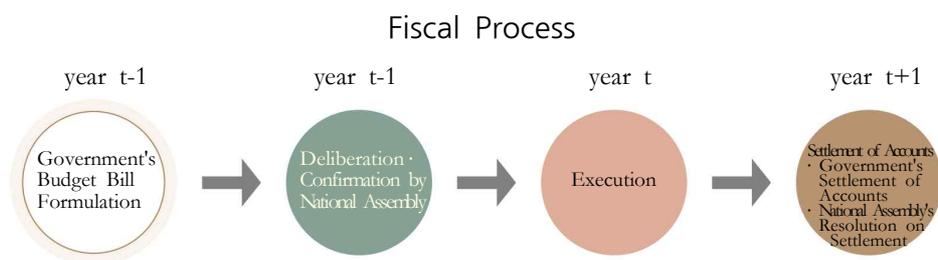


# Public Finance of Korea 2019(partially extracted)

The fiscal process is composed of the budgetary process and settlement of accounts process.

The budgetary process consists of 1) the formulation of the budget bill by the government 2) the deliberation and confirmation of the budget bill by the National Assembly and 3) execution by the government; while the settlement of accounts process consists of 1) the drafting of the Report on the Settlement of Accounts, 2) audit of the settlement of accounts by the Board of Audit and Inspection of Korea (BAI), and 3) the examination of the settlement of accounts by the National Assembly. Such fiscal process is also referred to as the “fiscal procedure.”

In principle, the Korean budget is valid for only one fiscal year (1 year) under the Principle of Independence of Fiscal Years, but the fiscal process is conducted over three fiscal years, covering the year before and after the subject fiscal year. The budget for 2019, for instance, is formulated and examined in 2018, executed in 2019 and settled in 2020. Government funds also undergo a process similar to the budgetary process according to the National Finance Act and the National Accounting Act, in terms of the development, confirmation and settlement of the draft Fund Management Plan.



## The Government's Formulation of the Budget Bill

Under Article 54 of the Constitution of the Republic of Korea, the government is responsible for formulating the budget bill while the National Assembly is responsible for its deliberation and confirmation. The Minister of Economy and Finance oversees the formulation of the budget bill by the government, based on the budget requests drafted and submitted by the heads of each central government agency.

## Submission of the Medium-Term Project Plan

The heads of each central government agency must submit to the Minister of Strategy and Finance, by no later than January 31st of each year, a medium-term plan for new projects over the period of five fiscal years from the current fiscal year as well as major ongoing projects. The submitted Medium-Term Project Plan is used as the foundation for setting expenditure ceilings for each area and Ministry in establishing the National Financial Management Plan, formulating the budget bill and developing the draft Fund Management Plan.

## Notice of Guidelines for the Formulation of Budget Bills

The Minister of Economy and Finance must notify the heads of each central government agency of the Guidelines for the Formulation of Budget Bills for the following year, subject to prior deliberation by the State Council as well as Presidential approval by no later than March 31<sup>st</sup> of each year. The Guidelines for the Formulation of Budget Bills are also reported to the Special Committee on Budget and Accounts of the National Assembly. The Guidelines for the Formulation of Budget Bills, which are based on the Medium-Term Project Plan, include general budgeting direction, fiscal management methods and the direction of area-specific resource allocation. The Minister of Economy and Finance may include ceilings on the expenditure of each central government agency in the notice of the Guidelines for the Formulation of Budget Bills in order to ensure

compatibility between the National Financial Management Plan and the budget formulation.

### Submission of Budget Requests

The heads of each central government agency must, in compliance with the Guidelines for the Formulation of Budget Bills, prepare a request for revenue and expenditure budgets, continuing expenditures, specified carryover funds, and contractual acts that result in burdening the National Treasury with liabilities under his/her jurisdiction (hereinafter referred to as "budget request") for the following year, and submit it to the Minister of Economy and Finance by no later than May 31 of each year.

The budget requests must be accompanied by supporting documents including 1) project-specific explanatory statements on the revenue and expenditure budgets and statements on each payment item; 2) an explanatory statement on contractual acts that result in burdening the National Treasury with liabilities; 3) an explanatory statement on the continuing expenditures; 4) documentation on the details of the laws which the tax revenues are based upon; 5) a project plan; 6) occupation-specific employment ceilings and a comparison table detailing employees status during the previous year; 7) report on the management and operation of state property and a comparison table detailing the previous year's data; and 8) a gender-sensitive budget statement.

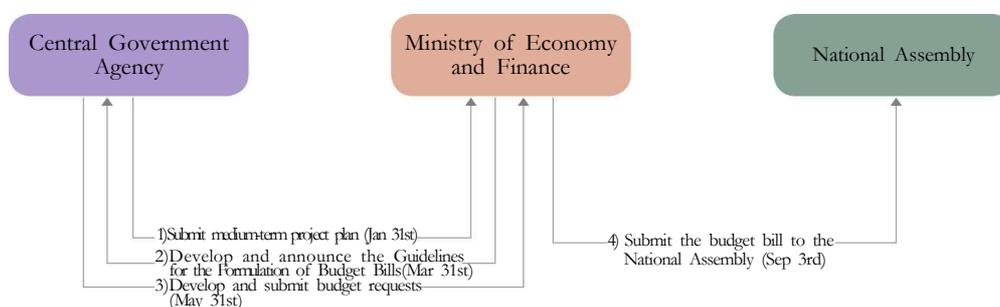
### The Government's Formulation and Submission of the Budget Bill to the National Assembly

The Minister of Economy and Finance must formulate the Budget Bill in accordance with the budget requests submitted, obtain presidential approval after undergoing deliberation by the State Council, after which the Bill shall be submitted to the National Assembly no later than 120 days before the commencement of the following fiscal year. As such, the formulation of the Korean

Budget Bill is an eight-month-long process that begins in January and ends on September 3<sup>rd</sup> upon submission to the National Assembly.

Meanwhile, if the government intends to revise, modify, or correct part of the contents of the Budget Bill already submitted to the National Assembly due to any unavoidable cause, a revised Budget Bill may be submitted to the National Assembly as approved by the President, after undergoing deliberation by the State Council.

### 2019 Budget Bill Formulation Process of the Government



### **Lump Sum Allocation and Top-Down Budgeting**

According to the lump sum allocation and top-down budgeting system, the Ministry-specific expenditure ceilings are determined based on the national financial management plan, after which each Ministry voluntarily sets their own budget within their respective spending limits.

Under the previous bottom-up budgeting system in which each ministry made their own budget requests, the budgeting process was led by the budgetary authorities with a focus on single-year fiscal management and individual projects. In contrast, the lump sum allocation and top-down budgeting system was introduced in the 2005 budgeting process to allocate resources in a macro-strategic manner in conjunction with the national financial management plan from a medium-term perspective, while enhancing the discretion and accountability of the Ministries regarding budget formulation. Provision 2 of Article 29 of the National Finance Act supports this rationale by stipulating that “The Minister of Economy and Finance may include the ceilings on the expenditure of each central government agency in the Notice of Guidelines for the Formulation of Budget Bills, in order to ensure compatibility between the National Financial Management Plan and formulation of the budget.”

However, despite the introduction of a lump sum allocation and top-down budgeting system, the Ministry of Economy and Finance (MOEF) still conducts a full, detailed review of the budget requests submitted by each Ministry from the beginning, which restricts the augmentation of the Ministries’ discretion. Also, issues have been raised such as those related to the weakening effectiveness of the expenditure ceiling because the expenditure ceilings of each central government agency are not reported to the Special Committee on Budget and Accounts of the National Assembly.

### **Formulation of Budget Bills by Independent Government Bodies**

Provision 1 of Article 6 of the National Finance Act provides that the term “independent government body” refers to the National Assembly, the Supreme Court, the Constitutional Court and the National Election Commission. These agencies are Constitutional agencies mandated under Chapter III (The National Assembly), Chapter V (The Courts), Chapter VI (The Constitutional Court) and Chapter VII (Election Management) of the Constitution of the Republic of Korea; and need to be provided with a certain degree of discretion in the formulation and management of budgets in order to ensure their independence.

According to Article 40 of the National Finance Act, in formulating the budget for an independent government body, the government must respect the opinion of the head of the government body concerned to the greatest extent possible, and must consult with the head of the independent government body in advance when making adjustments deemed necessary according to the financial circumstances of the State. Notwithstanding such consultations held, when the amount demanded by an independent government body for its expenditure budget is to be reduced, the government must seek the opinion of the independent government body during a State Council meeting. When the government has reduced the expenditure budget demanded by the independent government body, it must submit to the National Assembly the opinion of the head of the independent government body regarding the size of and reasons for the reduction as well as of the reduction itself.

However, even independent agencies can have limited discretion in formulating budget bills due to the application of budget items without consideration to the unique characteristics of the organization and functions of the National Assembly and the Courts, as well as restrictions set under the Guidelines for the Formulation of Budget Bills. Furthermore, in terms of execution, there may be limited discretion due to adjustments by the government to the Guidelines for Budget Execution and the budget allocation period.

## Composition of the Budget Bill

Article 19 of the National Finance Act<sup>1)</sup> specifies the formal content of budgets, according to which the budget is composed of five categories—the general budgetary provisions, revenue and expenditure budgets, continuing expenditures, specified carryover funds, and commitments to bear Treasury liabilities.

### Composition of the Budget

| Category                                 | Details   |
|--|---|
| General Budgetary Provisions             | Comprehensive provisions concerning the overall budget.   |
| Revenue & Expenditure Budgets            | Details regarding all incomes (tax revenues) and expenses (tax expenditures) within a fiscal year.  |
| Continuing Expenditures                  | Expenditures disbursed over the course over several years for projects which require a long period of time to be completed.   |
| Specified Carryover Funds                | Funds that can be transferred to the following year to be used when it is anticipated that a certain expenditure may not be completely disbursed during the pertinent year. |
| Commitments to Bear Treasury Liabilities | Treasury liabilities borne by the State without any budget set for the relevant year.   |

Source: National Assembly Budget Office (NABO)

1) Article 19 (Composition of Budget) of the National Finance Act: The term "budget" refers collectively to the general budgetary provisions, revenue and expenditure budgets, continuing expenditure, specified carryover funds, and commitments to bear Treasury liabilities.

## Composition of the Draft Fund Management Plan

According to Article 67 of the National Finance Act<sup>2)</sup>, the draft fund management plan consists of the general provisions for management and the fund management plan. The general provisions for management specify the general matters concerning the business objectives of the fund, funding and management (including limitations on the acquisition of equity and real estate), and the acquisition of assets. Each fund management plan is divided into a revenue plan and an expenditure plan, and the revenue plan is further categorized by its characteristics, while the expenditure plan is divided by its characteristics or by project into main categories and subcategories.

## Accompanying Documents for Budget Bills and Draft Fund Management Plans

Articles 34 and 71 of the National Finance Act specify the accompanying documents required for the submission of the budget bills and draft fund management plans to the National Assembly. Budget bills must be accompanied by 17 documents including gross and net accounts of the revenue and expenditure budgets, project-specific explanatory statements on the revenue and expenditure budgets as well as continuing expenditures; and the draft fund management plans must be accompanied by seven types of documents including a fundraising plan, estimated financial conditions table and estimated financial operations table.

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2) Article 67 (Contents of Draft Fund Management Plans) of the National Finance Act:

- (1) Each draft fund management plan shall consist of the general provisions for management and the fund management plan.
- (2) The general budgetary provisions for management shall provide for the general matters concerning the business objectives of the fund, funding and management (including limitations on the acquisition of equity and real estate), and the acquisition of assets.
- (3) Each fund management plan shall be divided into a revenue plan and an expenditure plan, and the revenue plan shall be further divided by its characteristics, while the expenditure plan shall be divided by its characteristic or project into the main categories and subcategories. In such cases, the units of the main categories shall be classified by chapter, section, and paragraph, while the units of the subcategories shall be classified by subparagraph and item.
- (4) Necessary matters concerning the preparation of draft fund management plans shall be prescribed by Presidential Decree.

## Accompanying Documents for Budget Bills and Draft Fund Management Plans

| Budget Bills  | Draft Fund Management Plans  |
|---|--|
| <ol style="list-style-type: none"> <li>1) Gross and net accounts of revenue and expenditure budgets.</li> <li>2) Project-specific explanatory statements on the revenue and expenditure budgets.</li> <li>3) Statement on the payments or estimated payments of continuing expenditures until the end of the preceding year, on predetermined payments to be disbursed after the relevant year, on the overall project plans and detailed status of their progress.</li> <li>4) Overview of each project subject to the total project cost control, details of the increase or decrease in the total project costs compared to that of the preceding year and the reasons for such change, the annual installments up to the pertinent year, and the estimated amount of expenditure for the subsequent years.</li> <li>5) An explanatory statement on commitments to bear National Treasury liabilities.</li> <li>6) With respect to the commitments to bear National Treasury liabilities that are valid until subsequent years, a statement on the payments or the estimated payments until the end of the preceding year and predetermined payments to be disbursed on and after the pertinent year.</li> </ol> | <ol style="list-style-type: none"> <li>1) Fundraising plan.</li> <li>2) Estimated financial conditions table and estimated financial operations table.</li> <li>3) Gross and net accounts of the revenue and expenditure plan as well as the specifications by major category.</li> <li>4) Performance plan.</li> <li>5) Statement on transfers of surplus financial resources between a fund and an account or between funds, and other documents that specify the details of the draft fund management plan, etc.</li> <li>6) Gender-sensitive fund management plan.</li> <li>7) Details of projects which have not undergone a preliminary feasibility survey accompanied by the reason for not conducting the survey.</li> </ol> |

| Budget Bills  | Draft Fund Management Plans |
|---|-----------------------------|
| <p>7) The total amount of commitments to bear National Treasury liabilities as part of large-scale projects specified under Presidential Decree, among projects that require at least two years until completion.</p> <p>8) The budgetary employment ceiling table and unit base prices for formulation of the Budget Bill.</p> <p>9) Statement on the present value of State-owned property as of the end of the year before the preceding year, as well as estimated present values as of the end of the preceding year and of the pertinent year.</p> <p>10) Performance plan.</p> <p>11) Gender-sensitive budget statement.</p> <p>12) Tax expenditure budget.</p> <p>13) When the amount requested by an independent government body or the BAI is to be reduced, a statement on the size and reasons for such reduction as well as the opinion of the head of the pertinent agency regarding such reduction.</p> <p>14) Statements on transfers of surplus financial resources between accounts and funds or between accounts, in addition to documents that clarify the financial status and the contents of the Budget Bill.</p> <p>15) Expenditure budget for special cases of State property.</p> |                             |

| Budget Bills  | Draft Fund Management Plans |
|---|-----------------------------|
| 16) Details of projects which have not undergone a preliminary feasibility survey accompanied by the reason for not conducting the survey.<br>17) Estimation of total corresponding local expenses of each area according to the budget bill for local government projects subsidized by the National Treasury. |                             |

Source: The National Finance Act

## National Financial Management Plans

National financial management plans refer to a government report on the development of a financial management plan related to tax revenue, tax expenditure, fiscal balance, tax burden ratio and sovereign debt, covering a period spanning at least five fiscal years from the pertinent fiscal year to promote the efficiency and soundness of financial management, submitted to the National Assembly in accordance with Article 7 of the National Finance Act. The National Financial Management Plan is devised on a five-year basis through which the national policy direction and resource allocation plans are highlighted. The plan serves as the basic framework for single-year budgeting and is compatible with and complemented by the shifts in economic and social conditions each year. The single-year budget set according to the national financial management plans by the government which encompass each Ministry, can be formulated from a medium-term perspective by taking into consideration the mid-to long-term national vision and policy priorities.

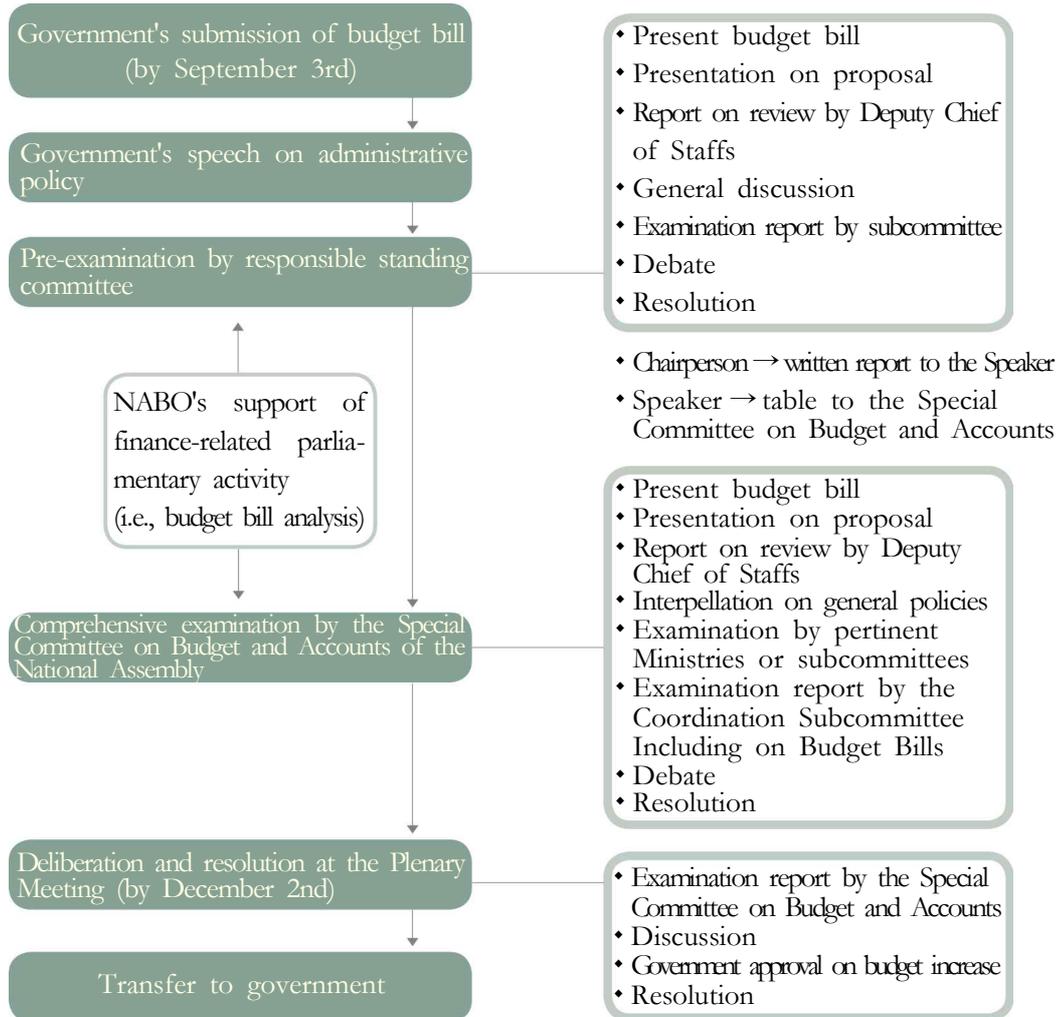
Article 7 of the National Finance Act specifies the content that must be included in the national financial management plans along with necessary supporting documents when submitted by the government to the National Assembly. The content that must be included in the national financial

management plans include the general direction and objectives of financial management, mid-to long-term financial forecast and supporting evidence, as well as area-specific resource allocation plans and investment direction; while supporting documents such as evaluation and analysis reports on changes compared to the plans of the preceding year, mid-to long-term fund financial management plans, sovereign debt management plans as well as mid-to long-term tax policy management plans are also required.

### National Assembly Deliberation of the Budget Bill

The National Assembly's deliberation process on budget bills proceeds in the following order: 1) Speech on administrative policy by the government, 2) pre-examination by the responsible Standing Committee, 3) comprehensive deliberation by the Special Committee on Budget and Accounts of the National Assembly, 4) Deliberation and resolution at the Plenary Meeting.

## The National Assembly's Deliberation Process on Budget Bills



## Government speech on Administrative Policy

According to Article 54 of the Constitution of the Republic of Korea and Articles 33 and 68 of the National Finance Act, the government must submit the Budget Bill within 120 days before the beginning of a fiscal year, while the National Assembly must reach a resolution on the Budget Bill within 30 days before the beginning of the fiscal year. Once the government-formulated Budget Bill is submitted to the National Assembly, the government gives a speech on administrative policy at the Plenary Meeting. Likewise, the government's speech on administrative policy also takes place at the Plenary Meeting for supplementary budget bills<sup>3)</sup>.

## Pre-examination by the Responsible Standing Committee

Once a budget bill is submitted to the National Assembly, the Speaker tables the bill to the responsible Standing Committee, which conducts a pre-examination and reports the result to the Speaker. The Speaker may designate the time period of the examination when the budget bill is tabled to the responsible Standing Committee, and when the committee fails to complete the examination within that period without cause, the Speaker may table the bill to the Special Committee on Budget and Accounts under his/her direct authority. The pre-examination process is concluded when the Speaker tables the budget bill attached with the pre-examination reports from each Standing Committee to the Special Committee on Budget and Accounts of the National Assembly. The Standing Committee's pre-examination process on budget bills is the same as that for other regular legislative bills—1) presentation of Budget Bill, 2) explanation of proposal, 3) report on the review by Deputy Chief of Staffs 4) general discussion, 5) examination by subcommittee and 6) debate and resolution.

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3) Since the 17<sup>th</sup> National Assembly (2004) until 2017, there have been nine cases in which supplementary budget bills were submitted to the National Assembly(2004, 2006, 2008, 2009, 2013, 2015-2018), during which the Prime Minister presented the speech on administrative policy with the exception of 2017 (in which President Moon Jae-in addressed the National Assembly)

## Comprehensive Examination by the Special Committee on Budget and Accounts of the National Assembly

The Speaker attaches the preliminary examination report to the budget bill and tables it to the Special Committee on Budget and Accounts of the National Assembly (hereinafter referred to as “the Budget and Accounts Committee”), who examines the report before referring it to the Plenary Meeting. Even if the preliminary examination by the Standing Committee is not completed, the Speaker may table the pertinent budget bill to the Budget and Accounts Committee without attaching a preliminary examination report. The Speaker may designate the time period of the examination to be conducted by the responsible Standing Committee, and when the committee fails to complete the examination within that period without cause, the Speaker may table the bill to the Budget and Accounts Committee under his/her direct authority.

The examination of the budget bill by the Budget and Accounts Committee is referred to as the “comprehensive examination,” conducted in the order of 1) government’s presentation on its proposal, 2) report on the review by Deputy Chief of Staffs, 3) interpellation on general policies, 4) examination by pertinent Ministries or subcommittees, 5) debate and 6) voting.

The interpellation on general policies refers to process of questioning related to the budget bill by members of the Budget and Accounts Committee directed to all Ministries and listening to the subsequent response of the government; whereas the individual Ministry examination refers to the question-and-answer process conducted by economic and non-economic Ministries regarding the budget bills under each Ministry’s responsibility. Examination is to be conducted by either the pertinent Ministries or subcommittees, but is actually conducted by the pertinent Ministries on an individual basis. When conducting the interpellation on general policies and individual Ministry examination, the chairperson consults with the executive secretaries to decide on the details of the process such as the Q&A period for each negotiating party. During the 2019 budget bill examination, the

interpellation on general policies was first conducted over two days (November 5-6th) followed by individual Ministry examinations by economic and non-economic Ministries over four days (November 7-9th, 12th).

Upon completion of the interpellation on general policies and individual Ministries' examination, the Budget and Accounts Committee organizes a Coordination Subcommittee on Budget Bills to conduct an examination on the budget bill by referring to the Standing Committee's preliminary examination outcomes. The Coordination Subcommittee on Budget Bills typically consists of approximately 11 to 15 members, with the chairperson of the Budget and Accounts Committee assuming the position of the chairperson of the Subcommittee and one representative of each negotiating party serving as executive secretaries. For the 2019 budget bill examination, 16 members from the ruling and opposition parties organized the Coordination Subcommittee on Budget Bills on November 21st, 2018.

During the interpellation on general policies and individual Ministry examination in which all members of the Budget and Accounts Committee participate, it is difficult to conduct a concrete examination of the budget bill itself because each Committee member is given 10 minutes to question and get answers from members of the State Council in the Executive Branch. Therefore, the actual examination of the budget bill by the Budget and Accounts Committee is conducted under the Coordination Subcommittee on Budget Bills. Typically, the Coordination Subcommittee on Budget Bills first conducts the examination on budget cuts before moving on to the budget increase examination.

### Deliberation and Resolution at the Plenary Meeting

The deliberation procedure of a budget bill at the Plenary Meeting is as follows: 1) presentation, 2) examination report by the chairperson of the Special Committee on Budget and Accounts, 3) questioning and debate, 4) approval of budget bill increase and the addition of new expense items, 5) voting and 6) resolution. Unlike in the legislative process, since the budgeting process does not

require promulgation by the President to be effectuated and does not recognize the President's veto rights, the budget is confirmed upon resolution at the National Assembly's Plenary Meeting. At the Plenary Meeting, any motion for amendment of the budget bill requires the support of at least 50 members of the Assembly, but there has been only one case in which a resolution was reached on a motion for amendment of the budget bill at the Plenary Meeting between 1970 and 2013, the final year before the automatic referral system was implemented, whereas the proposal of the Special Committee on Budget and Accounts was approved without amendment in the remaining years. However, as for the budget bills from 2015 to 2019 during which the automatic referral system was implemented, a resolution was reached at the Plenary Meeting through motions for amendment to the government-proposed bill as the Budget and Accounts Committee failed to complete its examination within the designated time period.

**Relationship between the Standing Committee and the Special Committee on Budget and Accounts**

The budget and accounts examination procedure of the National Assembly takes place in the order of preliminary examination by the Standing Committee, comprehensive examination by the Special Committee on Budget and Accounts of the National Assembly as well as deliberation and confirmation at the Plenary Meeting. The Standing Committee's preliminary examination is regarded as a preliminary process prior to the examination by the Special Committee on Budget and Accounts, and the subsequent result does not have any binding power over the Special Committee on Budget and Accounts. As part of a complementary measure, the National Assembly Act directs the Special Committee on Budget and Accounts to respect the details of the examination conducted by the Standing Committee, and when increasing the size of an annual expenditure budget that was cut by the Standing Committee, the Standing Committee's consent is required.

\* Article 84 (Return and Examination of Budget Bill and Settlement of Accounts) of the National Assembly Act: 5) The Special Committee on Budget and Accounts shall have to respect the content of the examination conducted by the responsible Standing Committee, and where any amount of each annual expenditure budget which has been cut by the responsible Standing Committee or a new expense item is added, consent by the responsible Standing Committee must be obtained; provided, that the request for consent to add a new expense item has been tabled to the responsible Standing Committee and a notification of whether or not consent is provided thereto has not been given to the Special Committee on Budget and Accounts within 72 hours of the said referral, it shall be deemed that consent by the responsible Standing Committee has been obtained.

**Special Provision on the Examination of Budget Bills and Settlement of Accounts by the Intelligence Committee**

Provision 4 of Article 84 of the National Assembly Act on the Intelligence Committee's examination is considered equivalent to the examination conducted by the Special Committee on Budget and Accounts, considering the confidentiality of the content of the Intelligence Committee's examination of budget bills and settlement of accounts.

The result of the Intelligence Committee's examination of the budget bills and settlement of accounts is reported to the chairperson in terms of Ministry-specific lump sums, and the chairperson notifies the Special Committee on Budget and Accounts of the budget bills and accounts examined by the Intelligence Committee in terms of lump sums. Even upon notification by the chairperson of the examination result, the Special Committee on Budget and Accounts is unable to introduce any adjustments such as those related to increases, decreases or revisions.

This is in line with Article 2 of the Act on Special Cases Concerning Budget and Accounts, which stipulates that the use and settlement of accounts of the reserve fund required for national security activities shall be in a lump sum, notwithstanding the provisions of the National Finance Act.

**Restriction on Deliberation of Budget Bills by the National Assembly**

Article 57 of the Constitution of the Republic of Korea sets a restriction on the amendment of budget bills by the National Assembly. This provision prevents the National Assembly from either increasing the sum of any item of expenditure or creating any new expense item in the budget submitted by the government without the government's consent, thereby denying the National Assembly's authority of proactive amendment. While this measure prevents the risk of reckless budget increases, it also restricts the National Assembly's budget deliberation authority and undermines fiscal democracy. Examining the authority to amend budget bills in foreign parliaments reveals that the US can freely increase and cut budgets within the scope of the expenditure ceiling; Japan can only increase revenues and reduce expenditures; and the UK can only make budget cuts.

**Principle Banning the Processing of Budget Bills on Estimated Revenues Prior to Processing Tax Revenue-Related Legislative Bills**

Provision 7 of Article 84 prohibits the examination of budget bills on estimated revenues submitted under the condition of an enactment or revision of legislative bills related to tax items or tax rates.

Typically, the budget bills on estimated revenues are submitted after incorporating the effects of increases and decreases in the tax revenues of the following year incurred by amendments of laws including those on taxation. Therefore, in order for such budget bills on estimated revenues to be confirmed in the National Assembly's deliberation process, the content of laws including those on taxation must first be decided under their respective responsible standing committees. This is because confirming the budget bills on estimated revenues before finalizing the laws such as those on taxation would not only be contradictory in terms of logic but also bring about confusion in terms of the National Assembly's operation.

**Supplementary opinions**

It is the National Assembly's practice to adopt supplementary opinions in the deliberation and resolution process of the budget bills. Since Korea has not adopted budget legalism, supplementary opinions serve as a separate channel through which the National Assembly may express its resolve regarding the execution of a certain budgetary project.

In truth, there is controversy as to the existence of binding power against the government, since supplementary opinions have no explicit legal foundation and do not form a part of the budget. Still, considering that the supplementary opinions are included in (attached to) the revised version of the Special Committee on Budget and Accounts after which deliberation is conducted and a resolution is reached at the Plenary Meeting of the National Assembly, a denial of the binding power of supplementary opinions, in a sense, goes against the spirit of Article 54 of the Constitution of the Republic of Korea, under which the National Assembly is granted the right to deliberation and confirmation of budgets. In particular, should the execution period and conditions for execution of the budget be determined under the supplementary opinions, it would line up with the spirit of the Constitution of the Republic of Korea to recognize binding power equivalent to that of the effectiveness of the budget.

### **Role of the National Assembly Budget Office**

The National Assembly Budget Office (NABO) was established (in October 2003) to research, analyze and evaluate matters concerning the settlement of budgets and the management of funds and finances of the State as well as to support parliamentary activities. (Article 22-2 of the National Assembly Act). The main roles of NABO according to Article 3 of the Act on the National Assembly Budget Office, includes 1) research and analysis of the draft plans on budget bills, settlement of accounts and management of funds as well as the settlement of fund accounts; 2) bill cost estimation including on laws involving budgetary or fund-related action; 3) analysis and forecasting of national financial management and macroeconomic trends; 4) analysis and evaluation of major national projects and analysis of mid-to long-term fiscal demands; as well as 5) research and analysis on matters requested by the National Assembly committees and members of the Assembly.

NABO supports the deliberation on budget bills and settlement of accounts by the standing committees and the Special Committee on Budget and Accounts by publishing periodical reports on budget bills, settlement of accounts and fund management plans as well as on settlement of fund accounts; bill cost estimation including on legislative bills; analysis and forecasting of the national financial management and macroeconomic trends as well as analysis and evaluation of major national projects and analysis of mid-to long-term fiscal demands.

## **Annual Results of the National Assembly's Deliberation on Budget Bills**

The National Assembly deliberates on and confirms the budget set by the government by undertaking the aforementioned process, including the Standing Committee's preliminary examination and the Budget and Accounts Committee comprehensive examination. Taking a look at the government-submitted budget bills and the budgets confirmed by the National Assembly since the 17<sup>th</sup> National Assembly reveals that the National Assembly has increased or reduced the budget within a 1% range of the bill, in terms of total volume, submitted by the government. In case of the 2019 budget bill, deliberation was conducted on the

government-proposed budget of 481.3 won in total revenues and 470.5 trillion won in total expenditures, confirming 476.1 trillion won in total revenues and 469.6 in total expenditures.

## Annual Results of the National Assembly's Deliberation on Budget Bills

(Unit: trillion won)

| Category                                 |                     | National Assembly's Deliberation Results |                                |                     |                                | Confirmed Date |
|--|---------------------|--|--------------------------------|---------------------|--------------------------------|----------------|
|  |                     | Total Revenues                           |                                | Total Expenditures  |                                |                |
|  |                     | Government Proposal                      | Confirmed by National Assembly | Government Proposal | Confirmed by National Assembly |                |
| 17 <sup>th</sup><br>National<br>Assembly | Budget Bill in 2005 | 225.6                                    | 225.8                          | 208.0               | 207.8                          | 31.12.2004     |
|  | Budget Bill in 2006 | 235.6                                    | 235.3                          | 221.4               | 222.0                          | 30.12.2005     |
|  | Budget Bill in 2007 | 251.8                                    | 250.6                          | 238.5               | 237.0                          | 27.12.2006     |
|  | Budget Bill in 2008 | 274.2                                    | 274.2                          | 257.3               | 257.2                          | 28.12.2007     |
| 18 <sup>th</sup><br>National<br>Assembly | Budget Bill in 2009 | 293.2                                    | 291.0                          | 283.8               | 284.5                          | 13.12.2008     |
|  | Budget Bill in 2010 | 287.8                                    | 290.8                          | 291.8               | 292.8                          | 31.12.2009     |
|  | Budget Bill in 2011 | 314.6                                    | 314.4                          | 309.6               | 309.1                          | 08.12.2010     |
|  | Budget Bill in 2012 | 344.1                                    | 343.5                          | 326.1               | 325.4                          | 31.12.2011     |
| 19 <sup>th</sup><br>National<br>Assembly | Budget Bill in 2013 | 373.1                                    | 372.6                          | 342.5               | 342.0                          | 01.01.2013     |
|  | Budget Bill in 2014 | 370.7                                    | 369.3                          | 357.7               | 355.8                          | 01.01.2014     |
|  | Budget Bill in 2015 | 382.7                                    | 382.4                          | 376.0               | 375.4                          | 02.12.2014     |
|  | Budget Bill in 2016 | 391.5                                    | 391.2                          | 386.7               | 386.4                          | 03.12.2015     |
| 20 <sup>th</sup><br>National<br>Assembly | Budget Bill in 2017 | 414.5                                    | 414.3                          | 400.7               | 400.5                          | 03.12.2016     |
|  | Budget Bill in 2018 | 447.1                                    | 447.2                          | 429.0               | 428.8                          | 06.12.2017     |
|  | Budget Bill in 2019 | 481.3                                    | 476.1                          | 470.5               | 469.6                          | 08.12.2018     |

Note: Based on main budget

Source: The Ministry of Economy and Finance (MOEF) Budget Summary of National Finances of each year, MOEF Open Finance, the National Assembly Bill Information System

## System for Designating Legislative Bills Annexed to the Budget Bills on Tax Revenues

The designation of legislative bills annexed to the budget bills on tax revenues is the process of “legislative bills annexed to the budget bills on tax revenues” subject to the automatic referral system for budget bills etc., at the

Plenary Meeting, which was introduced to improve the practice of confirming the budget bills after December 2<sup>nd</sup> of each year, which is the designated deadline for budget bill examination set under the Constitution of the Republic of Korea. According to Provisions 1 and 4 of Article 85-3 of the National Assembly Act, the Speaker, in consultation with NABO, must designate the legislative bills annexed to the budget bills on tax revenues, and the responsible committee must complete its deliberation on the designated legislative bill by November 30th.

When proposing or submitting a legislative bill, Members of the Assembly and the Government must directly mark whether that bill is annexed to the budget bills on tax revenues.<sup>4)</sup> Afterwards, the Speaker delivers the legislative bill marked as annexed to the budget bills on tax revenues to NABO for comments. NABO analyzes the relevance with the budget bills of the following year and expected effects on tax revenues, reviews whether each bill should be annexed to the budget bills on tax revenues, after which the Speaker designates the legislative bills annexed to the budget bills on tax revenues by referring to NABO's comments and notifies each committee.

Afterwards, the legislative bills annexed to the budget bills on tax revenues upon which the committee's examination have not been completed by November 30<sup>th</sup> are automatically referred to the Plenary Meeting, at which legislative bills annexed to the budget bills on tax revenues are deliberated on along with other automatically referred budget bills.

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4) The phrase "This bill should be designated as an annex to budget bills on tax revenues according to Provisions 4 of Article 85-3 of the National Assembly Act" is included as a "reference note" on the front page of the legislative bill.

## Automatic Referral System for Budget Bills, etc.

Under the automatic referral system for budget bills, etc., if a committee fails to complete the examination of budget bills etc. (i.e. budget bills, draft Fund Management Plan, total limits of build-transfer-lease project size) and legislative bills annexed to the budget bills on tax revenues by November 30th, the committee's examination is concluded on the following day and directly referred to the Plenary Meeting.

The legal grounds for this system are based on Article 85-3 of the National Assembly Act introduced in 2012 to improve the practice of confirming budget bills after December 2<sup>nd</sup> of each year, which is the designated deadline for budget bill examination set under the Constitution of the Republic of Korea. In case the Speaker has reached an agreement with the representative legislator of each negotiating party, the budget bills etc. and bills annexed to the budget bills on tax revenues may be recognized as exceptions from the automatic referral system for budget bills, etc., and be exempt from being automatically referred to the Plenary Meeting.

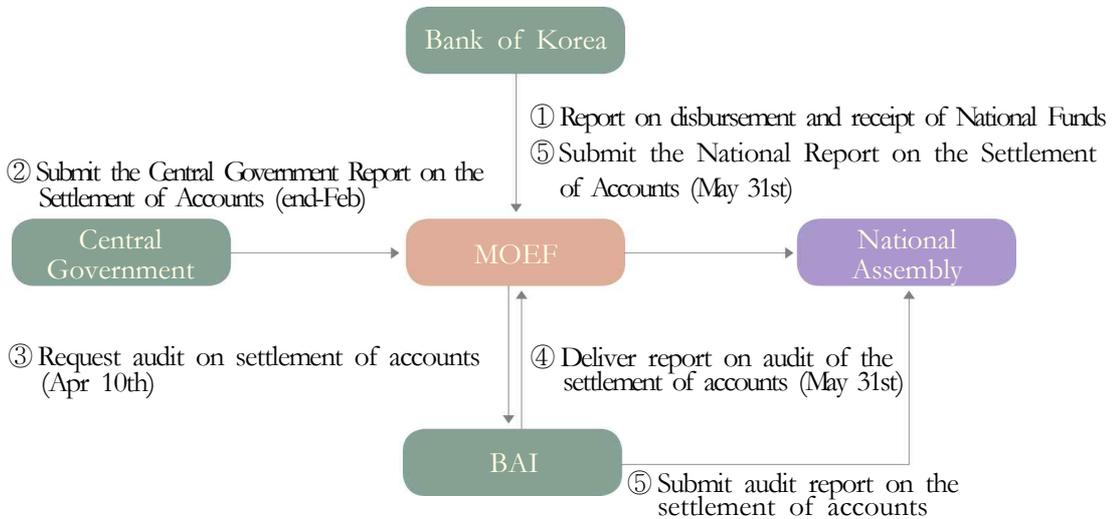
## **Government Settlement of Accounts and the National Assembly' s Deliberation on the Accounts**

The process of the government's settlement of accounts is stipulated in laws including the National Finance Act, the National Accounting Act and the Management of the National Funds Act. The process involves the completion of disbursements and receipts, the drafting and submission of each central government agency's Report on the Settlement of Accounts, the development of the National Report on the Settlement of Accounts by MOEF and its deliberation by the State Council, BAI's auditing of the settlement of accounts, and submission of the National Report on the Settlement of Accounts to the National Assembly. The completion of disbursements and receipts refers to the conclusion of the process of revenue receipts and payment of disbursements, closing the disbursement and receipt accounts of the National Funds. Article 4-2 of the Management of the National Funds Act provides that the clerical work for the accounting of revenue and expenditure for each fiscal year must be completed by February 10th of the following year.

When the disbursement and receipt accounts are closed, the heads of each central government agency complete Central Government Agency Reports on the Settlement of Accounts in which the general accounts, special accounts and funds under each agency are consolidated. Also, fund managing parties that are not heads of a central government agency complete a Report on the Settlement of Accounts of Funds to be submitted to the responsible head of the central government agency. The Central Government Report on the Settlement of Accounts must be submitted to the Minister of Economy and Finance by no later than the end of February. MOEF consolidates the Reports on the Settlement of Accounts of each central government agency to create a National Report on the Settlement of Accounts, after which the Report goes through State Council deliberation and receives Presidential approval, to be submitted to the BAI by April 10th.

The BAI confirms the settlement of accounts by conducting an accounting audit including on revenues and expenditures as well as on the acquisition, custody, management and disposal etc. of properties. Through such measures, the legitimacy and accuracy of the settlement of accounts are inspected, followed by follow-up actions such as the adjudication of liability of compensation, request for disciplinary action and reprimand, request for correction and improvement or accusation. The BAI must re-deliver its audit report on the settlement of accounts to the Minister of Economy and Finance by May 20th. Once this process is completed, the government submits the National Report on the Settlement of Accounts to the National Assembly by May 31st.

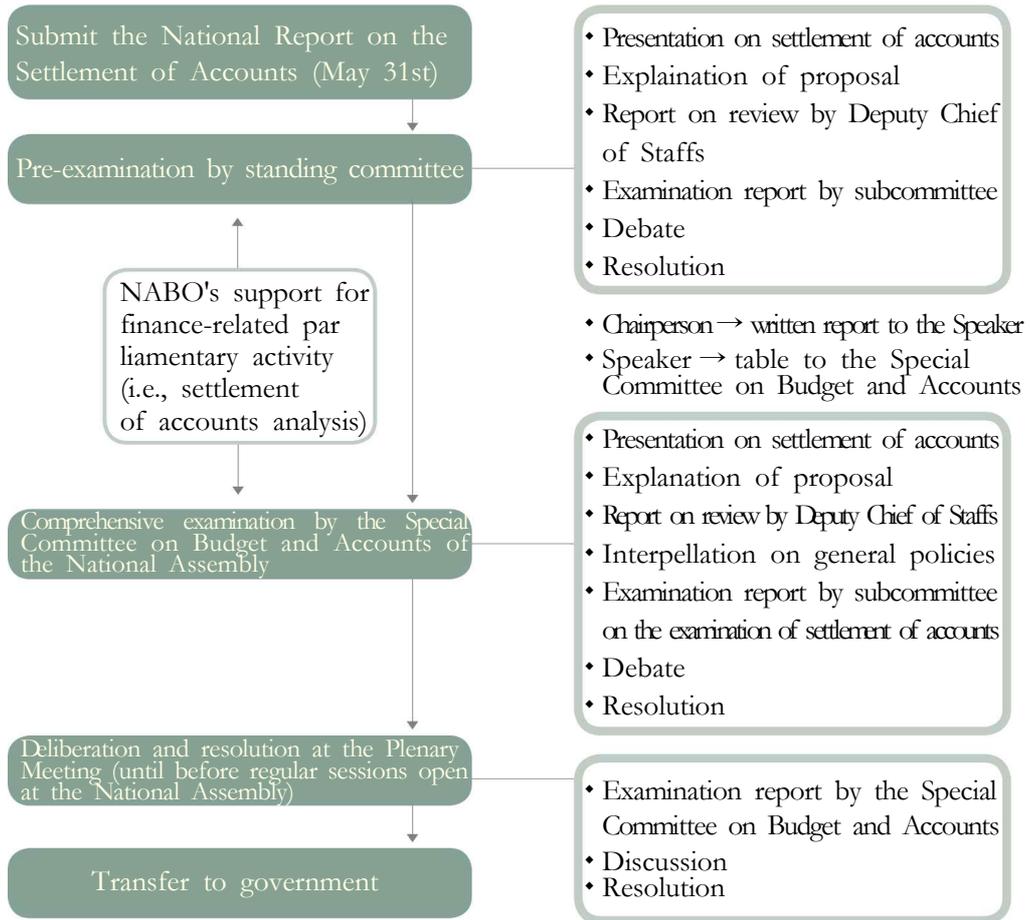
### The Government's Settlement of Accounts Process



## The National Assembly's Deliberation Process on Settlement of Accounts

The National Assembly's deliberation process on the settlement of accounts is specified in the National Assembly Act, consisting of a pre-examination by the standing committee, a comprehensive examination by the Special Committee on Budget and Accounts of the National Assembly and deliberation and resolution at the Plenary Meeting. While there is a government speech on administrative policy when a budget bill is submitted to the National Assembly, there is no speech on administrative policy regarding the settlement of accounts. Otherwise, the overall process is similar to that of the deliberation process for budget bills.

## The National Assembly's Deliberation Process of Settlement of Accounts



**The National Assembly's Timetable for the Deliberation and Resolution on the Settlement of Accounts**

The National Assembly, under Article 128-2 of the National Assembly Act, must complete its deliberation and resolution on the settlement of accounts before its regular session opens. Since the regular session convenes on September 1<sup>st</sup> of each year according to the National Assembly Act, the deliberation and resolution on the settlement of accounts must be conducted prior to the convention of the regular session on September 1st. The examination of the settlement of accounts for FY2017 was conducted on December 8th, 2018.

**Annual Status of the National Assembly's Resolution on the Settlement of Accounts**

| Fiscal Year | Suggested Date of Settlement of Accounts | Date of Resolution on Date of Settlement of Accounts |
|-------------|--|--|
| 2013        | May 30th, 2014                           | October 2nd, 2014                                    |
| 2014        | May 29th, 2015                           | September 8th, 2015                                  |
| 2015        | May 31st, 2016                           | September 2nd, 2016                                  |
| 2016        | May 31st, 2017                           | December 6th, 2017                                   |
| 2017        | May 31st, 2018                           | December 8th, 2018                                   |

Source: Bill Information System

**Follow-Up Measures for the Settlement of Accounts (Correction Requests, Audit Requests, Supplementary Opinions)**

According to Provision 2 of Article 84 of the National Assembly Act, if any illegal or unjustifiable matters arise as a result of the examination of settlement of accounts, the National Assembly shall make a request after a resolution of the plenary session, to the government or relevant agencies to make corrections related to such matters - such as through indemnification or disciplinary measures - upon which the government or relevant agencies must promptly address the subject requests and file a final report to the National Assembly. In addition, Article 127-2 of the National Assembly Act provides that the National Assembly may request an audit by the BAI upon resolution regarding specific cases of the settlement of accounts in which issues are found. The BAI must report on the outcomes of the audit within three months of the date of the audit request. The National Assembly also adopts supplementary opinions separate from its request for correction, when reaching a resolution on the settlement of accounts.

At the examination of the settlement of accounts in FY2017, the National Assembly adopted 1,833 correction requests, 4 audit requests and 19 supplementary opinions.

**Status of Correction Requests, Audit Requests and Supplementary Opinions during Settlement of Accounts**

(Unit: number of cases)

| Category               | FY2012 | FY2013 | FY2014 | FY2015 | FY2016 | FY2017 |
|------------------------|--------|--------|--------|--------|--------|--------|
| Correction Requests    | 1,215  | 1,541  | 1,812  | 2,061  | 1,805  | 1,833  |
| Audit Requests         | 3      | 4      | 4      | 3      | 1      | 4      |
| Supplementary Opinions | 33     | 26     | 25     | 27     | 25     | 19     |

Note: Includes correction requests on the expenditure of reserve funds

Source: Special Committee on Budget and Accounts of the National Assembly, *Report on the Examination of Settlement of Accounts* (2012, 2013, 2014, 2015, 2016, 2017)

## National Report on the Settlement of Accounts

The National Report on the Settlement of Accounts refers to the report based on the Central Government Agency Report on the Settlement of Accounts, which is an integrated version of the reports submitted by the heads of each central government agency, which undergoes State Council deliberation and receives Presidential approval before incorporating the BAI's audit results on the settlement of accounts for submission to the National Assembly. The Central Government Agency Report on the Settlement of Accounts refers to the report prepared by the heads of each central government agency in accordance with Article 58 of the National Finance Act and Article 13 of the National Accounting Act in each fiscal year, integrating their respectively responsible general accounts, special accounts and funds.<sup>5)</sup>

According to Article 14 of the National Accounting Act (Composition of the Report on the Settlement of Accounts), the National Report on the Settlement of Accounts is composed of a summary, settlement of tax revenue and expenditure accounts (incomes and expenditures), financial statements (financial circumstances table, financial operations table, statement of changes in net assets) and a performance report. Under such composition, the Report on the Settlement of Accounts consists of both the settlement of tax revenue and expenditure accounts based on a cash basis, single entry book-keeping system as well as financial statements based on an accrual basis, and double entry book-keeping system.

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5) As for the report on the settlement of accounts of a fund managed by a party that is not a head of a central government agency, the responsible party that manages the fund must prepare a Report on the Settlement of Accounts on the fund and submit it to the responsible head of a central government agency, which will then be included in the Central Government Agency Report on the Settlement of Accounts.

## Composition and Drafting Method of the Report on the Settlement of Accounts

| Category   | Drafting Methods of Composing Documents  |
|--|--|
| 1. Summary of Settlement of Accounts   | Summarize the content of the settlement of accounts to identify the results of budget and funds execution as well as the status of fiscal management and financial status. |
| 2. Settlement of Tax Revenue and Expenditure Accounts (Settlement of incomes and expenditures) | Prepare by consolidating the execution results according to the same categories as in the revenue and expenditure budgets and Fund Management Plan.                        |
| 3. Financial Statements  | Prepare in accordance with the National Accounting Standards.  |
| 4. Performance Report  | Prepare by comparing the objectives stated in the performance plan and the actual outcomes.  |

### Supplementary Documents of the National Report on the Settlement of Accounts

Under Article 15-2 of the National Accounting Act, the National Report on the Settlement of Accounts must enclose supplementary documents on the settlement of tax revenues and expenditures (incomes and expenditures) as well as financial statements. The supplementary documents for the settlement of tax revenues and expenditures (incomes and expenditures) are included in the National Report on the Settlement of Accounts, whereas the supplementary documents for the financial statements such as the report on the management of national debts are submitted to the National Assembly as separate supporting documents.

Supplementary Documents for the National Report on the Settlement  
of Accounts

|  |   |
|--|---|
| Settlement of Tax Revenues and Expenditures  | <ol style="list-style-type: none"> <li>1. Statement on the settlement of continuing expenditure</li> <li>2. Statement on the settlement of revenue and expenditure account by business</li> <li>3. Statement on the execution of projects with a lump-sum apportionment</li> <li>4. Statement on the expenditure of revenue substitute expenses</li> <li>5. Statement on carryovers</li> <li>6. Statement on the execution of specified carryover funds</li> <li>7. Statement on the management of revolving funds in special accounts for governmental enterprises</li> <li>8. Statement on gender-sensitive settlement of accounts</li> <li>9. Statement on the expenditure of reserve funds</li> <li>10. Statement on the execution of each project subject to the control of total project costs</li> <li>11. Statement on contributions in kind</li> <li>12. Statement on the issuance of treasury bills and the management of temporary loans from the Bank of Korea</li> <li>13. Statement on the appropriation of the tax account surplus of the previous year</li> </ol> |
| Settlement of Revenues and Expenditures (Funds)  | <ol style="list-style-type: none"> <li>1. Performance statement on the procurement of financial resources</li> <li>2. Gender-sensitive fund settlement of accounts</li> <li>3. Explanatory statement on the changes made in the Fund Management Plan</li> </ol>   |
| Settlement of Revenues and Expenditures of the National Report on the Settlement of Accounts | <ol style="list-style-type: none"> <li>1. Statement on the integrated treasury revenues and expenditures</li> <li>2. Statement on the management of funds in integrated accounts and the expenditure of profits</li> </ol>  |
| Financial Statements   | <ol style="list-style-type: none"> <li>1. Report on the management of national debts</li> <li>2. Report on the current size of national credit</li> <li>3. Report on the maintenance and management of State property</li> <li>4. Report on the maintenance and management of commodities</li> </ol>  |

Source: National Accounting Act, Enforcement Decree of the National Accounting Act