly and accurately.	2	9
	Reliable financial and management information reports are produced.	7	8
		41%	27
Internal Audit	The local government's internal audit agency is organized and empowered to operate effectively.	5	5
	Internal audits standards and procedures applied are acceptable	5	11
	Internal audit findings are followed up adequately.	2	2
		67%	18
Public Debt and Investment	Risk-based policies, procedures and controls for management of local borrowings and investments are established and implemented.	0	8
		0%	8
Asset management	Procedures and mechanisms for ensuring effective governance of local enterprises are established.	5	10
	Policies, procedures and controls for acquisition of new assets and effective management of existing long-term physical assets are established and implemented.	0	3
	Supporting asset management information base is established and maintained.	6	8
	Asset management is linked to plans and budgets.	0	1
		50%	22
External audit and oversight	External audits provide effective accountability of local government.	0	4
	Effective independent oversight of local government financial management exists.	3	5
		33%	9
Average		42%	256

10	Aceh Tenggara		
Strategic area	Outcomes	Indicators achieved	No. of indicators
Local regulatory framework	A comprehensive local regulatory framework required by national legislation on local financial management exists.	6	12
	The local regulatory framework provides for an effective law enforcement and organizational structure.	2	7
	The local regulatory framework includes measures to increase transparency and public participation.	4	6
		48%	25
Planning and Budgeting	A consistent link between bottom-up planning processes, local development plans, sector plans and the budget exists.	9	17
	Budgets are based on a medium-term time horizon.	1	3
	Budget outturns are reasonable and indicate realistic budget making processes.	4	9
	Budgets are pro-poor.	6	8
	A comprehensive participatory monitoring and evaluation system for planning and budgeting processes is established.	3	9
	Expenditure control is used to ensure budget efficiency	3	4
		49%	53
Cash management	Policies, procedures and controls to promote efficient cash management are in place.	4	10
	Cash receipts cash payments and temporary cash surpluses are managed and controlled effectively.	3	11
	An efficient system for billing and collecting local revenues is established.	4	17
	Local-owned revenue is well managed	1	6
		27%	44
Procurement	Policies, procedures and controls to promote efficient and competitive procurement of goods and services are established and implemented.	35	47
	Complaints handling system is operating.	2	3
		74%	50
Accounting and Reporting	Adequate human and institutional capacity for accounting and finance functions exists.	0	7
	Accounting and management information systems are integrated.	0	3
	All local government financial transactions and balances are recorded promptly and accurately.	4	9
	Reliable financial and management information reports are produced.	1	8
		19%	27
Internal Audit	The local government's internal audit agency is organized and empowered to operate effectively.	2	5
	Internal audits standards and procedures applied are acceptable	6	11
	Internal audit findings are followed up adequately.	1	2
		50%	18
Public Debt and Investment	Risk-based policies, procedures and controls for management of local borrowings and investments are established and implemented.	3	8
		38%	8
Asset management	Procedures and mechanisms for ensuring effective governance of local enterprises are established.	3	10
	Policies, procedures and controls for acquisition of new assets and effective management of existing long-term physical assets are established and implemented.	0	3
	Supporting asset management information base is established and maintained.	3	8
	Asset management is linked to plans and budgets.	1	1
		32%	22
External audit and oversight	External audits provide effective accountability of local government.	1	4
	Effective independent oversight of local government financial management exists.	1	5
		22%	9
Average		40%	256

11	Simeulue		
Strategic area	Outcomes	Indicators achieved	No. of indicators
Local regulatory framework	A comprehensive local regulatory framework required by national legislation on local financial management exists.	5	12
	The local regulatory framework provides for an effective law enforcement and organizational structure.	0	7
	The local regulatory framework includes measures to increase transparency and public participation.	4	6
		36%	25
Planning and Budgeting	A consistent link between bottom-up planning processes, local development plans, sector plans and the budget exists.	6	17
	Budgets are based on a medium-term time horizon.	2	3
	Budget outturns are reasonable and indicate realistic budget making processes.	8	9
	Budgets are pro-poor.	7	8
	A comprehensive participatory monitoring and evaluation system for planning and budgeting processes is established.	1	9
	Expenditure control is used to ensure budget efficiency	3	4
		51%	53
Cash management	Policies, procedures and controls to promote efficient cash management are in place.	1	10
	Cash receipts cash payments and temporary cash surpluses are managed and controlled effectively.	4	11
	An efficient system for billing and collecting local revenues is established.	10	17
	Local-owned revenue is well managed	4	6
		43%	44
Procurement	Policies, procedures and controls to promote efficient and competitive procurement of goods and services are established and implemented.	36	49
	Complaints handling system is operating.	2	3
		76%	50
Accounting and Reporting	Adequate human and institutional capacity for accounting and finance functions exists.	0	7
	Accounting and management information systems are integrated.	0	3
	All local government financial transactions and balances are recorded promptly and accurately.	6	9
	Reliable financial and management information reports are produced.	8	8
		52%	27
Internal Audit	The local government's internal audit agency is organized and empowered to operate effectively.	2	5
	Internal audits standards and procedures applied are acceptable	6	11
	Internal audit findings are followed up adequately.	2	2
		56%	18
Public Debt and Investment	Risk-based policies, procedures and controls for management of local borrowings and investments are established and implemented.	2	8
		25%	8
Asset management	Procedures and mechanisms for ensuring effective governance of local enterprises are established.	5	10
	Policies, procedures and controls for acquisition of new assets and effective management of existing long-term physical assets are established and implemented.	1	3
	Supporting asset management information base is established and maintained.	4	8
	Asset management is linked to plans and budgets.	1	1
		50%	22
External audit and oversight	External audits provide effective accountability of local government.	3	4
	Effective independent oversight of local government financial management exists.	2	5
		56%	9
Average		49%	256

12	Singkil		
Strategic area	Outcomes	Indicators achieved	No. of indicators
Local regulatory framework	A comprehensive local regulatory framework required by national legislation on local financial management exists.	7	12
	The local regulatory framework provides for an effective law enforcement and organizational structure.	2	7
	The local regulatory framework includes measures to increase transparency and public participation.	2	6
		44%	25
Planning and Budgeting	A consistent link between bottom-up planning processes, local development plans, sector plans and the budget exists.	5	17
	Budgets are based on a medium-term time horizon.	1	3
	Budget outturns are reasonable and indicate realistic budget making processes.	7	9
	Budgets are pro-poor.	8	8
	A comprehensive participatory monitoring and evaluation system for planning and budgeting processes is established.	3	9
	Expenditure control is used to ensure budget efficiency	3	4
		51%	53
Cash management	Policies, procedures and controls to promote efficient cash management are in place.	6	10
	Cash receipts cash payments and temporary cash surpluses are managed and controlled effectively.	4	11
	An efficient system for billing and collecting local revenues is established.	5	17
	Local-owned revenue is well managed	2	6
		39%	44
Procurement	Policies, procedures and controls to promote efficient and competitive procurement of goods and services are established and implemented.	32	47
	Complaints handling system is operating.	2	3
		68%	50
Accounting and Reporting	Adequate human and institutional capacity for accounting and finance functions exists.	0	7
	Accounting and management information systems are integrated.	0	3
	All local government financial transactions and balances are recorded promptly and accurately.	4	9
	Reliable financial and management information reports are produced.	5	8
		33%	27
Internal Audit	The local government's internal audit agency is organized and empowered to operate effectively.	2	5
	Internal audits standards and procedures applied are acceptable	5	11
	Internal audit findings are followed up adequately.	2	2
		50%	18
Public Debt and Investment	Risk-based policies, procedures and controls for management of local borrowings and investments are established and implemented.	4	8
		50%	8
Asset management	Procedures and mechanisms for ensuring effective governance of local enterprises are established.	4	10
	Policies, procedures and controls for acquisition of new assets and effective management of existing long-term physical assets are established and implemented.	0	3
	Supporting asset management information base is established and maintained.	3	8
	Asset management is linked to plans and budgets.	1	1
		36%	22
External audit and oversight	External audits provide effective accountability of local government.	1	4
	Effective independent oversight of local government financial management exists.	4	5
		56%	9
Average		47%	256

13	Aceh Taming		
Strategic area	Outcomes	Indicators achieved	No. of indicators
Local regulatory framework	A comprehensive local regulatory framework required by national legislation on local financial management exists.	6	12
	The local regulatory framework provides for an effective law enforcement and organizational structure.	3	7
	The local regulatory framework includes measures to increase transparency and public participation.	2	6
		44%	25
Planning and Budgeting	A consistent link between bottom-up planning processes, local development plans, sector plans and the budget exists.	9	17
	Budgets are based on a medium-term time horizon.	1	3
	Budget outturns are reasonable and indicate realistic budget making processes.	2	9
	Budgets are pro-poor.	2	8
	A comprehensive participatory monitoring and evaluation system for planning and budgeting processes is established.	0	9
	Expenditure control is used to ensure budget efficiency	2	4
		30%	53
Cash management	Policies, procedures and controls to promote efficient cash management are in place.	6	10
	Cash receipts cash payments and temporary cash surpluses are managed and controlled effectively.	4	11
	An efficient system for billing and collecting local revenues is established.	5	17
	Local-owned revenue is well managed	2	6
		39%	44
Procurement	Policies, procedures and controls to promote efficient and competitive procurement of goods and services are established and implemented.	28	47
	Complaints handling system is operating.	1	3
		58%	50
Accounting and Reporting	Adequate human and institutional capacity for accounting and finance functions exists.	1	7
	Accounting and management information systems are integrated.	0	3
	All local government financial transactions and balances are recorded promptly and accurately.	5	9
	Reliable financial and management information reports are produced.	4	8
		37%	27
Internal Audit	The local government's internal audit agency is organized and empowered to operate effectively.	2	5
	Internal audits standards and procedures applied are acceptable	5	11
	Internal audit findings are followed up adequately.	1	2
		44%	18
Public Debt and Investment	Risk-based policies, procedures and controls for management of local borrowings and investments are established and implemented.	3	8
		38%	8
Asset management	Procedures and mechanisms for ensuring effective governance of local enterprises are established.	4	10
	Policies, procedures and controls for acquisition of new assets and effective management of existing long-term physical assets are established and implemented.	0	3
	Supporting asset management information base is established and maintained.	2	8
	Asset management is linked to plans and budgets.	1	1
		27%	22
External audit and oversight	External audits provide effective accountability of local government.	2	4
	Effective independent oversight of local government financial management exists.	1	5
		33%	9
Average		39%	256

14	Kota Langsa		
Strategic area	Outcomes	Indicators achieved	No. of indicators
Local regulatory framework	A comprehensive local regulatory framework required by national legislation on local financial management exists.	9	12
	The local regulatory framework provides for an effective law enforcement and organizational structure.	2	7
	The local regulatory framework includes measures to increase transparency and public participation.	3	6
		56%	25
Planning and Budgeting	A consistent link between bottom-up planning processes, local development plans, sector plans and the budget exists.	12	17
	Budgets are based on a medium-term time horizon.	1	3
	Budget outturns are reasonable and indicate realistic budget making processes.	4	9
	Budgets are pro-poor.	3	8
	A comprehensive participatory monitoring and evaluation system for planning and budgeting processes is established.	5	9
	Expenditure control is used to ensure budget efficiency	4	4
		55%	53
Cash management	Policies, procedures and controls to promote efficient cash management are in place.	6	10
	Cash receipts cash payments and temporary cash surpluses are managed and controlled effectively.	5	11
	An efficient system for billing and collecting local revenues is established.	7	17
	Local-owned revenue is well managed	1	6
		43%	44
Procurement	Policies, procedures and controls to promote efficient and competitive procurement of goods and services are established and implemented.	32	47
	Complaints handling system is operating.	1	3
		66%	50
Accounting and Reporting	Adequate human and institutional capacity for accounting and finance functions exists.	0	7
	Accounting and management information systems are integrated.	0	3
	All local government financial transactions and balances are recorded promptly and accurately.	7	9
	Reliable financial and management information reports are produced.	6	8
		48%	27
Internal Audit	The local government's internal audit agency is organized and empowered to operate effectively.	3	5
	Internal audits standards and procedures applied are acceptable	6	11
	Internal audit findings are followed up adequately.	2	2
		61%	18
Public Debt and Investment	Risk-based policies, procedures and controls for management of local borrowings and investments are established and implemented.	4	8
		50%	8
Asset management	Procedures and mechanisms for ensuring effective governance of local enterprises are established.	4	10
	Policies, procedures and controls for acquisition of new assets and effective management of existing long-term physical assets are established and implemented.	0	3
	Supporting asset management information base is established and maintained.	4	8
	Asset management is linked to plans and budgets.	0	1
		36%	22
External audit and oversight	External audits provide effective accountability of local government.	2	4
	Effective independent oversight of local government financial management exists.	1	5
		33%	9
Average		50%	256

15	Gayo Lues		
Strategic area	Outcomes	Indicators achieved	No. of indicators
Local regulatory framework	A comprehensive local regulatory framework required by national legislation on local financial management exists.	6	12
	The local regulatory framework provides for an effective law enforcement and organizational structure.	0	7
	The local regulatory framework includes measures to increase transparency and public participation.	3	6
		36%	25
Planning and Budgeting	A consistent link between bottom-up planning processes, local development plans, sector plans and the budget exists.	11	17
	Budgets are based on a medium-term time horizon.	1	3
	Budget outturns are reasonable and indicate realistic budget making processes.	4	9
	Budgets are pro-poor.	5	8
	A comprehensive participatory monitoring and evaluation system for planning and budgeting processes is established.	3	9
	Expenditure control is used to ensure budget efficiency	3	4
		51%	53
Cash management	Policies, procedures and controls to promote efficient cash management are in place.	6	10
	Cash receipts cash payments and temporary cash surpluses are managed and controlled effectively.	4	11
	An efficient system for billing and collecting local revenues is established.	5	17
	Local-owned revenue is well managed	0	6
		34%	44
Procurement	Policies, procedures and controls to promote efficient and competitive procurement of goods and services are established and implemented.	28	47
	Complaints handling system is operating.	1	3
		58%	50
Accounting and Reporting	Adequate human and institutional capacity for accounting and finance functions exists.	3	7
	Accounting and management information systems are integrated.	3	3
	All local government financial transactions and balances are recorded promptly and accurately.	7	9
	Reliable financial and management information reports are produced.	7	8
		74%	27
Internal Audit	The local government's internal audit agency is organized and empowered to operate effectively.	1	5
	Internal audits standards and procedures applied are acceptable	4	11
	Internal audit findings are followed up adequately.	2	2
		39%	18
Public Debt and Investment	Risk-based policies, procedures and controls for management of local borrowings and investments are established and implemented.	2	8
		25%	8
Asset management	Procedures and mechanisms for ensuring effective governance of local enterprises are established.	2	10
	Policies, procedures and controls for acquisition of new assets and effective management of existing long-term physical assets are established and implemented.	0	3
	Supporting asset management information base is established and maintained.	5	8
	Asset management is linked to plans and budgets.	0	1
		32%	22
External audit and oversight	External audits provide effective accountability of local government.	2	4
	Effective independent oversight of local government financial management exists.	1	5
		33%	9
Average		42%	256

16	Aceh Barat Daya		
Strategic area	Outcomes	Indicators achieved	No. of indicators
Local regulatory framework	A comprehensive local regulatory framework required by national legislation on local financial management exists.	4	12
	The local regulatory framework provides for an effective law enforcement and organizational structure.	1	7
	The local regulatory framework includes measures to increase transparency and public participation.	1	6
		24%	25
Planning and Budgeting	A consistent link between bottom-up planning processes, local development plans, sector plans and the budget exists.	7	17
	Budgets are based on a medium-term time horizon.	1	3
	Budget outturns are reasonable and indicate realistic budget making processes.	4	9
	Budgets are pro-poor.	3	8
	A comprehensive participatory monitoring and evaluation system for planning and budgeting processes is established.	4	9
	Expenditure control is used to ensure budget efficiency	3	4
		42%	53
Cash management	Policies, procedures and controls to promote efficient cash management are in place.	0	10
	Cash receipts cash payments and temporary cash surpluses are managed and controlled effectively.	4	11
	An efficient system for billing and collecting local revenues is established.	2	17
	Local-owned revenue is well managed	0	6
		14%	44
Procurement	Policies, procedures and controls to promote efficient and competitive procurement of goods and services are established and implemented.	24	47
	Complaints handling system is operating.	0	3
		48%	50
Accounting and Reporting	Adequate human and institutional capacity for accounting and finance functions exists.	0	7
	Accounting and management information systems are integrated.	0	3
	All local government financial transactions and balances are recorded promptly and accurately.	3	9
	Reliable financial and management information reports are produced.	1	8
		15%	27
Internal Audit	The local government's internal audit agency is organized and empowered to operate effectively.	1	5
	Internal audits standards and procedures applied are acceptable	5	11
	Internal audit findings are followed up adequately.	2	2
		44%	18
Public Debt and Investment	Risk-based policies, procedures and controls for management of local borrowings and investments are established and implemented.	2	8
		25%	8
Asset management	Procedures and mechanisms for ensuring effective governance of local enterprises are established.	0	10
	Policies, procedures and controls for acquisition of new assets and effective management of existing long-term physical assets are established and implemented.	0	3
	Supporting asset management information base is established and maintained.	3	8
	Asset management is linked to plans and budgets.	0	1
		14%	22
External audit and oversight	External audits provide effective accountability of local government.	0	4
	Effective independent oversight of local government financial management exists.	1	5
		11%	9
Average		26%	256

17	Aceh Selatan		
Strategic area	Outcomes	Indicators achieved	No. of indicators
Local regulatory framework	A comprehensive local regulatory framework required by national legislation on local financial management exists.	4	12
	The local regulatory framework provides for an effective law enforcement and organizational structure.	1	7
	The local regulatory framework includes measures to increase transparency and public participation.	1	6
		24%	25
Planning and Budgeting	A consistent link between bottom-up planning processes, local development plans, sector plans and the budget exists.	11	17
	Budgets are based on a medium-term time horizon.	2	3
	Budget outturns are reasonable and indicate realistic budget making processes.	2	9
	Budgets are pro-poor.	6	8
	A comprehensive participatory monitoring and evaluation system for planning and budgeting processes is established.	2	9
	Expenditure control is used to ensure budget efficiency	3	4
		49%	53
Cash management	Policies, procedures and controls to promote efficient cash management are in place.	1	10
	Cash receipts cash payments and temporary cash surpluses are managed and controlled effectively.	4	11
	An efficient system for billing and collecting local revenues is established.	2	17
	Local-owned revenue is well managed	0	6
		16%	44
Procurement	Policies, procedures and controls to promote efficient and competitive procurement of goods and services are established and implemented.	29	47
	Complaints handling system is operating.	0	3
		58%	50
Accounting and Reporting	Adequate human and institutional capacity for accounting and finance functions exists.	0	7
	Accounting and management information systems are integrated.	0	3
	All local government financial transactions and balances are recorded promptly and accurately.	3	9
	Reliable financial and management information reports are produced.	3	8
		22%	27
Internal Audit	The local government's internal audit agency is organized and empowered to operate effectively.	2	5
	Internal audits standards and procedures applied are acceptable	4	11
	Internal audit findings are followed up adequately.	2	2
		44%	18
Public Debt and Investment	Risk-based policies, procedures and controls for management of local borrowings and investments are established and implemented.	3	8
		38%	8
Asset management	Procedures and mechanisms for ensuring effective governance of local enterprises are established.	6	10
	Policies, procedures and controls for acquisition of new assets and effective management of existing long-term physical assets are established and implemented.	1	3
	Supporting asset management information base is established and maintained.	4	8
	Asset management is linked to plans and budgets.	0	1
		50%	22
External audit and oversight	External audits provide effective accountability of local government.	1	4
	Effective independent oversight of local government financial management exists.	4	5
		56%	9
Average		40%	256

18	Aceh Tengah		
Strategic area	Outcomes	Indicators achieved	No. of indicators
Local regulatory framework	A comprehensive local regulatory framework required by national legislation on local financial management exists.	4	12
	The local regulatory framework provides for an effective law enforcement and organizational structure.	2	7
	The local regulatory framework includes measures to increase transparency and public participation.	2	6
		32%	25
Planning and Budgeting	A consistent link between bottom-up planning processes, local development plans, sector plans and the budget exists.	8	17
	Budgets are based on a medium-term time horizon.	0	3
	Budget outturns are reasonable and indicate realistic budget making processes.	3	9
	Budgets are pro-poor.	5	8
	A comprehensive participatory monitoring and evaluation system for planning and budgeting processes is established.	2	9
	Expenditure control is used to ensure budget efficiency	3	4
		40%	53
Cash management	Policies, procedures and controls to promote efficient cash management are in place.	1	10
	Cash receipts cash payments and temporary cash surpluses are managed and controlled effectively.	6	11
	An efficient system for billing and collecting local revenues is established.	3	17
	Local-owned revenue is well managed	0	6
		23%	44
Procurement	Policies, procedures and controls to promote efficient and competitive procurement of goods and services are established and implemented.	27	47
	Complaints handling system is operating.	1	3
		56%	50
Accounting and Reporting	Adequate human and institutional capacity for accounting and finance functions exists.	0	7
	Accounting and management information systems are integrated.	0	3
	All local government financial transactions and balances are recorded promptly and accurately.	5	9
	Reliable financial and management information reports are produced.	3	8
		30%	27
Internal Audit	The local government's internal audit agency is organized and empowered to operate effectively.	2	5
	Internal audits standards and procedures applied are acceptable	3	11
	Internal audit findings are followed up adequately.	1	2
		33%	18
Public Debt and Investment	Risk-based policies, procedures and controls for management of local borrowings and investments are established and implemented.	1	8
		13%	8
Asset management	Procedures and mechanisms for ensuring effective governance of local enterprises are established.	2	10
	Policies, procedures and controls for acquisition of new assets and effective management of existing long-term physical assets are established and implemented.	1	3
	Supporting asset management information base is established and maintained.	2	8
	Asset management is linked to plans and budgets.	1	1
		27%	22
External audit and oversight	External audits provide effective accountability of local government.	2	4
	Effective independent oversight of local government financial management exists.	2	5
		44%	9
Average		33%	256

19	Bener Meriah		
Strategic area	Outcomes	Indicators achieved	No. of indicators
Local regulatory framework	A comprehensive local regulatory framework required by national legislation on local financial management exists.	2	12
	The local regulatory framework provides for an effective law enforcement and organizational structure.	1	7
	The local regulatory framework includes measures to increase transparency and public participation.	2	6
		20%	25
Planning and Budgeting	A consistent link between bottom-up planning processes, local development plans, sector plans and the budget exists.	5	17
	Budgets are based on a medium-term time horizon.	0	3
	Budget outturns are reasonable and indicate realistic budget making processes.	1	9
	Budgets are pro-poor.	4	8
	A comprehensive participatory monitoring and evaluation system for planning and budgeting processes is established.	4	9
	Expenditure control is used to ensure budget efficiency	2	4
		30%	53
Cash management	Policies, procedures and controls to promote efficient cash management are in place.	2	10
	Cash receipts cash payments and temporary cash surpluses are managed and controlled effectively.	3	11
	An efficient system for billing and collecting local revenues is established.	3	17
	Local-owned revenue is well managed	0	6
		18%	44
Procurement	Policies, procedures and controls to promote efficient and competitive procurement of goods and services are established and implemented.	19	47
	Complaints handling system is operating.	0	3
		38%	50
Accounting and Reporting	Adequate human and institutional capacity for accounting and finance functions exists.	0	7
	Accounting and management information systems are integrated.	0	3
	All local government financial transactions and balances are recorded promptly and accurately.	3	9
	Reliable financial and management information reports are produced.	1	8
		15%	27
Internal Audit	The local government's internal audit agency is organized and empowered to operate effectively.	2	5
	Internal audits standards and procedures applied are acceptable	3	11
	Internal audit findings are followed up adequately.	1	2
		33%	18
Public Debt and Investment	Risk-based policies, procedures and controls for management of local borrowings and investments are established and implemented.	1	8
		13%	8
Asset management	Procedures and mechanisms for ensuring effective governance of local enterprises are established.	3	10
	Policies, procedures and controls for acquisition of new assets and effective management of existing long-term physical assets are established and implemented.	0	3
	Supporting asset management information base is established and maintained.	2	8
	Asset management is linked to plans and budgets.	1	1
		27%	22
External audit and oversight	External audits provide effective accountability of local government.	1	4
	Effective independent oversight of local government financial management exists.	3	5
		33%	9
Average		25%	256

20	Kota Sabang		
Strategic area	Outcomes	Indicators achieved	No. of indicators
Local regulatory framework	A comprehensive local regulatory framework required by national legislation on local financial management exists.	4	12
	The local regulatory framework provides for an effective law enforcement and organizational structure.	2	7
	The local regulatory framework includes measures to increase transparency and public participation.	3	6
		36%	25
Planning and Budgeting	A consistent link between bottom-up planning processes, local development plans, sector plans and the budget exists.	4	17
	Budgets are based on a medium-term time horizon.	0	3
	Budget outturns are reasonable and indicate realistic budget making processes.	4	9
	Budgets are pro-poor.	3	8
	A comprehensive participatory monitoring and evaluation system for planning and budgeting processes is established.	6	9
	Expenditure control is used to ensure budget efficiency	1	4
		34%	53
Cash management	Policies, procedures and controls to promote efficient cash management are in place.	2	10
	Cash receipts cash payments and temporary cash surpluses are managed and controlled effectively.	8	11
	An efficient system for billing and collecting local revenues is established.	7	17
	Local-owned revenue is well managed	1	6
		41%	44
Procurement	Policies, procedures and controls to promote efficient and competitive procurement of goods and services are established and implemented.	27	47
	Complaints handling system is operating.	0	3
		54%	50
Accounting and Reporting	Adequate human and institutional capacity for accounting and finance functions exists.	3	7
	Accounting and management information systems are integrated.	0	3
	All local government financial transactions and balances are recorded promptly and accurately.	7	9
	Reliable financial and management information reports are produced.	6	8
		59%	27
Internal Audit	The local government's internal audit agency is organized and empowered to operate effectively.	3	5
	Internal audits standards and procedures applied are acceptable	4	11
	Internal audit findings are followed up adequately.	2	2
		50%	18
Public Debt and Investment	Risk-based policies, procedures and controls for management of local borrowings and investments are established and implemented.	0	8
		0%	8
Asset management	Procedures and mechanisms for ensuring effective governance of local enterprises are established.	4	10
	Policies, procedures and controls for acquisition of new assets and effective management of existing long-term physical assets are established and implemented.	1	3
	Supporting asset management information base is established and maintained.	3	8
	Asset management is linked to plans and budgets.	1	1
		41%	22
External audit and oversight	External audits provide effective accountability of local government.	2	4
	Effective independent oversight of local government financial management exists.	3	5
		56%	9
Average		41%	256

21	Kota Lhokseumawe		
Strategic area	Outcomes	Indicators achieved	No. of indicators
Local regulatory framework	A comprehensive local regulatory framework required by national legislation on local financial management exists.	3	12
	The local regulatory framework provides for an effective law enforcement and organizational structure.	0	7
	The local regulatory framework includes measures to increase transparency and public participation.	3	6
		24%	25
Planning and Budgeting	A consistent link between bottom-up planning processes, local development plans, sector plans and the budget exists.	5	17
	Budgets are based on a medium-term time horizon.	0	3
	Budget outturns are reasonable and indicate realistic budget making processes.	1	9
	Budgets are pro-poor.	4	8
	A comprehensive participatory monitoring and evaluation system for planning and budgeting processes is established.	5	9
	Expenditure control is used to ensure budget efficiency	2	4
		33%	53
Cash management	Policies, procedures and controls to promote efficient cash management are in place.	5	10
	Cash receipts cash payments and temporary cash surpluses are managed and controlled effectively.	5	11
	An efficient system for billing and collecting local revenues is established.	6	17
	Local-owned revenue is well managed	0	6
		36%	44
Procurement	Policies, procedures and controls to promote efficient and competitive procurement of goods and services are established and implemented.	16	47
	Complaints handling system is operating.	0	3
		32%	50
Accounting and Reporting	Adequate human and institutional capacity for accounting and finance functions exists.	1	7
	Accounting and management information systems are integrated.	0	3
	All local government financial transactions and balances are recorded promptly and accurately.	3	9
	Reliable financial and management information reports are produced.	5	8
		33%	27
Internal Audit	The local government's internal audit agency is organized and empowered to operate effectively.	2	5
	Internal audits standards and procedures applied are acceptable	5	11
	Internal audit findings are followed up adequately.	2	2
		50%	18
Public Debt and Investment	Risk-based policies, procedures and controls for management of local borrowings and investments are established and implemented.	0	8
		0%	8
Asset management	Procedures and mechanisms for ensuring effective governance of local enterprises are established.	0	10
	Policies, procedures and controls for acquisition of new assets and effective management of existing long-term physical assets are established and implemented.	0	3
	Supporting asset management information base is established and maintained.	4	8
	Asset management is linked to plans and budgets.	0	1
		18%	22
External audit and oversight	External audits provide effective accountability of local government.	1	4
	Effective independent oversight of local government financial management exists.	2	5
		33%	9
Average		29%	256

22	Aceh Provincial Government		
Strategic area	Outcomes	Indicators achieved	No. of indicators
Local regulatory framework	A comprehensive local regulatory framework required by national legislation on local financial management exists.	5	12
	The local regulatory framework provides for an effective law enforcement and organizational structure.	2	7
	The local regulatory framework includes measures to increase transparency and public participation.	2	6
		36%	25
Planning and Budgeting	A consistent link between bottom-up planning processes, local development plans, sector plans and the budget exists.	3	17
	Budgets are based on a medium-term time horizon.	0	3
	Budget outturns are reasonable and indicate realistic budget making processes.	5	9
	Budgets are pro-poor.	5	8
	A comprehensive participatory monitoring and evaluation system for planning and budgeting processes is established.	7	9
	Expenditure control is used to ensure budget efficiency	3	4
		46%	53
Cash management	Policies, procedures and controls to promote efficient cash management are in place.	6	10
	Cash receipts cash payments and temporary cash surpluses are managed and controlled effectively.	5	11
	An efficient system for billing and collecting local revenues is established.	7	17
	Local-owned revenue is well managed	0	6
		41%	44
Procurement	Policies, procedures and controls to promote efficient and competitive procurement of goods and services are established and implemented.	26	47
	Complaints handling system is operating.	0	3
		52%	50
Accounting and Reporting	Adequate human and institutional capacity for accounting and finance functions exists.	2	7
	Accounting and management information systems are integrated.	0	3
	All local government financial transactions and balances are recorded promptly and accurately.	7	9
	Reliable financial and management information reports are produced.	6	8
		56%	27
Internal Audit	The local government's internal audit agency is organized and empowered to operate effectively.	2	5
	Internal audits standards and procedures applied are acceptable	7	11
	Internal audit findings are followed up adequately.	2	2
		61%	18
Public Debt and Investment	Risk-based policies, procedures and controls for management of local borrowings and investments are established and implemented.	0	8
		0%	8
Asset management	Procedures and mechanisms for ensuring effective governance of local enterprises are established.	3	10
	Policies, procedures and controls for acquisition of new assets and effective management of existing long-term physical assets are established and implemented.	1	3
	Supporting asset management information base is established and maintained.	4	8
	Asset management is linked to plans and budgets.	1	1
		41%	22
External audit and oversight	External audits provide effective accountability of local government.	1	4
	Effective independent oversight of local government financial management exists.	1	5
		56%	9
Average		43%	256

Annex 4: Methodology

The outcomes in the PFM framework are linked to specific local government departments. A meeting is first held with the head of the local government - Bupati in a district governments and *Walikota* in a city administration. In some instances, the government head was represented by the SekDa (*Sekretaris Daerah*) or the head of the regional work plan (SKPD). The purpose is to explain the aims of the survey and hold a discussion with the participants about financial management in the local government. It is emphasized that the aim of the survey is to identify relative strengths and weaknesses in the local government's financial management capacity. Participants are informed that the survey covers every local government in Aceh and the results will be made available. Whilst no commitments are made concerning capacity building interventions, it is emphasized that it is in the best interests of the respondents to answer accurately and truthfully.

The research teams are divided into smaller groups, usually of two people each and tasks are assigned to each group. The table below provides a guideline as to which strategic areas and outcomes are relevant to which department. The teams should, if deemed necessary, crosscheck the answers with officials from other departments. All relevant documentation is checked usually at the time of the interview or later if immediately unavailable. This not only confirms (or refutes) the accuracy of the response but also provides an additional incentive to provide accurate responses. Yes/no responses are entered directly into the PFM scoring framework, which automatically calculates all the scores. Space is provided for supporting comments.

Each research team leader is required to provide a written report on each local government surveyed. The aim is to present a context for the PFM scores by providing qualitative analysis to support the scores. A format is provided to the research team leaders.

In the case of unexpectedly high or low scoring, research teams are encouraged to re-check responses and, if appropriate, re-interview respondents. As a result, the scores for two local governments were revised.

The PFM Framework and Relevant Local Government Departments

STRATEGIC AREA/OUTCOME	RELEVANT DEPARTMENT
Strategic Area 1: Local Regulatory Framework	
Outcome No. 1	Legal Department, Bappeda, Finance Department
Outcome No. 2	Bappeda, Finance Department
Outcome No.3	Bappeda, Finance Department
Strategic Area 2: Planning and Budgeting	
Outcome No. 1	Bappeda, Finance Department
Outcome No. 2	Bappeda, Finance Department
Outcome No.3	Bappeda, Finance Department
Outcome No.4	Bappeda, Finance Department
Outcome No.5	Bappeda, Finance Department, Bawasda (indicator 4)
Outcome No.6	Bappeda, Finance Department
Strategic Area 3: Cash Management	
Outcome No. 1	Finance Department, Bawasda (Indicator 10)
Outcome No. 2	Finance Department, Dispenda
Outcome No.3	Finance Department, Bawasda, Dispenda
Outcome No.4	Finance Department, Bawasda, Dispenda
Strategic Area 4: Procurement	
Outcome No. 1	BPKP, General Works Department, Legal Department, Bawasda, Finance Department
Outcome No. 2	Legislative Body, BPKP
Strategic Area 5: Accounting and Reporting	
Outcome No. 1	Finance Department
Outcome No. 2	Finance Department
Outcome No.3	Finance Department
Outcome No.4	Finance Department
Strategic Area 6: Internal Audit	
Outcome No. 1	Bawasda
Outcome No. 2	Bawasda
Outcome No.3	Bawasda
Strategic Area 7: Debt and Investment	
Outcome No. 1	Finance Department
Strategic Area 8: Asset Management	
Outcome No. 1	Finance Department, Bawasda (indicator 5), Setda and/or Director BUMD
Outcome No.2	Finance Department
Outcome No. 3	Finance Department
Outcome No. 4	Finance Department
Strategic Area 9: Oversight and External Audit	
Outcome No. 1	Finance Department, Legislative Assembly member
Outcome No.2	Finance Department, Legislative Assembly member, Setda

Annex 5: Researchers and Universities

The Public Financial Management survey was carried out in three stages between May and November 2006. Each research team was comprised of four or five researchers from the following Indonesian universities and NGOs. LGSP provided team leaders for the first survey round in five local governments.

Institution	Researchers	
Hasanudin University, Makassar	Drs. H. Muhammad Toaha, MBA	Drs. Harryanto, M.Com.
	Gagaring Pagalung, SE., MS., Akt.Phd.Cand.	Yansor Djaya
	Syahrir, SE, M. Si, Ak	Drs. Nasruddin, MM
	M. Natsir Kadir, Drs. M. Si., Akt.	Kastumuni Harto
Andalas University, Padang	Drs. H.Masrizal, MSoc, Sc	Rahmat Febrianto, SE, Msi, Akt
	DR.H. Suhairi, SE, Msi, Akt	DR.H. Hefrizal Handra, MSoc, Sc
	Suhanda, SE, Msi, Akt	Fajri Muharja, SE, Msi
	Rafdinal, SE, Msi, Akt	DR. H. Sofyardi, SE, MA
University of North Sumatra, Medan	M. Utama Nasution, SE, MM, Ak.	Dr. Erlina Roesli, MSi, Ak
	Drs. Rasdianto, MSi, Ak	Syamsul Bahri TRB
	Drs. Arifin Lubis, MM, Ak.	
UNSYIAH University, Banda Aceh	Prof. Djamaluddin	Bismi Khalidin
	Muhammad Saleh	Ahmad
IAIN AR-Raniry Banda Aceh	Bismi Khalidin	Israk Ahmadsyah
TARI Research Institute, Banda Aceh	Nashrillah Anis, SE, MM	Zahrial, SE
	Miftachuddin Cut Adek, SE, M.Si	
USAID-LGSP	Arham Rauf	Farman Izhar
	Utoro Sindhubilowo	Sigit Purwanto

Annex 6: PFM outcomes in all 21 Local Governments in Aceh

