



Rebudgeting as an Adaptive Mechanism in Public Financial Management

Khansa Nurunnisa Hudaepah¹

¹ Universitas Muhammadiyah Malang, Malang, Indonesia

Abstract

Article history:

Received: January 20, 2023

Revised: February 12, 2023

Accepted: April 24, 2023

Published: June 30, 2023

Keywords:

Accountability Fiscal,
Financial Transparency,
Fiscal Flexibility,
Public Budget,
Rebudgeting.

Identifier:

Zera Open

Page: 1-18

<https://zeraopen.com/journal/ijgam>

This study examines the essence and dynamics of budget implementation in the public sector, reflecting the government's ability to adjust fiscal policies in response to evolving economic and social conditions. Rebudgeting, or budget revision, is understood as an adaptive mechanism essential for maintaining the effectiveness, efficiency, and relevance of fiscal policy amidst macroeconomic uncertainty. This literature review highlights the significance of accountability, transparency, and public oversight in ensuring that budget adjustments are conducted rationally, evidence-based, and aligned with genuine societal needs. Furthermore, the study identifies several key factors driving the necessity of budget revisions, including inaccuracies in revenue projections and fiscal dependence of local governments on intergovernmental transfers. Through a conceptual approach and critical analysis of relevant literature, the study emphasizes that the success of fiscal reform depends on the government's ability to integrate fiscal flexibility with transparent, accountable, and results-oriented public financial governance.



1. Introduction

Public budgets are fundamental instruments in state financial governance, serving as tools for planning, control, and accountability over the management of public funds. Within the framework of fiscal policy, public budgets not only function as administrative guidance for the government in allocating resources but also reflect the strategic direction of national development. Diamond (2018) asserts that a public budget is not merely a financial document containing details of revenues and expenditures, but rather a statement of economic policy that describes development priorities and the distribution of resources across sectors. Thus, budget formulation must consider the dimensions of efficiency, fairness, and transparency to realize financial governance oriented toward the public interest.

The implementation of public budgets is inherently dynamic, facing economic, social, and political uncertainties. Fluctuating macroeconomic conditions, changes in national fiscal policy, and global crises may necessitate the government to adjust the approved budget structure. Junita et al. (2018) explains that rebudgeting is an important mechanism for maintaining the relevance and effectiveness of fiscal policy. When the macroeconomic assumptions underlying the budget formulation do not align with realization, such as changes in commodity prices, inflation rates, or economic growth levels, adjustments to revenue and expenditure must be made. This process is known as budget revision or change, which functions to maintain fiscal balance and the continuity of government programs amidst constantly shifting dynamics.

Furthermore, budget changes also reflect the degree of fiscal flexibility of a government. Premchand (2020) suggests that fiscal flexibility is the government's ability to make adjustments to expenditure and revenue structures without sacrificing long-term fiscal stability. In practice, this flexibility often faces various constraints, especially for public entities in developing countries that still have a high dependence on transfer funds from the central government. A centralized fiscal structure limits the space for local governments to adjust financial policies to local economic conditions. Consequently, the effectiveness of budget implementation heavily relies on national fiscal policy and broader macroeconomic performance.

In addition to the aspect of flexibility, public accounting also plays a crucial role in ensuring the transparency and accountability of state finances. Mauro et al. (2021) state that a good public accounting system functions to provide reliable information about budget realization, allowing the public to assess the extent to which public funds are used efficiently and in line with policy objectives. The application of strong public accountability principles enables more effective oversight of budget implementation, while minimizing the risk of deviations and misuse of funds. Without a transparent and auditable accounting mechanism, the budget change process can open opportunities for inefficiency, misplaced targeting, or even the misuse of state finances.

Therefore, the dynamics of public budget management require a balance between fiscal flexibility and public accountability. The government must be able to respond to economic changes quickly and adaptively, yet still adhere to good governance principles: transparency, efficiency, and accountability. Excessive

flexibility without adequate institutional control can lead to fiscal instability, while overly rigid oversight can hinder the policy response needed in crisis situations. This study aims to deeply explore the literature discussing the factors causing rebudgeting, its implications for public financial governance, and the challenges faced in maintaining the balance between transparency and fiscal flexibility. Through a literature review approach, this research is expected to provide a comprehensive understanding of the dynamics of public budget management and the important role of accountability in realizing state financial governance that is integrity-driven, responsive, and sustainable.

2. Literature Review

2.1. Nature and Function of Public Budgeting

Public budgets are the primary instrument of fiscal policy, functioning not only as a tool for planning and control but also as a means of accountability and transparency regarding the use of public resources. According to Moeis et al. (2018), a public budget is “a statement of values,” reflecting the government’s political and economic choices in distributing funds to priority sectors. Thus, the budget is not only technocratic but also political, as it reflects a compromise between the interests of various parties.

On the other hand, the realization of an efficient and accountable budget depends on the public accounting system used. As revealed by Pamungkas et al. (2018), the application of accrual accounting in the public sector provides a more realistic view of the government’s financial position, thereby increasing fiscal

transparency and encouraging public participation in the oversight of state finances. Therefore, public accounting is not merely a recording activity but an integral part of good governance. Furthermore, the government uses the budget as an instrument for economic stabilization. According to Bandy (2018), in the context of modern economics, public budgets no longer merely serve to regulate expenditure and revenue but also to maintain macroeconomic balance through adaptive fiscal policy. Therefore, flexibility and the ability to make adjustments are essential aspects of public budget management.

2.2. Dynamics of Budget Implementation and Change/Rebudgeting

Rebudgeting is a phenomenon inherent in the practice of modern public budget management. This process emerges as a form of government adaptation to changes in economic, social, and political variables that are difficult to predict accurately during the initial budget planning. Sofyani et al. (2020) explain that budget change is a reflection of the level of fiscal uncertainty inherent in the public finance system, where the government needs to adjust resource allocation so that programs and activities can still be carried out in accordance with development goals, even if the initial assumptions shift.

Budget adjustments can be triggered by various factors, including inaccuracy in revenue projections, national fiscal policy adjustments, natural disasters, or economic crises that impact the revenue and expenditure structure. Musadat (2019) assert that budget change should not be viewed as an indication of weakness in the planning process, but rather as a manifestation of the government's adaptive capacity in maintaining fiscal sustainability and ensuring the effective provision of public

services. Therefore, budget revisions need to be conducted transparently, data-driven, and involve public participation to maintain legitimacy and public trust in the government. However, the practice of rebudgeting carried out excessively or without adequate empirical basis can lead to fiscal inefficiency and obscure the accountability of state financial management. Nitzl et al. (2019) emphasize that a comprehensive performance-based evaluation system is essential so that every budget change has a rational, measurable, and consistent justification with the principles of good public financial governance.

2.3. Accountability, Transparency, and Fiscal Adaptability

Public accountability is a critical element in modern budget reform. The government is required not only to manage public funds efficiently but also to be open to public oversight. According to Wampler et al. (2021), budget transparency increases public trust and strengthens government legitimacy. The publication of budget documents, independent audits, and public involvement in the planning process are key elements of an effective fiscal accountability system. Meanwhile, fiscal adaptability reflects the government's ability to respond to changing economic conditions without causing long-term instability. According to the Caselli et al. (2022), countries with flexible fiscal structures are better able to cope with global economic shocks because they can make budget adjustments quickly. However, this flexibility must be balanced with strong control mechanisms to prevent deviations in the use of public funds.

Furthermore, recent literature highlights the importance of digitalization and financial information systems in enhancing fiscal accountability. As stated by

Capasso et al. (2021), the integration of information technology in the budgeting process increases the speed of analysis and data accuracy, thereby minimizing the risk of errors in rebudgeting. This indicates that fiscal adaptability is not only policy-related but also concerns the institutional and technological capacity of the government. The literature suggests that the success of public budget management is determined by the balance between flexibility and accountability. When these two aspects work together, budget change can become a strategic tool in realizing public financial governance that is responsive, transparent, and results-based management.

3. Methods

This research uses a library research method focusing on the theoretical and empirical analysis of academic literature discussing the dynamics of public budget management, rebudgeting, and the principles of fiscal accountability and transparency in governance. This approach was chosen because the main goal of the research is to identify, synthesize, and analyze various academic perspectives that have developed over the past five years concerning public budget change and flexibility. This literature review is structured through several systematic stages. The first stage is secondary data collection by searching scientific journals from reputable databases such as Google Scholar ,Research Gate, Elsevier and Garuda. Inclusion criteria include publications within the last five years, focusing on topics of fiscal policy, rebudgeting, and public sector accountability. Articles that are opinion-based or non-peer-reviewed are excluded from the analysis process to maintain scientific validity.

The second stage is content analysis to identify key recurring themes in the literature. This process involves classifying articles based on three main dimensions: (1) fundamental theory and concepts of public budgeting; (2) the practice of rebudgeting and its causal factors; and (3) accountability and transparency mechanisms in the budget change process. This approach refers to the thematic model of Bowen (2019), which emphasizes the importance of deep reading and coding of text content to find consistent argumentative patterns. The third stage is conceptual synthesis, which is summarizing and linking the findings from various sources into a broader analytical framework. This process is carried out using the comparative interpretation method, where older theories are compared with the latest research results to assess the relevance and development of public budget management concepts.

The literature review approach was chosen because it provides room for the researcher to understand the normative and practical context comprehensively without being bound by specific geographical or institutional limitations. Thus, this research not only collects data but also attempts to construct a new understanding of how fiscal adaptability and public accountability can be equally balanced in modern budgeting systems. This method is expected to generate a strong conceptual overview and serve as a theoretical basis for future empirical research on the effectiveness of rebudgeting in improving public sector financial performance.

4. Results

The results of the literature review indicate that the dynamics of public budget management represent a complex interaction between fiscal policy, economic stability, and demands for public accountability. In a contemporary perspective, public budgets are no longer solely defined as technical documents containing revenue and expenditure plans but have evolved into strategic instruments for achieving sustainable development goals and a means to strengthen public trust in government performance. From the various literature analyzed, there is a general consensus that the success of the public budgeting system heavily depends on the balance between fiscal flexibility and adherence to the principles of transparency and financial accountability.

The literature review results show that the process of budget change or rebudgeting is a necessity in modern budgeting systems. Governments are expected to have adaptive mechanisms to respond to economic dynamics such as commodity price fluctuations, inflation rates, global fiscal policy changes, and emergencies like natural disasters and financial crises. Moeis et al. (2018) asserts that uncertainty is an inherent element in every public budget preparation process because fiscal planning is based on macroeconomic projections that often do not materialize according to initial expectations. Therefore, budget adjustment is seen not as a managerial weakness but as a form of rational response to changing economic realities.

The literature indicates that the main factor causing rebudgeting is the inaccuracy in revenue planning and a high fiscal dependence on external funding sources such as inter-governmental transfers. In this context, local governments are

often faced with situations where revenue realization does not meet the planned targets, necessitating adjustments to the expenditure structure to maintain fiscal balance. This phenomenon indicates an asymmetry of information between budget planners and policy implementation units. Pamungkas et al. (2018) highlight the importance of reliable and integrated public financial information systems to increase the accuracy of fiscal projections and ensure that the budgeting process can respond to economic dynamics in a timely manner.

Furthermore, the results of the study show that rebudgeting functions not only as a corrective instrument for failed planning but also as a strategic mechanism to maintain the continuity of public services. Sofyani et al (2020) explain that budget revisions carried out systematically and based on performance evaluation can increase the effectiveness of public policy without causing excessive fiscal pressure. Governments that are capable of managing the rebudgeting process transparently, accountably, and promptly have a greater chance of maintaining public trust while increasing the efficiency of using state resources. There is a strong relationship between the practice of rebudgeting and the principle of public accountability. Accountability in the context of state finance functions as a social control mechanism that ensures every change in fiscal policy has a rational and justifiable basis.

Musadat (2019) assert that without an independent audit system and effective public oversight, the budget revision process could potentially be exploited for short-term political interests or even become a source of fiscal deviation. Therefore, transparency in reporting and the openness of fiscal information are crucial

components in strengthening the legitimacy of government financial policies. Next, a number of pieces of literature highlight the role of digitalization in strengthening transparency and efficiency in the public budgeting cycle. The transition towards e-budgeting has become a global trend that allows for real-time tracking of the planning, execution, and change of budgets. Capasso et al. (2021) show that the implementation of digital-based systems is able to increase the openness of fiscal data, accelerate the revision process, and strengthen coordination among bureaucratic units. Besides providing procedural efficiency, digitalization also contributes to increasing the government's analytical capacity in anticipating economic changes quickly and accurately.

The results of the literature synthesis also reveal that fiscal flexibility does not always align with accountability if it is not balanced by adequate institutional control mechanisms. Nitzl et al. (2019) introduce the concept of budget drift, which is the tendency for budget changes to be made too frequently without being supported by in-depth analysis, resulting in inefficiency in resource allocation and a decline in public trust. Therefore, an ideal budgeting system must be able to integrate procedural flexibility with substantive adherence to the principles of good governance. A government that is too rigid in managing its budget will lose the ability to adapt to changes in the fiscal environment, while a government that is too loose without an accountability mechanism risks facing a public trust deficit.

The study also found an increase in public participation in the budget cycle as a form of realizing fiscal democratization. Some research notes that the participatory budgeting approach can strengthen the legitimacy of fiscal policy and increase the

accuracy of resource allocation according to community needs. Wampler et al. (2021) assert that public involvement in the budget change process not only expands the basis of accountability but also strengthens the social oversight function over the implementation of fiscal policy. Thus, public participation becomes an important instrument in creating a budgeting system that is inclusive, adaptive, and oriented toward the public interest.

Furthermore, the literature emphasizes that the success of public budget management reform is not solely determined by technocratic aspects but also by factors of organizational culture and bureaucratic ethical commitment. Bandy (2018) highlight that sustainable fiscal reform requires an increase in human resource capacity, a change in bureaucratic paradigm, and the integration of integrity and public service values in every stage of budgeting. Without a change in organizational culture, efforts to modernize the state financial system risk stopping at the administrative level without delivering a substantive impact on the efficiency and effectiveness of public expenditure. On the other hand, the results of the study also show that fiscal adaptability is a key indicator of a country's economic resilience. Caselli et al. (2022) confirms that countries with fast and data-driven rebudgeting mechanisms tend to be more stable in the face of external shocks such as global economic crises or pandemics. In this context, rebudgeting not only functions as an administrative correction tool but also as a fiscal stabilization instrument that allows the government to maintain the continuity of priority programs despite pressure on the revenue side.

Furthermore, the literature emphasizes the importance of applying a performance-based budgeting system in strengthening the effectiveness of rebudgeting. This model directly links program outcomes with budget allocation, so that every fiscal change can be evaluated based on its contribution to achieving policy targets. Various studies show that this approach has proven to increase resource use efficiency in many developing countries, where the practice of budget change is often carried out without comprehensive program performance evaluation. The results of the literature review indicate that the success of rebudgeting is highly influenced by three main pillars: a transparent and integrated financial information system, a strong public accountability mechanism, and the government's adaptive capacity to economic and fiscal changes.

These three elements complement each other in forming a public financial governance that is responsive, efficient, and trustworthy. Transparency encourages the openness of fiscal data, accountability strengthens public trust, while adaptability ensures the sustainability of fiscal policy in the face of economic uncertainty. Thus, the results of the literature synthesis show that rebudgeting is not merely an administrative process but a reflection of the government's ability to maintain a balance between fiscal stability and the demands of social-economic development. The higher the quality of public financial governance, the greater the government's ability to respond to economic uncertainty and maintain the legitimacy of its fiscal policy in the eyes of the public.

5. Discussion

The results of the literature review confirm that budget change (rebudgeting) is an inseparable element of modern public financial management systems. Within the framework of fiscal governance, rebudgeting functions as an instrument to maintain the relevance and effectiveness of public policy amid constantly changing economic dynamics. This process not only reflects the government's adaptive capacity in facing macroeconomic uncertainty but also illustrates institutional capacity in balancing efficiency, transparency, and fiscal accountability. However, the literature synthesis also reveals a fundamental conceptual dilemma between the need for flexibility and the demand for accountability. Governments that prioritize flexibility risk a decline in fiscal discipline, while an overly rigid approach can reduce the capacity for adaptation to rapid economic change (Saxena, 2022).

This view aligns with the argument of Musadat (2019), who emphasize that an ideal public budget must be “responsive yet controlled.” Responsiveness is defined as the fiscal system’s ability to adjust the allocation of public resources to the real needs of the community, while control reflects adherence to the principles of transparency, law, and good fiscal governance. In this context, rebudgeting is not just an administrative act but a managerial strategy that requires a performance-based approach and evidence-based budgeting analysis. If managed systematically and accountably, the budget change mechanism can actually strengthen the stability of fiscal policy and enhance the government’s legitimacy in the eyes of the public.

Furthermore, the literature findings show that institutional factors play a significant role in determining the effectiveness of rebudgeting implementation.

Nitzl et al. (2019) affirm that without a strong, independent, and integrity-driven public audit system, budget revisions are potentially misused for short-term political interests or the interests of certain groups. Therefore, strengthening oversight institutions, both internal and external, becomes a prerequisite for ensuring that every budget change can be accounted for transparently and is consistent with applicable legal norms.

The digitalization dimension also emerges as a key variable in strengthening the governance of rebudgeting in the modern era. The implementation of electronic-based financial systems (e-budgeting) allows for real-time information openness, accelerates the revision process, and reduces the potential for manipulation of fiscal data. Capasso et al. (2021) show that digitalization not only increases administrative efficiency but also expands public participation in the budgeting process, thereby strengthening social control over fiscal policy. Nevertheless, digital technology cannot entirely replace the human role. As stated by Bandy (2018), the success of public budget system reform depends on bureaucratic integrity, an accountable organizational culture, and a commitment to the ethical values of public service. Technological transformation that is not balanced with increased human resource capacity and changes in organizational behavior will only result in pseudo-efficiency without strengthening substantive accountability.

This discussion confirms that rebudgeting is a reflection of fiscal governance maturity and the institutional capacity of the government to manage economic uncertainty. Governments that are able to maintain a balance between flexibility and accountability will be more adaptive to change, without sacrificing transparency or

fiscal discipline. Thus, budget change that is carried out measurably, evidence-based, and transparently overseen can be a key indicator of a responsive, efficient, and credible government in managing public resources.

6. Conclusion

This study confirms that public budget management is a dynamic process demanding a balance between fiscal flexibility and public accountability. Rebudgeting or budget change emerges as an important mechanism to ensure the relevance of fiscal policy amid economic and social uncertainty. Through a review of various literature, it was found that budget change is not merely an administrative response to planning inaccuracies but also a strategic instrument for maintaining the effectiveness of public policy and economic stability. The main principles in rebudgeting include transparency, efficiency, and public participation. These three principles serve as the main pillars in realizing good governance.

The implementation of electronic-based financial systems (e-budgeting) further strengthens the openness of fiscal data and accelerates the budget revision process, thereby increasing government accountability to the public. However, the study also highlights that the success of rebudgeting is not only determined by system innovation but also by the quality of human resources and bureaucratic integrity. Governments that are adaptive, transparent, and committed to the value of public accountability will be able to face fiscal challenges without losing public legitimacy. Thus, rebudgeting can be viewed as a reflection of the institutional maturity and fiscal sophistication of a modern government.

References

Bandy, G. (2018). *International public financial management: Essentials of public sector accounting*. London: Routledge.

Capasso, S., Cicatiello, L., De Simone, E., Gaeta, G. L., & Mourão, P. R. (2021). Fiscal transparency and tax ethics: does better information lead to greater compliance?. *Journal of Policy Modeling*, 43(5), 1031-1050.

Caselli, F., Davoodi, H., Davoodi, M. H. R., Goncalves, C., Hong, M. G. H., Lagerborg, A., ... & Yoo, J. (2022). *The return to fiscal rules*. Washington: International Monetary Fund.

Junita, A., Abubakar, E., Muda, I., & Abdullah, S. (2018). Influence of budget participation and leadership style against rebudgeting on work unit of apparatus. *Journal of Business and Retail Management Research*, 13(2).

Mauro, S. G., Cinquini, L., & Pianezzi, D. (2021). New Public Management between reality and illusion: Analysing the validity of performance-based budgeting. *The British Accounting Review*, 53(6), 100825.

Moeis, A. I. A., Nachrowi, N. D., Ananta, A., & Widjaja, M. (2020). The politics of district budget formulation in multi-party indonesia. *Institutions and Economies*, 42-65.

Musadat, A. (2019). *Participatory planning and budgeting in decentralised Indonesia: Understanding participation, responsiveness and accountability*. Canberra: The Australian National University (Australia).

Nitzl, C., Sicilia, M., & Steccolini, I. (2019). Exploring the links between different performance information uses, NPM cultural orientation, and organizational performance in the public sector. *Public Management Review*, 21(5), 686-710.

Pamungkas, B., Flassy, D. A., Yudanto, S., Rachman, H. A., Rahayu, S., Komarudin, S., & Setijono, H. (2018). Accrual-based accounting implementation in Indonesian's local governments compared to other countries' experiences. *Man in India*, 98(1), 1-23.

Sofyani, H., Simali, M. F. I. S., Najda, T., & Al-Maghrebi, M. S. (2020). The role of budgetary participation and environmental uncertainty in influencing managerial performance of village government. *Journal of Accounting and Investment*, 21(2), 258-276.

Saxena, M. S. (2022). *How to manage fiscal risks from subnational governments*. Washington: International Monetary Fund.

Wampler, B., McNulty, S., McNulty, S. L., & Touchton, M. (2021). *Participatory budgeting in global perspective*. Oxford: Oxford University Press.