



MCC INDONESIA CONTROL OF CORRUPTION PROJECT:

ASSET MANAGEMENT CONSULTANT REPORT

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EXECUTIVE SUMMARY

This assignment was carried out from June 8 to July 13, 2007, by Dr. Maureen Berry.

On 8 June, the consultant met with Mr. Ralph Deloach, court administration advisor, and learned that the Supreme Court had not yet decided how it wanted to approach the Asset Management Activity 2a under Task 1, Judicial Reform. Several options had been presented by MCC ICCP for the court to consider. In this report, these options are referred to as the “modified list of activities for asset management.” This situation remained unchanged throughout the consultant’s stay in Jakarta. Progress was also hampered by lack of access to the asset management counterpart at the Supreme Court, the head of the equipment bureau, for a three-week period.

Accordingly, efforts were concentrated on preimplementation phase activities. Accomplishments, in cooperation with Kathleen Gaertner, asset management specialist, included completing a plan for verifying capital asset inventories at selected courts, locating two pieces of key legislation, and generating sets of asset management training materials.

TASKS ACCOMPLISHED

What follows is a report of progress the consultant was able to make, given limited access to Supreme Court personnel. Dr. Maureen Berry, senior public finance specialist, will follow up in carrying out the modified list of activities for asset management, including helping to initiate computerization of inventory records; suggesting a step-by-step sampling approach to verifying inventory data reported in the survey; and leading the process of establishing asset life expectancy schedules.

Initiating Computerization of Inventory Records

Computerization of inventory records is planned to take place in two stages. First, the results of physical inventory taking will be input to Excel spreadsheets. Second, the same data will be input directly into the master file system (SILog) without duplication of data-entry effort, assuming the system is operational.

The design of the inventory count sheets is a related consideration. It should approximate that of the Excel spreadsheets to the extent possible so as to minimize the time and effort spent on transcribing inventory data from count sheets to spreadsheets. A limiting factor, however, is that inventory taking serves to verify data already recorded on the count sheets designed by the Supreme Court's Equipment Bureau. Ideally, there should be a high level of congruence between the two sets of count sheets.

Two basic pieces of information are key to designing the data input documents: (i) descriptions of the data fields required for inputting into the SILog database, and (ii) copies of the count sheets used by the Equipment Bureau. With the assistance of other colleagues, notably Andrew Pentland, anticorruption information technology advisor, diagrams of the SILog data fields were obtained from the technical manual. However, until the day before the assignment ended, it was not possible to discuss these data fields with the Supreme Court's IT specialist, nor to obtain copies of the count sheets from the head of the Equipment Bureau, as both officials were out of the country or otherwise unavailable for three weeks. To follow up, Dr. Olga Kaganova and Kathleen Gaertner will decide on the final designs for the inventory count sheets and the Excel spreadsheets.

Sampling Approach to Survey Verification

At an in-house meeting on June 11 with the incoming and acting chiefs of party, it was agreed that a random sampling approach would be proposed to USAID rather than the 100 percent inventory count called for in the basic contract.

At a meeting with the Supreme Court Reform Team on June 19, the consultant described the random sampling approach to inventory verification in some detail. Also present were CTO Mr. Paul Simonett and Ms. Kusumastuti from USAID, Ms. Meissy Sabardiah of the Supreme Court Reform Team, and an MCC ICCP team comprising Mr. Douglas Tinsler, acting chief of party; Mr. Ralph Deloach, court administration advisor; Retired Judge Joe Nadeau, and Mr. Joseph Bobek. The CTO stated that random sampling sounded like a very well thought out approach.

Also on June 19, the consultant presented an abbreviated version of the random sampling proposal during a meeting at the Supreme Court chaired by Deputy Chief Justice for Administration Mr. Subagyo and attended by many Supreme Court officials, the Reform Team, Ms. Kusumastuti from USAID, and the full MCC ICCP team. At this meeting, the head of the Equipment Bureau, Mr. Saleh, was named counterpart for the asset management task. After the meeting, Mr. Saleh agreed to provide the asset management team with a listing of the types of courts and their respective numbers. He forwarded the data the following day and this enabled us to start designing the random sampling approach.

On June 21, the consultant briefly discussed the random sampling proposal at a meeting with Mr. Saleh, also attended by Ms. Kusumastuti, Ms. Sabardiah, Mr. Deloach, and Ms. Gaertner. Mr. Saleh said he had initiated a 100 percent count of capital asset inventories in response to a request from the Supreme Audit Authority. The Equipment Bureau set July 26 as the deadline for completion of the count, and 9 out of 30 districts had already sent in their completed counts. Further, he stated that he had no objection to a random sampling approach; that he would make available the count sheet formats and the results of counts completed so far; and that he supported the Planning Bureau’s interest in having inventory information for budgeting purposes.

Later on June 21, the same group, except for Mr. Saleh, met with Mr. Subagyo. He asked for a brief explanation of how random sampling tests the reliability of inventory counts and how many courts would be sampled. The consultant explained that after examining the data provided by Mr. Saleh, the inventories of the District Courts and the lower level Religious Courts would be sampled, although the sample sizes had not yet been determined, while those of the remaining 160 courts would be verified in full. Mr. Subagyo said he had no objection to this and, in effect, gave the team the green light to go ahead.

The consultant then drafted a random sampling plan based on the U.S. Government’s Defense Contract Audit Agency (DCAA) methodology and software and had the plan reviewed informally by an independent statistician. The plan, which can be modified without technical difficulty to a 100 percent count if need be, is attached as Annex I.

The sample sizes called for in the first round of sampling are as follows. The numbers in parentheses are the total numbers of courts of that type.

District Courts:

Types 1A and 1B (83)	58	
All other types (225)	<u>32</u>	90

Lower level Religious Courts:

Types 1A and 1B (116)	30	
All other types (214)	<u>32</u>	<u>62</u>

Total courts sampled:	152	
All other courts:	<u>160</u>	
Total courts verified in first round:	<u>312</u>	

The exercise would move to a second round of sampling for certain courts in the event that the first round identified material errors in their recorded inventory counts. The additional sample sizes that would be called for are:

District Courts:

Non-Type 1 courts (225) 63

Lower level Religious Courts:

Types 1A and 1B (116)..... 52

All other types (214) 61

Certain subjective assumptions, based on best estimates, are inherent in the plan's design. These are:

- That it is desirable to have 95 percent confidence in the results of the sampling exercise. (This is the percentage usually specified in the U.S. Government Accountability Office's sampling plans.)
- That a difference of five percent or less between the actual number of inventory items counted at one court, versus the recorded total being verified for that court, would be tolerable. A difference of more than five percent between the two sets of totals at one court would be classified as a material counting error.
- That 10 percent of the total number of courts being sampled are estimated to have material counting errors in their inventory totals.

The results of a sampling exercise at the District Courts, for example, could be expressed as follows: "Based on our sample inventory counts, we are 95 percent confident that not more than 10 percent of the District Court inventories contain material counting errors in their totals."

In the meantime, Ms. Gaertner determined the geographical locations of most of the courts identified by Mr. Saleh and put this information into a usable database. She designed a method of assigning identification numbers to the courts and then, using the DCAA software, she randomly selected the District and lower level Religious Courts whose inventories are to be verified and documented her methodology in Annex II. As a result, the asset management team has identified the courts whose inventory counts are to be verified in the first round of sampling and has mapped their locations.

On July 12, the consultant met with Mr. Saleh to inform him of the status of the preimplementation activities, to provide him with a list of the courts selected for the first round of sampling, to ask whether he had any feedback to offer based on the inventory counting experience of his own staff, and to request copies of the inventory taking instructions provided to his staff, the count sheets, and the results of the first 9 completed regional inventory counts. Ms. Egi Sutjiati, court finance and budget expert, who had been requested by Supreme Court Chief of Administration Mr. Subagyo to attend this meeting, took the lead in conducting the interview. Also present and participating were Ms. Sabardiah of the Reform Team, as well as Dr.

Olga Kaganova and Ms. Gaertner. Mr. Saleh's observations are summarized as follows:

- Completed counts had now been received from an additional 8 regions, for a total of 17 regions with completed inventory counts. This left 13 regions where inventories have not yet been counted due to the lack of available personnel.
- The counts at the first 9 regions were satisfactory and did not require verification. The reliability of the counts at 8 regions recently completed had not yet been evaluated.
- The Ministry of Finance was to hold a meeting about asset management on July 25-26. It was suggested that the remaining work be carried out after those dates.
- MCC should consider making resources available for counting the inventories of the courts in the last 13 regions so that there would be a 100 percent count. The identities of the courts in those 13 regions would be provided, in addition to courts in the 17 regions where inventories have already been counted.
- MCC should consider accelerating implementation of the Republic of Indonesia's asset management system (apparently developed by the Ministry of Finance) rather than designing a new one.

Mr. Saleh provided a number of documents on a loan basis, asking for their return within three days. They included the results of the counts for 9 regions (which showed the design of the count sheets), a booklet of official inventory taking procedures, and other instructional materials apparently intended for staff training. These were to be photocopied and sent for translation from Bahasa. Regrettably, no mention of these materials had been made at earlier opportunities.

The MCC ICCP management team was advised of this situation immediately upon the consultant's return to the office from the Supreme Court.

Related Activities

A. Visits to Courts

On July 3, the consultant visited a Supreme Court complex in the city (Jakarta Pusat), accompanied by Dr. Laode M. Syarif, education and training specialist, who facilitated the visit, Ms. Gaertner, and Mr. Saiful Doeana, organization and administration specialist. The complex comprised a Central District Court (Type 1-A), a Commercial Court, and three Special Courts: Human Rights, Corruption, and Industrial (labor). This visit provided insights into the difficulties that may need to be overcome when conducting physical inventory count verifications in courts. At the least, it cannot be assumed that verifying the inventory count at one court alone, not to say several hundred, would be speedy and relatively trouble free. For example:

- Ideally, inventories should be located in controlled, potentially segregated areas where they may be easily accessible to the counting personnel. In this court complex, the majority of moveable inventories are in crowded courtrooms.

- None of the furniture or equipment were marked with any identification numbers, although some bore mutilated or partial stickers. Potentially, the inventory items to be counted in the planned exercise (assuming this court complex would be randomly selected) may not be the same items as those included in the count that is being verified. This is a concern, because the team noticed a wide variation in the quality of some of the furniture, for example, the judges' chairs. Some chairs were very ornate with elaborate carving, others with no carving, and others with leather backs, etc. The count sheets must be designed to provide for distinguishing qualitative differences rather than just having a generic "chairs" classification.
- Damaged and otherwise dilapidated furniture was stacked in corners, under stairs, and in various other locations instead of being segregated together in one place and marked for appropriate disposition.
- Several commercial activities were noted on the court premises, including a canteen and a copy shop, as well as a large religious building, the Masjid Al-Hikmal Mosque. The mosque is constructed on a second floor above a ground floor that houses its administrative office. Also on the ground floor is a jail for underage detainees. For the nonjuridical entities, the ownership status of their assets and the leasehold/rental arrangements, if any, that they have with the court would need to be determined.
- Various vehicles, mainly cars and motorcycles, some bearing red government plates and others not, were parked together inside the premises, and a person was observed collecting parking fees. The existence of a vehicle pool with records of the automotive equipment owned by the court, if any, would need to be checked and a determination made as to the feasibility and logistics of locating and counting vehicles at remote locations.

B. Training Materials

The consultant developed training materials on asset management-related topics, intended for Superior Court personnel and inventory supervisors and verifiers, and in some cases adapted from U.S. Government Accountability Office sources, as follows:

- Best Practices for Achieving Consistent and Accurate Counts of Capital Asset Inventories (Annex III)
- Checklist for Planning, Conducting, Researching, and Evaluating a Physical Inventory Count of Capital Assets (Annex IV)
- Procedures for Physical Inventorying of Capital Assets (Annex V)

The detailed instructions for inventory verification are incomplete because the basic data needed for designing the count sheets and the Excel spreadsheets is still not available. This task will be completed by Dr. Kaganova and Ms. Gaertner.

Asset Life Expectancy Schedules

The first step was to determine whether the establishment of asset life expectancies is already officially regulated through the setting of required depreciation rates for capital assets. With the assistance of MCC ICCP team colleagues, in particular Dr. Laode Syarif and Ms. Gaertner, two current regulations thought to be germane were located and translated from Bahasa. They are:

- Government Regulation of the Republic of Indonesia, No. 59/PMK.06/2005, on Central Government's Accounting System and Financial Statement (Peraturan Menteri Keuangan) (Attachment 5)
- Regulation of the Minister of Finance of the Republic of Indonesia, No. 59/PMK.06.2006, on Central Government's Accounting System and Financial Statement: Accounting System for the State's Property (erazindo-7 Lampiran PP Menku) (Attachment 6).

Neither of these documents made any mention of depreciation, which indicates a need for further research. Dr. Kaganova and Ms. Gaertner will follow up.

The two regulations were also reviewed for potential references to inventorying state assets. This topic was only briefly referenced on Page 18 of the Law on the Accounting System for State Property, as follows: "An inventorying process may be conducted if it is required." As noted, a copy of the official inventory taking procedures, in Bahasa, was made available by the head of the Equipment Bureau on July 12.

Recommendations

The following recommendations are offered for enhanced quality of project performance:

1. A cadre of specialized interpreters and translators should be recruited at the earliest opportunity in place of the current system of sending out documents for translation and using pick-up interpreters at short notice.
2. A local employee should be recruited for the asset management team at the earliest opportunity for critical interface activities with the Supreme Court. On several occasions, Mr. Subagyo, the chief of administration, expressed the preference of Court officials to interface directly with an Indonesian counterpart rather than a non-Bahasa speaker through an interpreter.

Next steps. The consultant's future work and the timing of a return to Jakarta largely depends on how the asset management scope of work is ultimately defined, as well as the availability of subcontracted staff to carry out field work.

Acknowledgments. The consultant thanks the MCC ICCP team for their splendid cooperation and many kindnesses and looks forward to renewing these links in the near future.

ANNEX I

DRAFT SAMPLING PLAN FOR SUPREME COURT INVENTORY VERIFICATION

(Source: Defense Contract Audit Agency EZ-Quant Statistical sampling design and application. <http://www.dcaa.mil/ezquant.htm>)

Background Information

According to a listing provided by the Supreme Court's Equipment Bureau, there are 825 courts under the Supreme Court umbrella, classifiable into 13 types. Eleven of these types have numbers of courts varying from a low of 1 court (the Corruption Court) to a high of 33 courts (Special Court for Labor). There will be 100 percent verification of the inventories at the 160 courts belonging to these 11 types because of their relatively low population numbers. The remaining two types consist of 324 District courts and 341 lower level Religious Courts. Their inventory counts are to be verified based on a statistically valid, random sampling approach.

Due to the relatively large number of District and lower level Religious Courts and their wide geographical dispersion, it would be preferable from a logistical standpoint to specify a complete inventory for one court as the sampling unit. Further, there would be no problem converting from the random sampling exercise to a complete inventory verification should the need arise.

The desire is to make a 100 percent verification of the recorded inventory count at each of the randomly selected courts in four separate universes (Type 1 District Courts, non-Type 1 District Courts, type 1 lower level Religious Courts, and non-Type 1 lower level Religious Courts) and calculate the percentage error rate, if any, between the recorded counts and the verified counts found in each court inventory. An error rate equal to or less than 5 percent will be tolerated as not material. An error rate of more than 5 percent will be considered material. Assume that the result of the exercise is that the verified number of material errors found in the inventories of the sampled courts in a particular universe does not exceed the maximum number of tolerable errors (critical error rate) specified in the EZ-Quant sample size determination. It would then be possible to state, with a given percentage of confidence, that the total number of courts in that universe whose inventories contain material errors does not exceed the critical error rate.

In the event that the number of material errors found exceeds the maximum number specified, the sampling technique would be modified to an estimation sampling approach so as to estimate the universe error frequency. (Refer to the *Sample Evaluation* section below.)

At this introductory stage, the total number of inventory line items in each of the two universes is not known, nor can the error rate(s) in the population(s) be estimated at this time.

Sampling Objective

The general objective of verifying the Supreme Court's physical inventory on a random sample basis is to test the reliability of the number of items listed in the physical inventory records of the District and lower level Religious Courts. These Courts will be treated as four separate universes.

- Identification of the critical system feature:
Does the actual count agree with the recorded count, within 5 percent or less?
- Definition of the error condition:
The inventory system is in error if the actual count differs from the recorded count by more than 5 percent.

Universe Description

This includes identifying the sampling unit (i.e., the basic item to be examined); specifying the scope, that is, the criteria to include all sampling units pertinent to the sampling objective; and stating the universe size, that is, the number of all sampling units.

- Sampling unit: the inventory records for one District/lower level Religious Court.
- Scope: All the inventories at the 83 Type 1 District Courts, the 226 non-Type 1 District Courts /116 Type 1 lower level Religious Courts and 214 non-Type 1 lower level Religious Courts (separate universes).
- Universe size: All the inventories at the 83 Type 1 District Courts, the 226 non-Type 1 District Courts and 116 Type 1 lower level Religious Courts and 214 non-Type 1 lower level Religious Courts (separate universes).

Sampling Frame

The sampling frame is defined as the physical or electronic representation of the universe. The four separate universes are represented by the inventory records for each of all the Type 1 and non-Type 1 District Courts and the Type 1 and non-Type 1 lower level Religious Courts. The frame matches the universe because no items in the audit universe are excluded.

Sampling Approach, Objective, and Type

- The physical unit sampling approach will be used.
- The sampling objective is to sample for attributes (errors).

Type of attribute sampling to be used: Two-step acceptance sampling, designed to test whether the rate of error in the universe exceeds the specified acceptable level of 10 percent.

Estimation sampling, designed to estimate the population error rate, will be used for verifying the inventories of the Type 1 District Courts. This is because sample sizes for two-step acceptance sampling could not be calculated due to the relatively small population size and the relatively stringent precision specified.

The two-step procedure produces a pass/fail test plan that places limits on the risk that the test results will be misleading. It breaks the sample into two individual steps and gives the universe a second chance for a favorable finding. The first step, acceptance number of errors, is always set to zero which makes it essentially an attribute discovery step.

The advantage of this approach is that the second step may not be necessary. However, when the second step is implemented, the two-step sample evaluation procedure must be used to evaluate the entire sample.

Either one of the following conditions allows for terminating the sample review at the end of the first step:

- No errors are found in the first step.
- The number of errors that are found in the first step exceeds the total acceptance number for both steps combined.

These conditions are most likely when the actual universe error rate differs substantially from the assigned critical error rate and/or false alarm error rate. Ordinarily, and particularly in the event of failure, we would want to use the sample results to estimate the universe error rate in order to gauge the potential severity of error conditions. In this way, the sample assumes the role of an attribute estimating sample. (Refer to the *Sample Evaluation* section below.)

Precision/Size

For attribute sampling, the precision goals include:

1. Critical error rate: 10 percent.
This is the maximum error rate in the universe that is considered acceptable; that is, a maximum of 8 Type 1 District Courts, 22 non-type 1 District courts, 11 Type 1 lower level Religious Courts and 21 non-Type 1 lower level Religious Courts with material errors in their inventory counts is considered acceptable.
2. Tolerable risk: five percent (95 percent confidence level).
This is the tolerable level of risk of accepting a universe with an error rate that is greater than the specified critical error rate of 10 percent. Otherwise stated, this is the chance that uncharacteristically few errors will appear in the sample even if the actual error rate exceeds 10 percent.
3. False alarm error rate (generally set at one-half the critical error rate): five percent.
This is an acceptable universe error rate that is used to control the risk of rejecting an acceptable universe (that is, a false alarm). Otherwise stated, this is the chance that

uncharacteristically many errors will appear in the sample even if the actual error rate is substantially less than the specified acceptance level.

4. False alarm risk: 20 percent (= 80% confidence level). This is the tolerable level of risk of rejecting an acceptable universe, that is, a universe with an error rate that is less than the false alarm error rate.

Sample Sizes

(taken from EZ-Quant sample size determination):

Type 1 District Courts (universe = 83)

A two-step sample size cannot be calculated due to the relatively small population and the relatively stringent precision requirements. Therefore, estimation sampling will be adopted instead. The EZ-Quant program produced the following:

Presumed error percentage rate: 10 percent

Precision confidence interval: 10 percent

Confidence level: 95 percent

Sample size: **58**

Non-Type 1 District Courts (universe = 225)

Step 1: Sample size = **32**; Maximum number of errors = **0**

Step 2: Sample size = **63**; Combined errors = **5**

NOTE: Proceed to Step 2 if the number of errors in Step 1 does not exceed **5**.

Type 1 lower level Religious Courts (universe = 116)

Step 1: Sample size = **30**; Maximum number of errors = **0**

Step 2: Sample size = **52**; Combined errors = **5**

NOTE: Proceed to Step 2 if the number of errors in Step 1 does not exceed **5**.

Non-Type 1 lower level Religious Courts (universe = 214):

Step 1: Sample size = **32**; Maximum number of errors = **0**

Step 2: Sample size = **61**; Combined errors = **5**

NOTE: Proceed to Step 2 if the number of errors in Step 1 does not exceed **5**.

Sample Selection

Each of the four sets of courts, Type 1 and non-Type 1 District and lower level Religious Courts, will be assigned a separate series of identifying numbers. Sample selection is to be made manually using the EZ-Quant random number (digits) generator.

For a description of how the items were randomly selected, refer to Annex II.

Sample Evaluation

The samples from each universe will be evaluated using the EZ-Quant Attribute Evaluation – Two-Step evaluating tool and the EZ-Quant Attribute Evaluation – Estimation evaluating tool as appropriate.

Assume that the sample results indicate that the number of verified material errors exceeded the number of permissible material errors, based on a 10 percent critical error rate. In that event, estimation sampling so as to estimate the population material error rate will be initiated as follows:

1. Assign values for:

- Anticipated error rate, based on the results of the two-step sampling exercise.
- Precision range: Determine how much sampling error is reasonable (width of the sample rate's confidence interval)
- Desired confidence level: Determine how important it is (with 99 percent being the most important) that the actual error rate be estimated with the desired precision.

2. Determine sample size by invoking the EZ-Quant Estimation sample size procedure.

Illustration

Presumed error percentage rate: 20 percent

Precision confidence interval: 10 percent

Confidence level: 95 percent

Sample sizes from EZ-Quant:

Universe Size	Sample size
83	64
225	128
116	88
214	120

3. Analyze and extend the findings from the two-step, failed samples. That is, use the data already obtained during the two-step exercise (and, in the case of Type 1 District Courts, during the previous estimation sampling case) and obtain data, through physical verification, from the additional number of randomly selected courts required for the estimation sample sizes. In the case of the non-Type 1 District Courts, for example, the two-step sample size of 95 (32 plus 63) would be increased by 33 for a total estimation sample size of 128.

4. Evaluate the results of the samples (from Step 3) from each universe using the EZ-Quant Attribute Evaluation – Estimation evaluating tool. In the event that the estimation sampling exercise results in an estimate of the population material error rate that exceeds the tolerable level of 10 percent by too large an amount to warrant raising the tolerable level to match the results, carry out a complete physical verification of inventories at those District and lower level Religious Courts that were not randomly sampled.

ANNEX II

RANDOM SAMPLING PLAN FOR SUPREME COURT CAPITAL ASSET INVENTORY VERIFICATION

Identification Number

In order to select a random sample of courts from the District Courts (Type 1 and Non-Type 1) and the Lower Level Religious Courts (Type 1 and non-Type 1), each court was assigned an identification number. Each number consists of four sets of digits: 00.0.0.00.

- **00.0.0.00**: The first group of digits represents the location of the court.
- **00.0.0.00**: The second group of digits represents the sort of court (District, Religious, General, etc.).
- **00.0.0.00**: The third group of digits represents the type of court (1A, 1B, 2, 2B, etc.).
- **00.0.0.00**: The fourth group of digits distinguishes each court from others that are found within the same location, sort, and type. This number was assigned based on the courts' placement on the Supreme Court's Web site and is not representative of the size, level, location, etc., of the court.

Sample Identification Numbers:

01	1	1	01	BALI	PT. DENPASAR	DENPASAR
01	1	2	01	BALI	PT. DENPASAR	SINGARAJA

Selection Process

Using EZ Quant software, two random number sets were created for each of the four desired groups of courts (Religious Type 1, Religious non-Type 1, District Type 1, and District non-Type 1). The first random set included three ranges of numbers representing the first three groups of digits above. The second random set included one range representing the last group of digits above. A random start number was automatically selected by EZ Quant. To make the selection, the following steps were taken:

1. Using the first random number set, all courts whose first group of digits matched the first range of the randomly selected number were identified.
2. Of the courts identified in Step 1, those that also fell within the randomly selected number in Range 2 were selected. Courts that did not meet these criteria were eliminated from this test but were retained for the remaining random selections.
3. Of the courts that were identified in Step 2, those that also matched the randomly selected number in Range 3 were identified. Again, other courts were eliminated from this particular test. If only one court met these criteria, or if all of the other courts that met the criteria had already been selected, then that court was selected. If more than one court satisfied the first three steps, then Step 4 was used.

4. For the courts that satisfied all of Steps 1-3, the second random number set was used to specify which court was selected. Beginning with the first number on the list, we proceeded to check down the list to the first randomly selected number that matched an available court. For the next court selection, we began with the random number following the previously selected number on the list. Any random numbers that did not match an available court number were discarded.

This process was repeated for each of the four types of courts listed above until the desired sample size was reached. A slight modification was made in the selection of the 32 non-Type 1 Religious Court. The type of court was not taken into consideration in the random selection process due to the variety of types included, thus eliminating the need for Step 3.

Rejection of Courts

Selected courts that were deemed too difficult or unsafe to travel to were eliminated and a replacement court was selected in order to reach the necessary sample size. The replacement courts were selected in the same manner described above. [Will include more detail once we start to reject courts.]

ANNEX III

BEST PRACTICES FOR ACHIEVING CONSISTENT AND ACCURATE COUNTS OF CAPITAL ASSET INVENTORIES

(Adapted from U.S. Government Accounting Office materials)

The process of counting physical inventory is an essential control for operational efficiency and financial reporting. A physical count, when properly carried out, verifies the existence of physical assets and the completeness and accuracy of inventory records.

Establish Accountability

Establishing accountability is one of the key factors in developing and implementing an accurate physical count process. Establishing accountability for the inventory physical count process requires: (i) setting performance goals and (ii) assigning responsibility for the overall physical inventory count process at the appropriate management level.

Performance Goals

Performance goals establish targets for achieving management's objectives and contribute to the Supreme Court's overall mission.. For the physical count process, the inventory record accuracy goal, that is, the degree to which the physical count agrees with the inventory records should be set, ideally, at 100 percent but no lower than 95 percent.

Level of Accountability

Holding the appropriate level of management responsible and answerable for the overall inventory process establishes accountability for the physical inventory and is essential to achieving consistently accurate counts. Accountability for achieving performance goals should be written into position descriptions and enforced through periodic performance evaluations as well as a reward system that measures the achievement of performance goals.

Direct accountability for the overall physical inventory count process should be established at the level responsible for managing the physical count process. The person or persons at this level should be supervisors or managers of an inventory group that performs all counts and research, or a supervisor/manager responsible for the inventory within his/her area. These individuals have specific responsibility for planning the count, organizing the count teams, reviewing counts, reviewing research, and approving adjustments within established tolerances.

Accountability should also be assigned to the lower level personnel performing the count. They should be held accountable for performing an accurate physical count of the inventory items, but not for the accuracy with which the count agrees with the inventory records. This is because the inventory records themselves may be in error.

However, if a subsequent recount reveals an error in the results of the first count, this may indicate that the counters need additional training.

Strategies

To establish accountability for the physical count process, the following strategies should be adopted:

- Set performance goals for the physical count that are in line with the Supreme Court's mission, strategic goals, and objectives.
- Establish high measurement goals and continuously assess the Supreme Court's progress in achieving and maintaining those goals.
- Identify the line of authority and responsibility from top management to the level of the organization responsible for accomplishing a consistent, accurate physical count of inventory and related property.
- Develop employee/supervisor performance measurement systems to hold appropriate personnel accountable for achieving the Supreme Court's performance goals.

Establish Written Policies

Establishing, documenting, issuing and enforcing policies and procedures are essential to an effective and reliable physical count. They:

- Demonstrate management's commitment to the inventory physical count process.
- Provide to all personnel clear communication and comprehensive instructions and guidelines for the count.
- Help to ensure consistent and accurate compliance that is needed to achieve high levels of integrity and accuracy in the physical count process.
- Constitute the basis for training and informing employees.

Well-documented physical count policies and procedures typically pertain to all aspects of the physical count process, including the activities or tasks that take place before, during, and after the physical count. Specifically, they should be written in sufficient detail so as to explain the specific procedures and tasks to be performed and include the objectives of the count, the types and timing of counts, instructions for counting, recording and researching discrepancies, and adjusting variances.

Once policies and procedures have been established and documented, they must be regularly reviewed and updated. Up-to-date policies and procedures provide a reliable and credible resource to employees, encourage compliance with management's directions, and form the basis for a reliable physical count process.

Strategies

To establish effective written policies and procedures for the physical count process, the following strategies should be adopted:

- Develop broad inventory policies that are designed to achieve management's goals.

Develop written procedures for all aspects of the physical count processes, including (i) defining the current process and the individual tasks associated with the process, (ii) defining procedures for, and examples of, filing and completing required paperwork, and (iii) regularly reviewing and revising policies and procedures for changes in the process and individual tasks.

Select an Approach

The two predominant approaches to performing physical inventory counts are cycle counting and "wall-to-wall." Each approach offers distinct advantages and serves some purposes better than others. As a result, the Supreme Court may choose to use only one approach or a combination of approaches.

Cycle counting is a method by which a portion of the inventory is counted at various periodic intervals, for example, once every two years, until the entire inventory has been counted over a period of time. Cycle counting serves two purposes:

- It supports the reliability of the existing inventory quantities for use in management decisions and financial reporting.
- It usually results in increased operational efficiency. Cycle counts are used as a control mechanism to reduce the risk that the inventory process and systems are not functioning correctly.

In the wall-to-wall approach, the entire inventory is counted at one point in time, usually as of the end of an annual or interim period. This method is primarily used for financial reporting purposes in order to validate the amount of reported inventory.

Determining which approach or combination of approaches is the most appropriate for the Supreme Court is a key management decision. When selecting an approach, management should consider the objective and timing of the count, capabilities of the inventory system, the existing control environment, and the characteristics of the inventory.

Management makes its decision on the type of count to be performed based on the reason for the count. Physical counts can be used (i) to establish a balance on or as of a certain date for financial reporting, (ii) to monitor the accuracy of records in an inventory system, and (iii) to ensure that the proper inventory is available for operational needs.

Another primary consideration is the *capability* of the inventory system. There are two general types of inventory systems, perpetual and periodic. A *perpetual* inventory

system, which is typically used for capital assets, maintains the current balances of inventory items by recording the effects of receipts and disposals on the beginning balances. In contrast, a *periodic* inventory system tracks receipts and disposals in a separate account and updates the inventory control account only at infrequent intervals.

A perpetual system is needed for cycle counting purposes to provide current balances that are needed to reconcile the inventory records and physical counts quantities. A perpetual inventory system should have the capability of identifying the specific physical location of each individual inventory item.

Control Environment

Internal controls must exist to provide reasonable assurance that all transactions affecting the inventory balances are properly carried out and recorded in the inventory system. Unless this is the case, balances in the inventory system do not provide a reasonable basis for comparison with the physical count quantities.

The strength of the control environment may be indicated by accuracy rates of inventory records, based on results of prior counts. A pattern of low accuracy rates or known control weaknesses may suggest that (i) recorded inventory balances are not reliable for conducting cycle counts, and (ii) a wall-to-wall count may be more appropriate to reestablish accurate inventory balances.

Inventory Characteristics

Management should consider whether there are identifiable and distinct segments of the inventory that may lend themselves better to cycle counting, wall-to-wall counting, or a combination of both. Identification of distinct segments should include considerations of the inventory's size, monetary value, how critical the items are to Court operations, and their susceptibility to misuse or misappropriation, including theft.

Strategies

In selecting a physical inventory counting approach, the following strategies should be adopted:

- Determine the objectives of performing the physical count.
- Establish a balance as of a specific date for financial reporting (i) to monitor the accuracy of the inventory records for financial reporting and management decisions, (ii) to ensure the availability of inventory to meet operational needs, including mission readiness, and (iii) to identify excess or obsolete inventory.
- Assess the resources and timing needed to conduct the count.
- Evaluate the capability of the inventory system to (i) maintain item balances on a current or periodic basis and (ii) maintain balances by item location.

- Evaluate the existing control environment over the inventory system and processes (i) to ensure transactions are properly executed and recorded in the inventory system, (ii) to determine that the inventory system provides a reasonable basis for comparison with the physical count, and (iii) by considering existing or historical accuracy rates to support the assessment.

Determine the Frequency of Counts

Counting an appropriate amount of the total inventory at a point in time, or over a period of time, with regular frequency helps to provide accurate inventory records for operational decisions and financial reporting. In determining an appropriate amount of the total inventory to count, management should decide on the desired frequency of counts and select a method of choosing individual items or locations to count.

Frequency of Counts

The most desirable goal would be to count all of the inventory items at least once a year, but this is time-consuming and costly. The best way to balance the need for inventory control versus the cost of the count is to focus on the items determined to be more important or of higher risk to the Supreme Court. While it may not always be practical to give the same treatment to each item, it may be desirable to segment the inventory into identifiable segments or classes and assess the risk for each segment or class when determining the frequency of counts.

Management may determine that there are many degrees of control and importance depending upon the Court's needs and inventory characteristics. Management should consider the monetary amount, how critical it is to Court operations, and susceptibility to misuse, misappropriation, and theft when segmenting the inventory and determining the frequency of counts for each segment.

Strategies

In determining the frequency of the physical counts the following strategies should be adopted:

- Assess the resources and timing needed to conduct the count.
- Identify segments or classes of the inventory and assess each segment's risk to determine the degree of control needed, based on (i) activity, (ii) monetary value, (iii) sensitive or classified items, (iv) items critical to Court activities, and (v) items susceptible to misuse, misappropriation, and theft.
- Select a frequency to count each segment based on the assessed risk and degree of control.
- Determine a method of selecting individual items for count, such as (i) sequentially by courtroom or area within the courthouse or facility, (ii) random selection, or (iii) selection weighted towards higher monetary, higher activity items.

Maintain Segregation of Duties

Segregation of duties, a commonly used and widely accepted internal control and business practice, entails dividing or segregating key duties and responsibilities among different people. When effectively implemented, this type of control reduces risk of error and fraud so that no single individual can adversely affect the accuracy and integrity of the count.

The key areas of segregation are (i) physical custody of assets, (ii) processing and recording transactions, and (iii) approving transactions.

Ideally, personnel performing any one of the above functions should not also have responsibilities in either of the other two functions.

In situations where segregation of duties is not practical or cost-effective, other controls should be employed to mitigate the recognized risk. Such control procedures include blind counts (meaning that the counter does not know, before or during the count, how many items are being verified), increased supervision, and applying dual control by having two or more people perform the same activities independently.

Physical Custody of Assets

Personnel who are responsible for custodial activities such as receiving, disposing of, and storing physical assets should not be involved in carrying out the physical count. In those situations where it is not feasible or practicable to exclude custodial personnel, the counters should not have knowledge of, or access to, the records of quantities that should be on hand (a blind count).

Transaction Processing and Recording

Segregation between the duties of recording transactions that result from the physical count and duties of custody or approval is essential to provide for the integrity of the physical count process. Personnel recording transactions that affect the quantities on hand should not be responsible for physical custody of the inventory or approval of adjustments to the inventory records.

Strategies

To implement and maintain effective segregation of duties in the physical count process, the following strategies should be adopted:

- Determine whether there are available resources to conduct the count, and whether they have the appropriate knowledge and experience of the inventory and counting.
- Analyze the regular job duties of personnel performing the physical count, taking into consideration who has responsibility for (i) custody or physical control of the inventory, (ii) processing and recording of inventory transactions, and (iii) approval of transactions and adjustments.

- Determine whether controls may be impaired if any one person has been given responsibility for more than one activity noted in the previous strategy.
- Perform a risk versus cost analysis of any apparent control risks and determine whether (i) duties may be reassigned, (ii) mitigating controls can be implemented, or (iii) risk is at an acceptable level.

Enlist Knowledgeable Staff

Using inventory counters who are knowledgeable about the inventory items being counted and the inventory counting procedures is critical to performing effective and accurate physical counts. It is therefore important for inventory counters to be adequately trained. In addition, counters who are most familiar with the Court layout and daily operations are more likely to conduct the counts quickly and resolve count discrepancies without having to conduct excessive research.

Counters Knowledgeable about the Inventory Items

It is advisable to use Court personnel, whether they are part of a specialized group or have been chosen expressly because of their prior experience with, and knowledge of, inventory items. One major advantage of this approach is that experienced Court personnel are more likely to identify correctly the items they are counting and provide accurate item descriptions and count quantities, decreasing the likelihood of needing second or third counts.

Additionally, experienced personnel are more familiar with the layout of the Court facilities and the movement of items within and between these facilities. They are aware of areas where items may be placed, either intentionally or unintentionally, and thus can more easily locate all the items that should be counted and potentially reduce misstatements in the quantities counted.

Counters Knowledgeable about the Count Process

Inventory counters should be knowledgeable about the count process to perform efficient and accurate physical counts. Increased supervision, training, and instructions are commonly required if personnel with lesser knowledge of the inventory perform the count. In such a situation, administrative or other staff could be used to supplement the count teams, matching up these employees with experienced inventory personnel.

Count Personnel Well Trained

Training all counters and supervisors involved in the physical count provides for consistency and reduces the risk of error in carrying out counts. This is typically accomplished through formal classroom training, on-the-job training, or a mix of the two.

The scope of training is generally dependent on the type of counts conducted, that is, wall-to-wall and/or cycle counts. Typically, counters are trained on types of inventory, Court layout, unit of measure, recording of counts, and computer systems.

Training of authorized Court personnel would also include researching variances, posting adjustments to the inventory records, and operating computerized inventory systems.

Strategies

To involve knowledgeable Court staff in the physical count process, the following factors should be considered:

- The amount of resources available to conduct the count.
- The count team's experience and knowledge of the inventory and count process.
- The frequency of counts or time necessary to complete the count.
- The desirability and feasibility of establishing a group of specialized counters whose main function would be to carry out and monitor inventory verifications.
- Assigning or promoting personnel with prior inventory custodial experience to inventory counting/verification positions.
- Providing on-the-job and classroom training of the count process to counters, supervisors, and personnel researching variances on aspects such as types of inventory, Court layout, unit of measure, computerized inventory system, research (if applicable), and supervision (if applicable).

Provide Adequate Supervision

Supervision plays a key role in the count process. It includes directing the efforts of personnel and determining that the objectives of the inventory count have been accomplished. Adequate supervision increases the likelihood of accurate and consistent counts and reduces the overall risk of incorrect or unreliable counts.

Elements of supervision include providing instructions and training, solving problems, and reviewing the work performed. Supervisor responsibilities include (i) ensuring that counters are available to count, (ii) selecting count team members, (iii) assigning count team responsibilities, and (iv) ensuring that the count is completed on time.

Counters also make sure that needed supplies and equipment, such as count sheets, calculators, and tape measurers are available. Supervision includes providing instructions and guidance to counters prior to and during the count and making sure that counters are following instructions. Supervisors also ensure that all inventory items are counted and that counters record counts on count sheets or other control devices.

Supervision can be applied at different levels and degrees depending upon the experience of the inventory counters and other controls that are in place. The level of supervision is typically either direct, on-the-spot supervision during the count or indirect supervision, in which the supervisor is not present during the count but

instead uses controls that are in place to monitor count performance. Increased supervision in the form of direct supervision may be used as a mitigating control in instances where the counts are infrequent, there is a lack of segregation of duties, and/or the counters are less experienced and knowledgeable about the inventory or count process.

In general, the selection of direct versus indirect supervision depends on management's assessment of the adequacy of segregation of duties. Typically, direct, on-the-spot supervision is used as a risk-reduction control when carrying out wall-to-wall physical counts. On the other hand, indirect supervision is used for cycle counts, particularly when the counts are carried out by specialized teams.

Supervisors monitor the number of counts being performed and the number of variances. They also concentrate on identifying the causes of variances between the counts and recorded on-hand quantities in order to identify solutions to correct the causes of the errors.

Strategies

To provide adequate supervision over the physical count process, the following factors should be considered:

- The number of resources or teams involved in carrying out the physical count.
- Frequency of the counts or the time necessary to complete the count.
- Knowledge and experience of the personnel performing the count.
- Whether there is adequate segregation of duties of inventory counters from responsibilities for asset custody.
- The assigned responsibilities of the supervisors.
- The size of the Court or area subject to count.
- The number and complexity of items to be counted.
- Other controls that may be in place during the count, such as the performance of blind counts.

Perform Blind Counts

A blind count refers to a physical inventory count being carried out by counters who have no knowledge of, or access to, the quantities that should be on hand according to the inventory records. This is because such information might influence the counters to be less careful and make incorrect assumptions. If the blind count agrees with the recorded quantities, there is a high level of confidence that both the physical count and the recorded on-hand balance are accurate.

An important consideration in deciding whether or not to perform blind counts is the strength of control provided by segregation of duties. A related consideration is whether the count is being carried out by a specialized group. Providing specialized counters with information about the quantities that should be on hand adds to the efficiency of the count by allowing counters to solve variances often while at the inventory location.

The combination of segregated duties together with other control measures, such as maintaining a history of who performed counts by item and location, as well as supervisory review, balances the increased risk of providing the counters with quantity information.

Strategies

When considering the effective use of blind counts during the physical count, the following factors should be evaluated:

- The tools to be used in carrying out the physical count (count cards, count sheets, etc.).
- The capability of the inventory system to omit recorded on-hand quantities from count cards or sheets (for blind count purposes) and to restrict access to on-hand balances prior to and during the performance of the count, except for authorized personnel.
- The personnel who are to perform the physical count and whether there is a segregation of duties between the responsibilities of asset custody and those of physical counting.
- The counting personnel's experience and knowledge of the inventory items and the count process.

Ensure Completeness of the Count

A complete count requires that: the inventory being counted include all the items that should be present and exclude items that are not part of the inventory; and that control of the count process is maintained so that all inventory items that should be counted are, in fact, counted.

The considerations that need to be made before the actual count begins fall into three major categories: (i) cutoff procedures, (ii) pre-inventory count activities, and (iii) control methods for count completion.

Cutoff Procedures

Cutoff is the process of (i) controlling the movement of inventory items between locations and (ii) coordinating the timing and verifying the movement of items with the related quantity changes in the inventory system. Cutoff is an essential procedure to ensure the existence and ownership of inventory and can be achieved in a variety of ways. The simplest way, in addition to verifying and coordinating the movement of

items and the inventory records, is to conduct the count when Court operations are shut down or during a period when there should be limited movement of inventory, such as on weekends.

One of the advantages of performing cycle counts is that the Court would not have to shut down its operation, as is usually the case for wall-to-wall physical counts. Typically, cycle counts do not stop the movement of inventory but instead use other controls to ensure that items are not erroneously omitted, included, or counted twice. These controls include (i) counting during a slow period of operations when there is little movement, (ii) preventing any movement of the inventory items to be counted on the day the items are selected for counting, and (iii) using system-generated transaction histories to trace the movement of items and reconcile the count.

Pre-Inventory Activities

Pre-inventory activities, primarily preparing the physical location, are accomplished prior to the physical count in order to increase the efficiency and effectiveness of the count. Physical location preparation typically includes (i) organizing the work areas and storage locations, (ii) identifying and segregating items, (iii) ensuring that all inventory items have labels or identification, (iv) verifying that items are in the correct location, (v) precounting slow-moving items, and (vi) identifying excess and or obsolete inventories.

Most of these activities should be part of the daily, asset management routine. Other pre-inventory activities that need consideration include (i) the timing of the inventory, (ii) staffing and equipment requirements, (iii) review of inventory procedures, and (iv) instructions to and training of counters.

Control Methods for Count Completion

There should be a system to ensure that all inventory items are considered for count, including items in the Court as well as at outside locations, such as owned or leased property, in public storage, or any other locations where there are Court-owned inventory items.

For inventory outside the Court's direct control, management may consider making arrangements to have the inventory counted by its own employees or by the people responsible for safeguarding the inventory. If the Court's own employees are not used to count the inventory, management should consider making arrangements for its personnel to be present at the site so as to observe and verify that the count is performed accurately and completely.

There are three primary methods for determining the quantities of inventory items stored at outside locations:

- Physically count the outside inventory as part of the physical count exercise.
- Obtain written confirmation and/or monthly statements from the parties responsible for storing the inventory.

- Send representatives to observe the physical counting of the inventory.

Control tools are used to determine that every inventory item gets counted. A manual system, such as count tags or count sheets, or a computerized inventory locator system that tracks an item's location, may be used to verify that every inventory item gets counted once and only once.

Operations without inventory locator systems commonly use prenumbered count tags, sheets, or cards to ensure that all items are counted. For example, during a typical wall-to-wall physical inventory, personnel count the inventory item, record the count on the upper and lower part of the tag, and attach one part of the tag to the inventory item and give the other part to the control desk. The control desk accounts for all the prenumbered tags and compares the count to the record on-hand quantities. At the end of and during the inventory count process, the supervisor walks through the Court and visually inspects that a count tag is attached to every inventory item, which offers some assurance that all inventory items have been counted. The count tags attached to the inventory items also ensure that the inventory is not counted twice. A second check is done by the control desk, cross-checking that all the inventory items recorded on the books have a physical inventory count recorded. Operations with inventory locator systems rely heavily on their systems to report any inventory items not counted and where the items are located.

Computerized inventory systems could include controls to ensure that all recorded inventory items are counted. For cycle counting purposes, for example, the computer systems could generate a list of items (count sheets) to be counted each day or other period. The system keeps track of all items counted and entered into the system. If an item is not counted, the system carries the item forward and repeatedly lists the item until it is counted. Supervisors can generate a report (an aging list) to list all items scheduled for a count but not counted. The completeness of the inventory systems can also be tested by performing location counts in addition to regular cycle and wall-to-wall counts. Their purpose is to test for the possibility of existing inventory items that are not reflected in the records. These procedures are performed by selecting inventory items in the Court and tracing those items back to the recorded on-hand balances in the system.

Strategies

To ensure completeness of the physical count, the following factors should be considered:

- The Court's operating environment, time of operations, and its ability to (i) suspend operations during the physical count, (ii) perform counts when there is limited movement of the inventory, such as on weekends, and (iii) prevent movement on the day of the count of items that are to be counted.
- Reliability of the inventory system to accurately capture and track transactions affecting the on-hand balances.
- Existence of excess, obsolete, or unusable inventory items that could be segregated and precounted.

- Existence of inventory stored at outside locations and the personnel or organization responsible for verifying its physical existence.
- Use of prenumbered count sheets or tags and reconciliation of the numbers issued to the numbers returned.
- Reconciliation of items listed in the inventory records to the actual items counted.
- Performance of additional counts where items counted cannot be reconciled with the inventory records.

Carrying Out the Physical Count

Properly carrying out the physical count provides accurate results for (i) comparing the count to the recorded balances and (ii) posting adjustments to the inventory records.

There are five key areas to consider when carrying out the physical count including:

- Communicating appropriate information to the counters.
- Verifying the correct item information.
- Identifying the appropriate method for capturing and comparing the physical count to the inventory records.
- Determining the number of requisite number of counts to perform before a count is accepted as final.
- Completing the count in a timely manner.

Communicating Information to the Counter

Communicating appropriate information ensures that counters have the information they need to carry out the count. As a rule, this takes the form of a list of items, or assigned zones, to count and usually includes inventory location, inventory number, description, and unit of measure. When the recorded quantity to be counted is also disclosed, it is normally provided to the counters on count lists, sheets, or cards.

Verifying Item Data and Quantity

Verifying the item data provided to the counter ensures that the significant information in the inventory record is consistent with the physical information about the item. The data verified by counters typically included inventory location, inventory number, description, as well as quantity in instances where non-blind counts are being performed.

Capturing and Comparing the Count

The physical count includes the instrument or method used by the counter to record the results of the physical count for comparison to the balance on hand in the inventory records. Traditional methods include recording the actual physical count on manual count sheets or cards and then inputting the data into the computer system for comparison with the inventory record.

The comparison of the actual count to the recorded balance on hand determines the variance between the two, if any, and the need for recounts or research. The recorded inventory balances are typically not adjusted until recounts and research are complete.

Perform Requisite Number of Counts

The basis for carrying out additional counts after the first one could be due to any of the following: (i) a difference between the count and record on-hand balance (variance), (ii) the judgment of supervisors or management, or (iii) variances that exceed established tolerances.

Segregation of duties should be reconsidered in assigning the personnel performing any additional counts. One approach would be to use a different count team to perform the second count. The second count could be accepted as the final, accurate count, after which personnel responsible for recording transactions would research any variances and, with appropriate approval, adjust the inventory records. Another, potentially time-consuming, approach would be to keep counting until two counts finally agree.

Complete Counts in a Timely Manner

Completing the counts in a timely manner is important because of management's reliance on the information in the inventory system for making operational decisions. Whether completing a single count or multiple counts, the count teams should be expected to complete their assignments as quickly as possible.

Strategies

To carry out the physical count effectively, the following strategies should be adopted:

- Determine the data to be verified by the count by considering (i) the knowledge and experience of the personnel performing the count, (ii) the item data maintained in the inventory system or on location labels, and (iii) whether blind counts are to be performed, requiring the restriction of access to on-hand balances.
- Determine the method to be used to capture and compare the count, such as count cards or sheets, by considering the capability of the inventory system.
- Determine the number of counts to perform by considering (i) the resources necessary to perform additional counts, (ii) the personnel performing additional counts, their segregation of duties from asset custody, and their knowledge and

experience of the inventory and count process, (iii) the time necessary to complete additional counts promptly, and (iv) characteristics of the inventory (e.g., unit of measure, size, monetary value, classification, as well as the size of the variance in terms of quantity and monetary value) in order to establish tolerances for additional counts.

Perform Research

Even with a strong control environment and sound physical count procedures, it is not unusual for there to be differences in quantities between the physical count and the inventory records. Research into the cause of the difference, and reconciling it, are essential elements of an effective physical count process.

Research, when properly conducted (i) provides support for adjustments to the inventory records, (ii) identifies the causes of variances between the physical count and the inventory records, and (iii) provides management with information with which to implement corrective actions.

The research process includes carrying out the required analysis, promptly completing research, and referring variances to management for approval and/or the internal security authorities for investigation.

Variances

Identifying the causes of variances is useful for detecting weaknesses in the underlying controls and individual processes that affect the inventory records. Grouping and tracking the nature or type of errors into assigned codes is an effective tool for analyzing causes of variances and implementing corrective actions to reduce future errors. These could include codes for such problems as: incorrect entries, location errors, classification errors, etc.

Timely Research

The prompt completion of any required research is key to identifying and correcting the causes of variances. As the amount of time increases between the discovery of an error in the inventory records and research, it becomes more difficult to identify the cause of the error.

Approval and Referral of Adjustments

Approval of adjustments by management and referral of potential fraud or theft to investigators helps ensure reliable counts and research. Typically, the appropriate approval level within the Court should be commensurate with the monetary amount of the adjustment.

Strategies

To effectively research variances arising from the physical count, the following strategies should be adopted:

- Establish tolerances or criteria for selection of variances to research such as (i) effect on operations, (ii) quantity and monetary value, and (iii) characteristics of the items with the variance, such as sensitive, classified, or items susceptible to misappropriation, misuse, or theft.
- Develop the appropriate processes for conducting research, such as procedures for reviewing the movement of items during the count, transaction histories, and asset receipt and disposal documents, by considering (i) the reliability of the inventory system to accurately capture transactions affecting the balances on hand, (ii) the time necessary to complete the research promptly, and (iii) the adequacy of knowledge possessed by the personnel carrying out the research.
- Establish error codes that would identify the cause of variances.
- Set approval levels for adjustments that move up the management hierarchy as the monetary value increases, or because the nature of the item requires a higher level of approval.
- Define responsibility for (i) reviewing adjustments and trends on items that are susceptible to misappropriation, misuse, or theft, and (ii) notifying security or law enforcement authorities as and when appropriate.

Evaluate the Results of the Count

Evaluating the results of the physical count is essential to an accurate and effective physical count process. This evaluation gives management the necessary information for measuring the effectiveness of (i) the physical count and (ii) the corrective actions or improvements to the inventory process and system.

Evaluation includes measuring the results of the count, communicating the results, and modifying existing policies and procedures.

Performance Measures

The results of the physical count can be measured several ways. They include (i) calculating an inventory record accuracy rate, (ii) summarizing the number and monetary value of adjustments, errors, or items counted, and (iii) tracking and analyzing error code frequencies.

Inventory record accuracy rate

Inventory record accuracy rates measure the degree of agreement on inventory quantities between the inventory records and the physical count. When calculating inventory record accuracy, it is necessary to define what will be considered an error. An error can be defined in various ways, including (i) any error in the item record, such as location, description, and quantity, or (ii) quantity errors that exceed established tolerances.

Tolerance is a range within which an actual value or quantity can differ from the inventory record and still be considered accurate for the purposes of calculating

inventory record accuracy. Tolerances are typically based on an item's usage or volume, monetary value, and the degree to which it is critical to Court operations.

Ideally, there should be a zero quantity tolerance for all inventory items. In other words, all quantity differences are considered errors. However, a certain overall error percentage rate may be tolerated, depending on the type of inventory involved. Under this approach, only quantity differences in excess of that tolerable percentage are counted as errors. Alternatively, separate tolerances may be established for identifiable segments of inventory based on type of item, monetary value, activity, or the critical nature of an item to Court operations.

There are multiple ways of calculating inventory record accuracy; however, the commonly-used method is:

$$\frac{\text{Number of accurate items or records} \times 100 \text{ percent}}{\text{Number of items or records counted}} = \text{record accuracy rate}$$

Communicating Results

Communicating the results of each physical count is essential to achieving and maintaining accurate, reliable counts and records and improving the results of future physical counts. The results of a count should be communicated to management as well as to the counters and other Court employees.

Communicating the results to *management* ensures that management is informed and can then assess the impact on operations and implement corrective action. Communication of results to the *counters* reinforces the results of their work and the importance of reliable counts. Communication to *other Court employees* makes them aware of the effect they have on the results of the count as they perform their daily activities and the importance of doing their jobs correctly.

The results of the physical count may be forwarded to management in the form of reports containing inventory record accuracy, amount of adjustments, and trend analysis of error codes. Weekly and monthly meetings could be held with the managers responsible for the physical count, receipts and disposals, and other areas affecting the inventory. Such meetings could be used to discuss the reports on the results of the count, identify the impact of their findings on the Court's operations, and address any problems raised.

The results of the physical counts could be communicated to counters and employees in inventory-related positions in the form of display boards or scorecards published for areas of the Court and displayed around the Court in highly visible locations.

The results of the physical count and the impact each employee has on the accuracy of inventory records could be discussed at infrequent intervals, such as during quarterly meetings with all Court employees.

Modification of Policies and Procedures

Once the results of the physical count have been evaluated and communicated, it is useful to consider changes that the results indicate should be made to the inventory count and management process and to make appropriate modifications to policies and procedures.

Management's assessment of the results of the physical count and employee feedback are useful in determining the effectiveness of the physical count. The results may indicate the need to count a particular item more frequently due to high errors. Conversely, an item that has not had any errors and little activity may be counted less frequently. In other instances, the makeup of the inventory or the Court operations may have changed, in which case management may need to reconsider the significance of inventory items and the frequency with which they should be counted.

It is important that lessons learned from each physical count result in changes that improve the physical count process and inventory management process. Policies and procedures covering the physical count process should be routinely updated as a result of changes to processes or systems. At a minimum, the adequacy of documented and performed procedures should be reviewed every 1 to 2 years.

Strategies

For evaluating the results of the physical count process, the following strategies should be adopted :

- Establish performance measures that are aligned with the Court's objectives and strategies and that are useful in evaluating the results of the physical count.
- Determine the methods to be used to measure performance of the count by (i) defining an error for purposes of measuring performance and (ii) establishing tolerances based on characteristics of the inventory and the quantity or monetary value of the variances to be considered as errors.
- Establish mechanisms to communicate results and performance measures to managers, counters, and other appropriate personnel.
- Establish routine meetings with managers involved in all aspects of the inventory process, including the ordering, physical count, receipts and disposals, (i) to discuss results and measures and (ii) to evaluate the causes of the errors so as to identify corrective actions and assign responsibility for those actions.
- Use results and performance measures as a basis for making changes to the process and modifying existing policies and procedures to reflect changes in the processes.

ANNEX IV

CHECKLIST FOR PLANNING, CONDUCTING, RESEARCHING, AND EVALUATING A PHYSICAL INVENTORY COUNT

(Best practices for achieving reliable counts of capital asset inventories)

Main Elements

Planning
Counting
Research and adjustments
Evaluation of the results.

The Inventory Planning Process

Select an approach to the count
Determine count frequency
Organize the count team(s)

The Inventory Counting Process

Make an appropriate cutoff
Perform pre-inventory activities
Count the inventory

The Research and Adjustments Process

Perform research
Adjust the record

Evaluation of results

Determine the record accuracy rate
Consider other performance measures
Communicate the results of the count

The Inventory Planning Process

- *Select an approach to the count.*
 - cycle counting a portion of items over time; or
 - a physical wall to wall count; or
 - a combination of approaches

Key considerations:

- the primary objectives in conducting a physical count;
- the guidance provided in existing policies and procedures;
- what approach the inventory system will support;
- the natural or logical segments of the inventory;
- the amount of time available and/or deadline issues involved;
- whether existing system accuracy supports reliance on it

- *Determine count frequency.*
How many, how often, and which items to count

Key considerations:

- how critical it is to the mission and operations;
- monetary values;
- quantity significance;
- rate of turnover; and
- susceptibility to misuse/theft

- *Organize the count team(s).*
Identify who is going to perform, supervise, record, and evaluate the count and analyze the results.

Key considerations:

- can duties be adequately segregated;
- is the degree and level of supervision appropriate;
- should blind counts be required;
- who should double-check counts subsequent to the first count;
- how many people should be on a count team;
- how many count teams are needed;
- are count team members knowledgeable of the inventory and count process;
- has the necessary training been provided to team members

The Inventory Counting Process

- *Make an appropriate cutoff.*
Risks of inventory movements during count:
 - not counting items that are moving;
 - counting items more than once that have moved;
 - counting items not yet recorded in the inventory records; or
 - counting items that have been removed from the inventory records

Key considerations:

- suspend inventory movements during the count

- *Perform pre-inventory activities.*
Prior preparation can greatly increase the efficiency and accuracy of the count.

Key considerations:

- organizing the inventory and warehouse to facilitate the count process;
- identifying and segregating certain excess, obsolete, and reserved items;
- precounting and increasing control of segregated, excess, obsolete, and reserved items

- *Count the inventory.*
 - a number of options are available in the process of the count
 - decisions in one area will affect decisions in another area

Key considerations:

- how information about the item to be counted will be communicated to the counter;
- what record data elements (e.g., quantities, description, location) should be provided to the counter;
- the pros and cons of requiring blind counts;
- what record data elements the counter(s) are to verify;
- the total lapse of time allowable to complete counting (including appropriate research) before requiring an adjustment;
- when to require recounts (e.g., if the first count does not equal recorded amount);
- how many recounts to require (e.g., until two counts are equal);
- how the count supervisor will verify that the count is complete;
- how data elements verified for each item will be captured during the count (e.g., count sheets);
- how and by whom the count's actual results will be posted to the inventory system;
- who should conduct recounts or verification of completed counts;
- how to verify that all items selected for counting have been counted

The Research and Adjustments Process

- *Perform research.*

Any discrepancies between the actual physical count and the recorded data should be appropriately investigated.

Key considerations:

- when and where it may be appropriate to establish acceptable variances not requiring research;
- the extent to which research should be performed;
- using error codes to track the trends and frequency of the causes of discrepancies;
- the required documentation and retention period for the research and adjustment of the records;
- when discrepancies should be referred to management and/or security for investigation;
- whether there should be a limit on the amount of time allowed to research a discrepancy before requiring an adjustment;
- whether persons performing root cause analysis have responsibilities in areas of conflicting interest

- *Adjust the record.*

Adjustments to the record are most critical when they affect on-hand quantities. They will likely directly affect information used to make managerial decisions and will also establish new quantity levels for effective internal controls designed to safeguard assets from unauthorized use or disposition.

Key considerations:

- what levels of authorization to require for adjustments to on-hand balances;
- how to allow for and control exceptions to authorization requirements;
- whether there should be a limit on the amount of time allowed to elapse before an adjustment is required;
- whether persons making adjustments to on-hand balances have responsibilities in areas of conflicting interest

Evaluation of Results

- *Determine the record accuracy rate.*

An appropriately calculated record accuracy rate is a telling measure of how reliable the inventory system is at maintaining accurate information.

Key considerations:

- what discrepancies in the record will be considered errors in the accuracy rate calculation;
- the actual mathematical calculation to be used in determining the accuracy rate;
- how the results of the accuracy rate calculation will be used

- *Consider other performance measures.*

The results of physical counts may be measured by methods other than recording accuracy rates.

Key considerations:

- what other measurements of results are appropriate;
- how other measures can be expressed in relevant terms

- *Communicate the results of the count.*

The results of the count should be communicated to management; and Planning for subsequent physical counts should incorporate lessons learned.

Key considerations:

- what results will be communicated to management;
- how results will be communicated to management;
- what results will be communicated to counters;
- how results will be communicated to counters
- what results will be communicated to responsible employees in areas where accuracy errors occur;
- how results will be communicated to responsible employees in areas where accuracy errors occur;
- the changes that the results and above considerations indicate should be made to existing policies and procedures

ANNEX V

DRAFT PROCEDURES FOR PHYSICAL INVENTORYING OF CAPITAL ASSETS

Overview

The purpose of these instructions is to provide guidance in the administration of a capital assets physical inventory. The objectives of a physical inventory are to:

- Ensure that the capital assets as registered in the SILog inventory system physically exist.
- Determine if unrecorded or improperly recorded transactions have occurred.
- Identify any excess, defective, or obsolete assets on hand.

An effective inventory taking results in accurate accounting for capital assets and indicates the reliability of the system for accurately recording the acquisition, use, and disposal of those assets.

The frequency of taking a physical inventory depends on the nature, quantity, and value of the capital assets and the cost and effort required to carry out the procedures. These instructions provide the policy, procedures, and forms to use in conducting capital asset physical inventories.

Policy

A physical inventory of capital assets is *required* at least once every two years in order to properly safeguard assets and maintain fiscal accountability. The method to be used is to conduct a wall-to-wall physical inventory of all Court assets. Inventories of assets that are susceptible to misuse, misappropriation, or theft should be conducted on a more frequent basis.

Inventories may be carried out on a cyclical basis. That is, not all capital assets have to be inventoried at the same time as long as the entire inventory is counted within the required two-year time frame. Cyclical inventories enable property managers to schedule inventory activities over a long period of time and thereby conserve staff resources.

Guidelines

The following general guidelines have been established to ensure that the Court will effectively implement and perform the inventory taking:

- Individuals responsible for the Court's property management function should establish a timetable and coordinate the effort necessary to conduct the inventory taking.

- Responsible persons should assist in conducting physical inventories in their area.
- Discrepancies between recorded quantities and actual counts of inventory items must be resolved in a timely manner through the submission of revised input forms and tagging, if necessary.
- Each item recorded is physically inspected for changes in condition and availability codes.
- Additions, deletions, and changes to SILog inventory records must be transmitted to the individual responsible for Court property management on a timely basis.

The physical inventory must verify the asset's existence and should provide a reference to lists and/or other documents evidencing the existence and cost of the asset examined. Procedures must include verification from the list to ensure the physical existence of listed assets and from the physical assets back to the list to ensure that all assets physically in existence are recorded in the inventory records.

Although a physical inventory is only required once every two years, equipment inventories should be conducted more frequently, at least annually. This is because equipment assets may be more subject to change, necessitating tighter control.

The following detailed procedures for supervisors and counting personnel are provided for conducting the inventory.

Detailed Procedures

Supervisory Responsibilities

The supervisor's key tasks before, during and after the physical inventory taking are as follows:

- *Before the count:*
 - Become acquainted, if necessary, with the counting personnel and make sure that there is adequate segregation of duties so that those who are responsible and accountable for custody of assets are excluded, or that mitigating controls are in place (for example, blind counts are to be used).
 - Determine that there is an adequate number of knowledgeable personnel assigned to the count.
 - Organize the work of the counting personnel in the most effective and efficient way that circumstances dictate, for example, whether the Court's layout or main locations of assets calls for individuals working by themselves or teams working together, and whether counting assignments should be by building or by room, etc.
 - Go over the inventory instructions with the count personnel to be satisfied that any uncertainties are clarified.

- Ensure that the inventory locations are accessible and that any damaged, obsolete, and otherwise unused assets are segregated into clearly defined areas.
- Make sure that no movements of inventory items are planned or authorized to take place during the count.
- Determine that the count sheets are correctly serially numbered.
- Maintain control, such as a log or listing, over the issuance of count sheets to verifiers.
- *During the count:*
 - Ensure that the inventory counters are following instructions.
 - Make test counts to ensure that procedures and internal controls are functioning properly. When carrying out test counts, the supervisor should (i) select items from the count records and from the physical assets and check one against the other to confirm to accuracy of the court records, and (ii) concentrate more attention on assets with high monetary value.
 - Identify who is to perform recounts if the results of the test count are not satisfactory, or if the counts of items on hand do not agree with the inventory records.
 - Ensure the proper functioning of the procedures for identifying capital assets that are not in use because they are damaged, obsolete, or for other reasons. The supervisor should obtain information (from observation or by discussion with knowledgeable Court staff) about the assets' condition, age, and usage.
 - Confirm that capital assets that the Court does not own or control but that it physically possesses are separately identified and accounted for.
- *After the count:*
 - Make sure that all the count sheets have been signed by those who carried out the count, as well as those who checked the count, if applicable.
 - Ensure that all the count sheets have been returned and accounted for.
 - Enter the data from the count sheets on to Excel spreadsheets using the prescribed format.
 - Complete a report on the inventory exercise using the prescribed format.

Verifier Responsibilities

- The individual performing the Court's property management function will be permitted access to every room being inventoried.
- All the equipment located in the room will be checked for a tag number and traced back to the inventory listing, with the following physical attribute fields rechecked; location, responsible person, equipment condition, and equipment availability. Tagged items in the room that are reported on the Court's inventory report as located elsewhere will require a revision to record the change of location.
- If tagged items are missing from the inventory listing, or if untagged items are identified as meeting the definition of either a capitalized or controlled asset, inventory information must be completed at that time for subsequent entry into the online system.
- A sampling of items with tags should be made and traced to the inventory listing to ensure it is recorded. Also, a sampling of items from the listing should be made to ensure the physical existence of the item.
- Any items found to be unrecorded or not physically existing should be listed as a discrepancy, subsequently researched, and then either entered or removed by disposal from the system, as appropriate.
- Once all the agency locations have been checked for tagged, untagged, recorded or unrecorded items, the required changes will be processed by property management.

Timing of Inventory Activities

The Supreme Court asset inventory system is maintained on a perpetual inventory basis. Changes should be made to the master file (SILog) inventory system records as soon as practicable after such changes occur in asset status. Information concerning new acquisitions is recorded once the item has been delivered to the Court.

All assets are assigned to a position in the Court where the asset is located or controlled. Assets belonging to the Court as a whole, such as land and buildings, are assigned to the Court's chief executive or fiscal officer. Consequently, all assets are assigned to a position responsible for safekeeping.

Although the system permits rapid notification of changes to Court inventories, physical inspection is necessary to ensure that changes are correctly processed. Therefore, various inventory activities must be conducted during the year, in the following sequence:

- *Daily.* Departments or other organizational units must submit revisions to the individual charged with the property management function whenever permanent changes to the listed information fields occur: (i) Change of ownership (organization code), (ii) change of location (space identifier code), (iii) change of

responsible position. (iv) change of asset status (availability code), (v) change of asset operability (condition code), or (vi) direct receipt of new asset

- *Quarterly.* Many organizations receive inventory reports at the end of each fiscal quarter. These must be specifically requested from the Equipment Bureau. Reports received for the quarters ending in September, December, and March may be reviewed by organizational managers to verify the accuracy of recorded information. These reports should be signed and returned to property management personnel, indicating any discrepancies. Corrections must be processed by keying revisions into the online SILog inventory record system.

Inventory Staffing

A responsible position/person must be assigned to each asset item recorded in the SILog inventory record system in the data field provided. This is to ensure that an individual within the Court has responsibility for maintaining and safeguarding the asset. The responsible person may or may not be directly involved in using the asset.

The responsible person for equipment would usually be an individual in charge of a specific section of the Court. Assets assigned to the agency as a whole, yet utilized by more than one Court activity (e.g., assets such as land), would usually have the Court's chief executive as the responsible person. At a minimum, the responsible person should be directly involved in the acquisition and disposition of assets assigned to his/her position.

Individuals responsible for the property management function within the agency should assist in conducting the physical inventory of fixed assets. Inventory count activities should be conducted by count teams made up of a team supervisor and agency personnel. If necessary, part-time employees may be utilized. Agencies are encouraged to utilize work-study students as a manpower resource for conducting the physical inventory. Use of part-time employees enables the agency to keep from disrupting the functions of full-time employees during the year and to quickly increase the inventory count staff on a temporary basis when physical inventories are required. However, the agency must determine the method of staffing the inventory count team that best utilizes its available resources.

Tagging

Tagging provides a method of assigning a unique identification number to each capital asset so that the item can be accounted for and identified within the SILog inventory record system. It is important that the format of the tag used should serve the primary purpose of identification; therefore, the number should be the predominant feature on the tag. The numbering sequence utilized should be a simple, consecutive series of numbers. Numbers should be assigned in consecutive order without regard to asset type or location.

The consecutive numbering allows each asset item within the inventory system to carry a unique number throughout its entire life, regardless of change in location, responsible person, or other data elements assigned to the asset item, until such asset is retired or disposed of. Once disposition has occurred, the number is retired. The

system should maintain a history file of the retired identification number for three years after disposition for audit trail control purposes.

Assets to be entered into the SILog inventory system should be tagged at the time of physical receipt or as soon thereafter as possible.

Items incapable of receiving a physical tag will nevertheless be coded a unique tag identification number for SILog input purposes. These types of assets include heat-sensitive or finely tuned equipment items for which physical tagging would be impractical or would otherwise alter the item's usefulness. The tag indicator field on the asset control specification screen must be completed with a "Y" if the item was tagged or an "N" if the item was not physically tagged. The unused tags should be stored in an agency log or otherwise controlled to avoid duplicate use of tag numbers.

Internal Control

Each Court should implement cost beneficial internal control procedures to ensure that:

- All asset transactions are entered into SILog in a timely manner.
- All adjustments to SILog data are approved by a responsible person whose duties encompass property management.
- All SILog reports are received in a timely manner for accuracy and completeness.
- Discrepancies are thoroughly researched and brought to management's attention.
- Inventories are taken at least once every two years, or more frequently if warranted.

Records Retention

Fiscal records related to managing fixed assets should be retained for a period of two years plus the current fiscal year or until audited, whichever is greater. However, for pending, ongoing, or unresolved audits or other reasons, retain documentation until completion and resolution of settlements.

Destruction of records must be carried out in accordance with policies and procedures of the Supreme Court's Records Management Section.

ANNEX VI

GOVERNMENT REGULATION OF THE REPUBLIC OF INDONESIA NUMBER 59/PMK.06/2005 ON CENTRAL GOVERNMENT'S ACCOUNTING SYSTEM AND FINANCIAL STATEMENT

Considering:

that pursuant to the provision of Article 7 paragraph (2) letter o of the Law Number 1 of 2004 on State Treasury, the Minister of Finance as the General State Treasurer has authorized to determine the state's accounting system and financial statement that it is necessary to stipulate the Regulation of the Minister of Finance on Central Government's Accounting System and Financial Statement.

In view of:

1. Law Number 17 of 2003 on State Finance (the State Gazette of the Republic of Indonesia of 2003 Number 47, the Supplement of the State Gazette of the Republic of Indonesia Number 4286);
2. Law Number 1 of 2004 on State Treasury (the State Gazette of the Republic of Indonesia of 2004 Number 5, the Supplement of the State Gazette of the Republic of Indonesia Number 4355);
3. Law Number 15 of 2004 on Examination on the State's Financial Management and Accountability (the State Gazette of the Republic of Indonesia of 2004 Number 66, the Supplement of the State Gazette of the Republic of Indonesia Number 4400);
4. Law Number 33 of 2004 on Financial Balance between the Central and Local Government (the State Gazette of the Republic of Indonesia Number 4438);
5. Law Number 36 of 2004 on State Budget of the Fiscal Year of 2005 (the State Gazette of the Republic of Indonesia of 2004 Number 130, the Supplement of the State Gazette of the Republic of Indonesia Number 4442);
6. Government Regulation Number 23 of 2005 on Financial Management at the Public Servicing Agency (the State Gazette of the Republic of Indonesia of 2005 Number 48, the Supplement of the State Gazette of the Republic of Indonesia Number 4503);
7. Presidential Decree Number 42 of 2002 on Guidance to the State Budget Implementation (the State Gazette of the Republic of Indonesia of 2002 Number 73, the Supplement of the State Gazette of the Republic of Indonesia Number 4214); as has been amended by the Presidential Decree Number 72 of 2004 (the State Gazette of the Republic of Indonesia of 2004 Number 92, the Supplement of the State Gazette of the Republic of Indonesia Number 4418);
8. Presidential Decree Number 187/M of 2004;

9. Regulation of the Minister of Finance Number 13/PMK.06/2005 of 2005 on Standard Estimation Body;

HAS DECIDED

To stipulate : **REGULATION OF THE MINISTER OF FINANCE ON CENTRAL GOVERNMENT'S ACCOUNTING SYSTEM AND FINANCIAL STATEMENT.**

CHAPTER I GENERAL PROVISIONS

Article 1

In this Government of the Minister of Finance, meant by:

1. Computer Data File, hereinafter to be called as ADK is a data file contained into the diskette or other digital storage media containing the transactional and general ledger and/or other data;
2. Public Servicing Agency, hereinafter to be called as BLU, is any agency/body within the circle of the government established to provide public services in the form of the procurement of assets and/or services sold without taking any priority for the profit and its execution is based on the principle of efficiency and productivity, the financial management of which is conducted by observing the prevailing provisions.
3. State Property, hereinafter to be called as BMN, is any good purchased and obtained by taking its fund from the State Budget or by other legal acquisitions;
4. Scheme of Standard Estimation, hereinafter to be called as BPS, is list of the ledger's estimations determined and compiled systematically to make easier in the budget planning and implementation and in the verification of financial booking and reporting;
5. Notes to the Financial Statement is a report presenting information on the description or detailed lists or analysis on any financial posts presented in the Cash Flow Report in order to obtain a sufficient disclosure
6. Transactional Data of the State's Property is any data in the journal form of the transaction of any acquisition, alteration and abolishment of the BMN sent by means of the ADK medium on a monthly basis by an official of the Accounting Unit of Authorized User of Assets to the official of the Accounting Unit of Authorized User of the Budget at the Working Unit level.
7. De-concentration is a delegation of authority from the Government to the Governor as the government's representatives;
8. De-concentration's Funds is any fund disbursed or originating from the State Budget managed by the Governor acting as the government's representative covering all revenues and expenditures with respect to the de-concentration implementation, not inclusive of any fund allocated to the central government's vertical agencies in the region;
9. Assisting Task's Fund if any fund disbursed or originating form the State Budget managed by the Local Government covering all revenues and expenditures with respect to the Assisting Task implementation;

10. Source Document is any document relating to any financial transactions used as the source or evidence in making or providing the accounting data.
11. Accounting Entities is any governmental unit acting as a budget/assets user and therefore being obliged to manage the accounting and drawn up its financial statement joined at the reporting entities;
12. Reporting Entities is a governmental unit consisting of one or more accounting entities according to prevailing law and regulation being obliged to provide/submit the accountability report in the form of financial statement;
13. Financial Statement is a form of governmental accountability for the execution of the State Budget in the form of the Report on Budget Realization, Balance Sheet, Cash Flow Report and Notes to the Financial Statement;
14. The Report on Budget Realization is any report presenting information with respect to the realization of the revenues, transfer expenses, budget's surplus/deficit and its financing, excess/shortage of the financing budget being respectively compared to its budget value within one period;
15. Cash Flow Report is any report presenting information of the cash's outflow and inflow within a certain period classified on the basis of its operational activities, non-financial, expenditures and non-budgeting asset investments;
16. Report on BMN is any report presenting the BMN position at the beginning and ending of any period and the BMN mutation occurring during certain period;
17. Balance Sheet is any report presenting information with respect to government's financial position namely the assets, liabilities and equity on a certain date;
18. Budget user if an official authorized to use the allocated budget to any State Ministries /Governmental Institutions/Working Unit of the Local Apparatus;
19. Reconciliation is any process to match the transactional data processed by using some different system/sub-system based on the same source document;
20. Working Unit is an Authorized User of the Budget/Assets representing a part of any organizational unit at the State Ministries /Governmental Institutions performing one or more activities of any program;
21. Working Unit of Local Apparatus, hereinafter to be called as SKPD is any organization/institution at the Local Government responsible to the Governor/Regent/Mayor with respect to the governmental operations consisting of the Local Secretary, Local Offices, and Local's Technical Units, Sub-district/Kecamatan, Village/Desa and the Unit of Pamong Pradja/Local Government's Police according to their respective needs;
22. Central Government's Accounting System, hereinafter to be called SAPP, is a series of both manual and computerized procedures commencing from the process of data collecting, recording, summarizing, until its reporting on the Central Government's financial position and operation;

23. Central Accounting System, hereinafter to be called as SiAP, is a series of both manual and computerized procedures from the process of data collecting, recording, summarizing until its reporting on the financial position and operation at the Ministry of Finance as the General State Treasurer;
24. General State Treasury's Accounting System hereinafter to be called as SAKUN is a sub-SiAP preparing the Cash flow Report and the State General Treasury's Balance Sheet hereinafter to be called as KUN's Balance Sheet;
25. General Accounting System, hereinafter to be called as SAU, is a sub-SiAP preparing or resulting in a Report on the Realization of Central Government's Budget and Balance Sheet;
26. Institutional Accounting System, hereinafter to be called as SAI, is a series of both manual and computerized procedures commencing from the process of data collecting, recording, summarizing to reporting of financial position at the State Ministries/Governmental Institutions.
27. Accounting System for the State Property, hereinafter to be called as SABMN is SAI sub-system representing a series of inter-connecting procedures to process the source document so as to yield information in the making of Balance Sheet and the Report on BMN and other managerial reports according to applicable provisions;
28. Internal Controlling System is a process affected by the management created to give a reasonable belief in the achievement of the effectiveness, efficiency, observance /obedience to the prevailing rules and regulation and reliable presentation of the government's financial report;
29. Government's Accounting Standard is the accounting principles applied in making and presenting the government's financial report;
30. Assisting Task is the assignment by the Government to Local Government and/or Village or other predicates, the obligation to report and its accountable implementation to the assignor;
31. Institutional Accounting Unit is an organizational unit at the State Ministries/functional institution performing the function of institutional accounting and financial statement consisting of Financial Accounting Unit and Assets Accounting Unit.
32. Accounting Unit of the Authorized User of Regional Budget, hereinafter to be called as UAKPA, is an accounting and reporting unit at the Working Unit level;
33. Assistant Accounting Unit of any Authorized User of the Regional Budget, hereinafter to be called as UAPPA-W, is an institutional accounting unit performing both finance and assets joint reporting of all UAKPAs operating in his working area;
34. Assistant Accounting Unit of any Authorized User of Echelon I Budget , hereinafter to be called as UAPPA-E1 is an Institutional accounting unit performing a joint reporting, either for the finance or assets from all UAKPA directly existing under him.
35. Accounting Unit of any Authorized User of the Budget, hereinafter to be called as UAPA, is an institutional accounting unit at the level of the State Ministries/Governmental Institutions (budget users) performing

- either finance or assets joint reporting from all UAPPA-E1 existing directly under him.
36. De-concentration's UAPP-W is an accounting unit existing under Provincial Government performing the activities of financial joint reporting from all SKPDs obtaining the allocation of the de-concentration's fund in his working area;
 37. Assisting task's UAPPA-W is an accounting unit existing under the Provincial Government performing financial joint reporting from all SKPDs obtaining the allocation of the assisting task's fund in his working area;
 38. Accounting Unit of any Authorized User of Assets, hereafter to be called as UAKPB, is a working unit/assets authorized user possessing the authority to manage and or use the BMN;
 39. Assistant Accounting Unit of the User of Regional Assets, hereinafter to be called as UAPPB-W is BMN's accounting unit at regional level or other working unit determined as UAPPB-W and to perform activities of BMN's joint reporting from UAKPB, the Head of Regional Office or Head of the Working Unit determined as the UAPPB-W will be responsible for such activities;
 40. De-concentration's UAPPB-W is an accounting unit existing under Provincial Government performing the activities of BMN's joint reporting from SKPD obtaining the allocation of de-concentration's fund in his working area.
 41. Assisting Task's UAPPB-W is an accounting unit existing in Local Government performing BMN's joint reporting from SKPDs obtaining the allocation of assisting task's fund in his working area.
 42. Assistant Accounting Unit of the User of Echelon I's Assets , hereinafter to be called as UAPPB-E-1 is an BMN's accounting unit at the Echelon I level performing activities of BMN's joint reporting from UAPPB-W and UAKPN directly existing under him, the person in charge is the Echelon-I Official;
 - 43 Accounting Unit of the User of Assets, hereinafter to be called as UAPB, is the BMN's accounting unit at the level of the State Ministries/Governmental Institution performing the activities of BMN's reporting from UAPPB-E1 and the person in charge is the Minister/Management of the Institution.

CHAPTER II CENTRAL GOVERNMENT'S ACCOUNTING SYSTEM

Article 2

1. SAPP shall consist of SiAP and SAI
2. SAPP shall make and provide a Central Government's Financial Report.
3. SiAP shall process transactional data from the General State Treasury and Accounting;
4. SAI shall process the transactional data of the finance and assets performed by the State Ministries/Institutions;
5. SAPP implementation shall be conducted in accordance with the provisions as set forth in the Attachment I of this Regulation of the Minister of Finance;

CHAPTER III
CENTRAL ACCOUNTING SYSTEM
Article 3

1. SiAP shall consist of SAKUN and SAU.
2. SAKUN shall produce the KUN's Cash flow Report and Balance Sheet.
3. SAU shall produce the Report of Budget Realization and Balance Sheet.
4. The implementation of SiAP as meant in paragraph (1):
 - a. The Office of State Treasury Service (KPPN) shall process the revenue and expenditure's transactional data;
 - b. KPPN specifically shall process the expenditure's transactional data originating from the Foreign Loan (BLN);
 - c. Directorate of the State Treasury Management (DPKN) shall process the transactional data of the General State Treasury's (BUN) expenditures and revenues through the central office; and
 - d. The Directorate for Information and Accounting shall process APBM's data and perform verification and accounting process to the transactional data of BUN's expenditures and revenues through the central office.

Article 4

1. KPPN shall prepare KUN's Cash Flow Report and Balance Sheet and the Report on SAU's Budget Realization in his working area.
2. The Report on Budget Realization as meant paragraph (1) shall become material for reconciliation with other working units in his working area.
3. The Report as meant in paragraph (1) shall be submitted to the Regional Office of the Directorate General of Treasury on a monthly basis.
4. KPPN specifically shall process the expenditure transactional data originating from the Foreign Loans and to submit its report as meant paragraph (1) including its transactional data to the Directorate for Information and Accounting on a monthly basis.

Article 6

1. The Directorate General of Treasury shall prepare a financial statement in the forms of Cash Flow Report, KUN's balance Sheet, and the Report on Budget Realization representing a financial joint report from all units of the Directorate General of Treasury either at the central or regional levels.
2. The Report of Budget Realization as meant in paragraph (1) shall become a reconciliation material with the UAPPA-E1 and UAPA.
3. Based on the result of such reconciliation with the UAPA contained into a Minute of Reconciliation, the Directorate General of Treasury shall be authorized for making data improvement to the Report on Budget Realization before a revision of this Report on Budget Realization accepted by UAPA.
4. Improvement on the Report on Budget Realization as meant paragraph (3) without prejudice to or releasing the obligation of UAPA to submit the revision to the Report on such Budget Realization.
5. The procedure and minute of reconciliation shall be determined in the Report II and Report VII of this Regulation of the Minister of finance.

Article 7

The implementation of SiAP as meant in Article 3 through Article 6 shall be conducted in accordance with the provisions as set forth in the Attachment II of this Regulation of the Minister of Finance.

CHAPTER IV INSTITUTIONAL ACCOUNTING SYSTEM (SAI)

1. Each State Ministry/Institution shall be obliged to manage the Institutional Accounting System (SAI) to provide and make its financial report including its Section of the Financing and Calculation Budget.
2. To execute the Institutional Accounting System (SAI) as meant in paragraph (1), the Financial Accounting Units shall be established consisting of :
 - a. UAPA;
 - b. UAPPA-E!
 - c. UAPPA-W; and
 - d. UAKPA

Article 9

1. Each UAKFA shall be obliged to process the source document to result in financial reports in the form of Report on Budget Realization, Balance Sheet and Notes to Work Unit's Financial Statement
2. The Source Document as meant in paragraph (1) shall be determined in the Attachment III of this Regulation of the Minister of Finance.
3. UAKPA, using the financing and calculation budget, beside processing the source document as mentioned in paragraph (1), shall be obliged also to process the source document to provide the Report on Budget Realization and Notes to the Financial Statement of the Financing and Calculation Budget.
4. Each UAKPA shall be obliged to submit the Report on Budget Realization and the balance Sheet and ADK on a monthly basis to KPPN.
5. UAKPA shall, each month, perform reconciliation with KPPN
6. UAKPA shall submit the Report on Budget Realization and Balance Sheet including the ADK each month to AUPPA-W/UAPPA-E1.
7. UAKPA shall submit six-monthly and annual reports in the form of the Report on Budget Realization, Balance Sheet and Note on the Financial Statement.

Article 10

1. UAPPA-W shall process a joint financial statement of the UAKPA in his working area including the Report of Budget Realization of the Financing and Calculation Budget used by the State Ministries/Institutions.
2. UAPPA-W shall compile the financial statement for UAPPA-VV level based on the joint financial statement as meant in paragraph (1).
3. UAPPA-W shall be obliged to submit the Report on Budget Realization and the Balance Sheet for UAPPA-W and its ADK to the Regional Office of the Directorate General of Treasury in their respective region on a monthly basis.

4. UAPPA-W shall perform reconciliation of the financial statements as meant in paragraph (2) with the Regional Office of the Directorate General of Treasury on a quarterly (three-monthly) basis.
5. UAPPA-W shall be obliged to submit the Report on Budget Realization and Balance Sheet at UAPPA level; including ADK to UAPPA-E1 on a monthly basis.
6. UAPPA-W shall submit a six-monthly and annual financial statement in the form of the Report on Budget Realization and Balance Sheet and Notes to the Financial Statement.

Article 11

1. UAPPA-E1 shall process a joint financial statement of the UAPPA-W in his working area including the Financial Statement of UAPPA-W of the De-concentration and Assisting Task, Financial Statement of the UAKPA existing directly below him.
2. UAPPA-E1 shall compile the financial statement for the Echelon-I level based on the joint financial statement as meant in paragraph (1).
3. UAPPA-E1 may perform reconciliation on the financial statement as meant in paragraph (20) with the Directorate General of Treasury in this case the Directorate General for Information and Accounting on six-monthly basis.
4. Results of the reconciliation as meant in paragraph (3) shall be contained into the Minute of Reconciliation, its form and content as set forth at the Attachment VII of this Regulation of the Minister of Finance.
5. UAPPA-E1 shall be obliged to submit the Report on Budget Realization and Balance Sheet of the Echelon-I level; including ADK to UAPA on a monthly basis.
6. UAPPA-W shall submit a six-monthly and annual financial statement in the form of the Report on Budget Realization and Balance Sheet and Notes to the Financial Report.

Article 12

1. UAPA shall process a financial joint statement of the UAPPA-E1 including the Financial Statement of UAPPA-E1's Fund from De-concentration and Assisting Task.
2. Beside preparing the joint financial as meant in paragraph (1), UAPA shall also manage the Financing and Calculating Budget and to process a joint financial statement of the financing and calculating budget
3. UAPA shall prepare the financial report of State Ministries/Institution level based on the results of the joint financial statement as meant in paragraph (1) and paragraph (2).
4. UAPA shall submit the Report on Budget Realization at the UAPA level including the ADK to the Directorate General of Treasury on a quarterly basis.
5. UAPA shall submit a six-monthly and annual financial statement in the form of the Report on Budget Realization and Balance Sheet and Notes to the Financial Statement.
6. UAPA shall make a reconciliation to the financial statement as meant in paragraph (2) with the Directorate General of Treasury in this case the Directorate General for Information and Accounting.

7. Procedure of the reconciliation shall be further stipulated by the Regulation of the Directorate General of Treasury.
8. Results of the reconciliation as meant in paragraph (6) shall be contained into a Minute of Reconciliation its form and content as set forth at the Attachment VII of this Regulation of the Minister of Finance.

Article 12

1. In order to safeguard the sustainability of the compilation and reliability of the financial statement, each Institutional Accounting Unit in hierarchy shall be authorized to perform fostering and monitoring measures to the compilation of the financial statement in his working area.
2. The implementation of this fostering and monitoring activities as meant in paragraph (1), each Institutional Accounting Unit shall cooperate with the Directorate General of Treasury.

Article 14

The implementation of SAI as meant in Article 8 through Article 13 shall be conducted in accordance with the provisions as set forth in the Attachment III of this Regulation of the Minister of Finance.

CHAPTER V STATE PROPERTY'S ACCOUNTING SYSTEM

Article 15

1. SABMN shall represent SAI sub-system.
2. The implementation of SABMN as meant in paragraph (1), the State Ministries /Institutions shall establish the Assets Accounting Units as follows
 - a. UAPB;
 - b. UAPPB-E1;
 - c. UAPPB-W; and
 - d. UAKPN.

Article 16

1. Each UAKP3 shall make an accounting process on the source document in order to result in the BMN's transactional data and report and other managerial reports including those with the fund originating from the financing and calculation budget.
2. BMN's transactional data as meant in paragraph (1) shall be submitted to the UAKPA's accounting officer on a monthly basis in the form of ADK for making the balance sheet.
3. The BMN report as meant in paragraph (1) with the ADK of BMN's transactional data shall be submitted to UAPPB-W/UAPPB-E-1 on a six-monthly basis.

Article 17

1. UAPPB-W shall compile the Report on BMN of the local level based on the result of BMN's joint report from all UAKPB in his working area.
2. This local level of the report on BMN as meant in paragraph (1) with the ADK and BMN's transactional data shall be submitted to UAPF-13-E1 and

the Regional Office of the Directorate General of Treasury in his respective area on six-monthly basis.

3. Beside to meet the managerial needs, the report on BMN as meant in paragraph (1) shall represent the material for making the Notes to the Financial Statement at the UAPPA level and its attachments.

Article 18

1. UAPPB-E1 shall prepare the Level I Report on BMN based on the results of joint report on BMN and all UAPBB-W in his working area, including the Level I report of the UUPPB of De-concentration and Assisting Task and the UAKPB existing directly under him.
2. Report on BMN as meant in paragraph (1) with the ADK of its BMN.s transactional data shall be submitted to UAPB in six-monthly basis.
3. Beside to meet the managerial needs, the report on BMN as meant in paragraph (1) shall represent the material for making the Notes to the Financial Statement at the Echelon I Level and its attachments.

Article 19

1. UAPB shall prepare the Report on BMN at the level of the State Ministries/Institutional based on the result of joint report on BMN from all UAPPB-E1 in his working area.
2. The report on BMN as meant in paragraph (1) shall be submitted to the Minister of Finance, c q. The Director General of Treasury in six-monthly basis.
3. UAPB shall make data updating to ten report on BMN as meant in paragraph (1) with the Directorate General of Treasury in this case the Directorate of the Management of State's Property on an annual basis.
4. Beside to meet the managerial needs, the report on BMN as meant in paragraph (1) shall represent the material for making the Notes to the Financial Statement at the State Ministries/Institution level and its attachments.

Article 20

1. In order to safeguard the sustainability of the compilation and reliability of the financial statement, each SABMN organization, in hierarchy shall be authorized to perform a fostering and monitoring measure for the execution of SABMN existing in his working area.
2. The implementation of this fostering and monitoring activities as meant in paragraph (1), each SABMN organization Unit shall cooperate with the Directorate General of Treasury.

Article 21

1. The implementation of SABMN as meant in Article 15 through Article 20 shall be conducted in observance of the provisions as set forth in Attachment IV of this regulation of the Minister of Finance.
2. The report on BMN shall be made in the form and format as set forth at Attachment VIII of this Regulation of the Minister of Finance.

CHAPTER VI
FINANCIAL STATEMENT OF THE DE-CONCENTRATION'S FUND

Article 22

1. SKPD obtaining the allocation of the De-concentration's Fund shall represent the De-concentration's UAKPA/LIAKPB.
2. Person in charge to this De-concentration's UAKPA/UAKPB shall be the Head of SKPD.
3. The Provincial Government obtaining de-concentration authority delegation shall represent the de-concentration's UAPPA-W/UAPPB-W.
4. Person in charge to this de-concentration's UAPPA-W/UAPPB-W is the Governor.

Article 23

1. The de-concentration's UAKPA shall be obliged to process the source document to produce a financial statement in the form of the Report on Budget Realization, Balance Sheet and Notes to the Financial Statement.
2. The De-concentration's UAKPA shall be obliged to submit this Report on Budget Realization and Balance Sheet with its DAK each month to the KPPN.
3. Each month, De-concentration UAKPA shall perform reconciliation with KPPN.
4. The de-concentration's UAKPA shall be obliged to submit the Report on Budget Realization with its ADK each month to the de-concentration's UAPPA-W and UAPPA-E1 allocating this De-concentration Fund.
5. The de-concentration's UAKPA shall submit the financial report on six-monthly and annual basis in the form of the Report on Budget Realization, Balance Sheet and Notes to the Financial Statement.

Article 24

1. The de-concentration's UAPPA-W shall process a joint financial report originating from de-concentration UAKPA existing in his working area.
2. The de-concentration's UAPPA-W shall compile the de-concentration financial statement at the regional level based on the result of joint Financial Statement as meant in paragraph (1).
3. The de-concentration's UAPPA-W is obliged to submit a monthly Report on Budget Realization and the Balance Sheet at the De-concentration Regional level with its ADK to the Regional Office of the Directorate General of Treasury in their respective area.
4. The de-concentration's UAPPA-W shall make reconciliation to the Report on Budget Realization and Balance Sheet as meant in paragraph (2) with the Regional Office of the Directorate General of Treasury on three-monthly basis.
5. The de-concentration's UAPPA-W is obliged to submit a monthly Report on Budget Realization and Balance Sheet at the regional de-concentration level to UAPPA-W1.

6. The de-concentration's UAPPA-W shall submit six-monthly and annual financial report in the form of the Report on Budget Realization and Balance Sheet and Notes to the Financial Statement.

Article 25

1. The de-concentration's UAKBA is obliged to perform the accounting process on the source document as to result in a BMN's transactional data, Report on BMN and other managerial reports on the acquisition of the BMN, its fund originating from the de-concentration's Fund.
2. BMN's transactional data as meant in paragraph (1) shall be submitted to the official of the de-concentration's UAKPA each month in the form of ADK for compiling/making the Balance Sheet.
3. Beside to the meet the managerial needs, the Report on BMN as meant in paragraph (1) shall constitute the material for the compilation and attachment of the Notes to the Financial Statement of the de-concentration's UAKPA.
4. The Report on BMN as meant in paragraph (1) with its ADK of BMN's transactional data shall be submitted to de-concentration UAPPB-W.
5. The Report on BMN as meant in paragraph (1) with its ADK of BMN's transactional data shall be submitted also to UAPPB-E1 allocating the de-concentration Fund.
6. The Minister/Management of any Institution may deliver the BMN its fund originating from the De-concentration Fund granted to the de-concentration's SKPD.
7. The implementation of the grant as meant in paragraph (6) shall be carried out in the observance of the prevailing provisions and regulations.
8. Delivery of the granted BMN as meant in paragraph (6) must be verified by the Minute of Delivery of the Granted BMN.
9. Based on this Minute of Delivery of the Granted BMN as meant in paragraph (8), such BMN shall be abolished or crossed-out from the Financial Report and Report on BMN of the State Ministries/ Institutions

Article 26

1. The de-concentration's UAPPB-W shall process the joint Report on BMNs from all de-concentration UAKPB existing in his working area.
2. The de-concentration's UAPPB-W shall compile the Report on BMN at the Regional level based on the result of the joint Report on BMN as meant in paragraph (1).
3. The de-concentration's UAPPB-W shall submit three-monthly Report on BMN at the regional level with its ADK to the Regional Office of the Directorate General of Treasury in their respective area.
4. The de-concentration's UAPPB-W shall submit the Report on BMN at the regional level to the UAPPB-E1.

CHAPTER VII
FINANCIAL REPORTING ON THE ASSISTING TASK'S FUND

Article 27

1. SKPD obtaining the allocation the allocation of the Assisting Task's Fund shall represent the Assisting Task's UAKPA/Assisting Task's UAKPB
2. Person in charge to this Assisting Task's UAKPA/Assisting Task's UAKPU shall be the Head of SKPD.
3. The Provincial Government obtaining the assisting task authority delegation shall represent the Assisting Task's UAPPA-W/UAPPB-W.
4. Person in charge for this Assisting Task's APPA-W/UAPPB-W is the Head of Local Government.

Article 28

1. The Assisting Task's UAKPA shall be obliged to process the source document to produce a Financial Statement on the Assisting Task's Fund
2. The Financial Statement as meant in paragraph (1) with its ADK shall be submitted to KPPN on a monthly basis.
3. Each month, the Assisting Task's UAKPA shall perform reconciliation with KPPN.
4. The Financial Report as meant in paragraph (1) with its ADK shall be submitted to the Assisting Task's UAPPA-W and UAPPA-E1 allocating the Assisting Task's Fund.

Article 29

1. The Assisting Task's UAPPA-W shall process a joint financial report originating from all Assisting Task's UAKPA existing in his working area
2. The Assisting Task's UAPPA-W shall compile the Financial Statement at the Regional Level based on the result of joint Financial Statement as meant in paragraph (1).
3. The Assisting Task's UAPPA-W is obliged to submit a monthly Report on Budget Realization and the Assisting Task's Balance Sheet at the regional level with its ADK to the Regional Office of the Directorate General of Treasury in their respective area.
4. The Assisting Task's UAPPA-W shall make reconciliation to the Report on Budget Realization and Balance Sheet as meant in paragraph (2) with the Regional Office of the Directorate General of Treasury on a three-monthly basis.
5. The Assisting Task's UAPPA-W is obliged to submit a monthly Financial Statement at the regional level to UAPPA-E1.

Article 30

1. The Assisting Task's UAKPB is obliged to perform the accounting process on the source document as to result in a BMN's transactional data, Report on BMN and other managerial report on the acquisition of the BMN its fund originating from the Assisting Task's Fund.
2. BMN's transactional data as meant in paragraph (1) shall be submitted to the official of the Assisting Task's UAKPA each month in the form of ADK for making the Balance Sheet.

3. Beside to the meet the managerial needs, the Report on BMN as meant in paragraph (1) shall constitute the material for the compilation and attachment of the Notes to the Financial Statement of the Assisting Task's UAKPA.
4. The Report on BMN as meant in paragraph (1) with its ADK of BMN's transactional data shall be submitted to the Assisting Task's UAPPB-W.
5. The Report on BMN as meant in paragraph (1) with its ADK of BMN's transactional data shall be submitted also to UAPPB-E1 allocating the Assisting Task's Fund.
6. The Minister/Management of any Institution may deliver the BMN its fund originating from the Assisting Task's Fund granted to the Assisting Task's SKPD.
7. The implementation of the grant as meant in paragraph (6) shall be carried out in observance of the prevailing provisions and regulations.
8. Delivery of the granted BMN as meant in paragraph (6) must be verified by a Minute of the Delivery of Granted BMN.
9. Based on this Minute of Delivery of the Granted BMN as meant in paragraph (8), such BMN shall be abolished or crossed-out from the Financial Report and Report on the BMN of the State Ministries/Institutions.

Article 31

1. The Assisting Task's UAPPB-W shall process the joint Report on BMNs from all Assisting Task's UAKPB existing in his working area.
2. The Assisting Task's UAPPB-W shall compile the Report on BMN at the Regional level based on the result of the joint Report on BMNs as meant in paragraph (1).
3. The Assisting Task's UAPPB-W shall submit the three-monthly Report on BMN at the regional level with its ADK to the Regional Office of the Directorate General of Treasury existing in their respective area.
4. The Assisting Task's UAPPB-W shall submit the Report on BMN at the regional level to the UAPPB-E1.

CHAPTER VIII

FINANCIAL STATEMENT OF THE STATE MINISTRIES/INSTITUTIONS

Article 32

1. As its financial accountability, each State Ministry/Institution as the reporting entities is obliged to provide six-monthly and annual Financial Reports of the State Ministries/Institution in the form of the Report on Budget Realization, Balance Sheet and Notes to the Financial Statement.
2. Financial Statement of the State Ministries/Institutions as meant in paragraph (1) shall be attached by BLU's Financial Statement existing within the circle the State Ministries/Institutions.
3. The BLU's financial statement as meant in paragraph (2) shall be compiled based on the prevailing law and regulation.
4. The official of internal monitoring of the State Ministries/ Institution shall perform a review to the financial statement as meant in paragraph (1).
5. If the State Ministries/Institution have not yet any internal monitoring officials, the Secretary General/Official of the same level of this State

Ministries/Institution shall appoint some officials outside the financial bureau/sector to perform a review to this financial statement as meant in paragraph (1).

6. The internal monitoring officials of the State Ministries/Institution or those appointed as meant in paragraph (5) shall draw up and sign the Statement as Having been Reviewed.
7. The reviewed Financial Statement as meant in paragraph (1) shall be submitted to the Minister of Finance in this case the Directorate General of Treasury no longer than 2 (two) months after the fiscal year ended accompanied by the Statement of Responsibility signed by the Minister/Management of any Institution and Statement as having been reviewed.
8. The Report on already reviewed Budget Realization and Annual Calculation used by the State Ministries /Local Governments shall be submitted separately accompanied by the Statement of Responsibility signed by the Minister/Head of the Local Government using the calculation and financing budget and the Statement a having been reviewed.
9. The Financial Report of the State Ministries/Institution shall be made in accordance with the shape and format as set forth in the Attachment of this Regulation of the Minister of Finance.

Article 33

1. The Statement of Responsibility as meant in Article 30 paragraph (7) and (8) shall contain the statement that the management of the State Budget has been conducted based on a appropriate and sufficient internal controlling system and the financial accounting has been performed in conform with the Government's Accounting System.
2. The shape and format of the Statement of Responsibility as meant in paragraph (1) shall be made in accordance with the provisions as set forth in Attachment VI of this Regulation of the Minister of Finance.

CHAPTER IX FINANCIAL STATEMENT OF THE CENTRAL GOVERNMENT

Article 34

1. The Minister of Finance, in this case the Director General of Treasury as the General State Treasurer shall compile and make a six-monthly and annual financial statement of the Central Government.
2. This six-monthly and annual Financial Statement of the Central Government shall be in the form of the Report on Budget Realization, Balance Sheet, Cash Flow Report and Notes to the Financial Statement.
3. Six-monthly Financial Statement of the Central Government shall be in the form of Budget Realization;
4. This Report of Budget Realization and Balance Sheet shall represent a Consolidated financial statement of all reporting entities.
5. The Central Government's Cash Flow Report shall represent a Consolidated Cash Flow Report of all Regional Offices and Central Offices of the Directorate General of Treasury.

6. The Financial Report of the Central Government shall be made in the shape and format as set forth in the Attachment V of this Regulation of the Minister of Finance.

CHAPTER X REPORT ON CENTRAL GOVERNMENT'S STATE PROPERTY

Article 35

1. The Minister of Finance in this case the Director General of Treasury shall compile and provide the Report on Central Government' s BMN representing a Consolidated Report on BMN from all Reporting Entities.
2. Beside to meet the managerial needs, this Report of BMN as meant in paragraph (1) shall represent the material for the compilation and making the Notes to the Central Government's Financial Report and its Attachment.

CHAPTER XI SANCTION

Article 36

1. In the case that the Authorized User of the Budget has not submitted yet the Financial Report as meant in this Regulation of the Minister of Finance, KPPN may suspend the issuance of the Order for Disbursement (SP2D) upon a proposed Order for Payment (SPM).
2. Imposing such sanction as meant in paragraph (1) is with the exception to the Order for Payment for Personnel Expenditure, SPM-1 and SPM of Returning.
3. The execution of sanction as meant in paragraph (1) shall not release or exempt the obligation of the Authorized User of the Budget to submit the financial statement as meant in the provision of this Regulation of the Minister of Finance.
4. The procedure for inflicting a sanction as meant in paragraph (1) shall not release the Authorized User of the Budget from his obligation to submit the financial statement as meant in this Regulation of the Minister of Finance.

CHAPTER XII OTHER PROVISIONS

Article 37

1. The procedure of providing the Financial Statement for the reporting entities requiring a special treatment and further provisions for the execution of this Regulation of the Minister of Finance shall be further regulated by the Regulation of the Director General of Treasury.
2. The procedure of providing the Financial Statement as specified in this regulation shall commence to take effect on the responsibility of the implementation of the State Budget of 2005.

**CHAPTER XIII
CONCLUDING PROVISION**

Article 38

By the promulgation of this Regulation of the Minister of Finance, then the Decision of the Minister of Finance Number 337/KMK.012/2003 on Central Government's Accounting System and Financial Statement and the Decision of the Minister of Finance of the Republic of Indonesia on Guidance to the Implementation of State Property/Assets Inventorying is then declared as null and void.

Article 39

This Regulation of the Minister of Finance shall commence to take effect as of the date of its promulgation. In order that any person can take notice hereof, to order this Regulation of the Minister of Finance to be inserted in the State Gazette of the Republic of Indonesia

Enacted in Jakarta

On 20 July 2005

THE MINISTER OF FINANCE

OF THE REPUBLIC OF INDONESIA

Signed

JUSUF ANWAR

Note : the Attachment is not included

ACCOUNTING SYSTEM FOR THE STATE'S PROPERTY

1. GENERAL ILLUSTRATION

The State's property (BMN) covers all assets purchased or acquiesced by burdening them into the State Budget or originating from other legal acquisition among others in the form of incoming transfer, grant, cancellation of abolishment and confiscation. Not including in this definition of BMN are the assets controlled and owned by:

- a. Local Government;
- b. State/Local government owned Companies consisting of :
 - 1) Joint/partnership companies, and
 - 2) Public companies
- c. Government's Bank and other State owned Financial Institutions

Assets is an economical resources conquered and owned by the government as the consequence of any event occurring in the past and from which the economic and/or social benefits in the future may be expected to be gained, both the government and community and which can be measured by the unit of currency including non-financial resources required to provide public services and other conservable resources for cultural and historical needs. The BMN constitutes a part of the central government's assets.

The BMN has a fixed asset and stocks elements. Fixed asset is any assets has the beneficial life time more than 12 (twelve) months usable in the governmental activities or used by the people. While the stock is any current asset in the form of assets or equipment purposed to support the government operational activities and the assets which are saleable and/or deliverable for public service.

State Property's Accounting System (SABMN) represents a sub-system of Institutional Accounting System (SAI). SABMN is conducted with the goal to obtain information required for responsibility mean upon the implementation of the State Budget and the BMN management/controlling conquered by any unit of assets accounting. Not only producing information as the basis for making the Balance Sheet of the State Ministries/SABMN's Institutions, but also to produce information to fulfill

the responsibility's needs in BMN management and other managerial needs of the State Ministries/Institutions.

SABMN is managed by the unit of BMN's accounting organization by holding the following principles:

- 1) **Observance/obedience** namely that the BMN's accounting is conducted in conformity with the law and regulation and generally prevailing accounting principles. Should this accounting principle is contradictory to the prevailing law and regulation, then the applicable law and regulation shall prevail.
- 2) **Consistency**, namely that the BMN's shall be conducted in a sustainable way in accordance with prevailing law and regulation.
- 3) **Comparability**, namely that the BMN's accounting uses a standard classification to provide the report which is comparable among the accounting periods.
- 4) **Materiality**, namely that the BMN's accounting is performed orderly and that all information possibly affecting the decision may be disclosed.
- 5) **Objective**, namely that BMN's accounting is conducted truthfully and in accordance with the real existing facts.
- 6) **Completeness**. Namely that BMN's accounting will cover all BMN's occurring transactions.

II. ORGANIZATIONAL STRUCTURE AND CHART OF BMN'S ACCOUNTING

2.1. ORGANIZATIONAL STRUCTURE

In general, the organizational structure of the BMN's accounting is specified as follows:

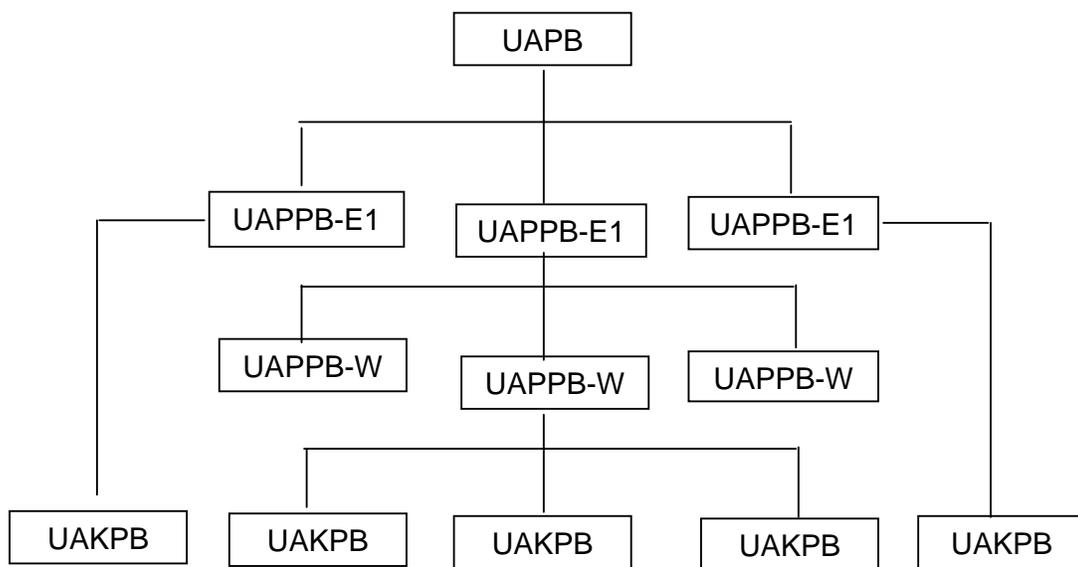
- a. **Asset User Accounting Unit (UAPB)**
UAPB represents a BMN's accounting unit at the level of the State Ministries/Instituting (user of goods); the official in charge is the Minister/Management of the Institution. The UAPB shall subordinates UAPPB-E1.
- b. **Assistant of Asset Owner Accounting Unit (UAPPB-E1)**
UAPPB-E1 represents a BMN's accounting unit at the Regional Office level, the official in charge is an Echelon I Official. UAPPB E1 shall subordinates the UAPPB-W or UAKPB.
- c. **Assistant of Regional Asset Owner Accounting Unit (UAPPB-W)**
UAPPB-W represents a BMN's accounting Unit at the Regional Office level or other working units in any region determined as UAPPN-W, the official in charge here is the Head of Regional Office of head of working unit determined as UAPPB-W. This UAPPN-W shall subordinates UAKPB. For the de-concentration's UAPPB, the Official in charge is the Governor, while for the Assisting Task's APPB-W the official in charge is the Governor, Regent or Mayor of the City in

accordance with the assignment from the government by means of the State Ministries/Institutions.

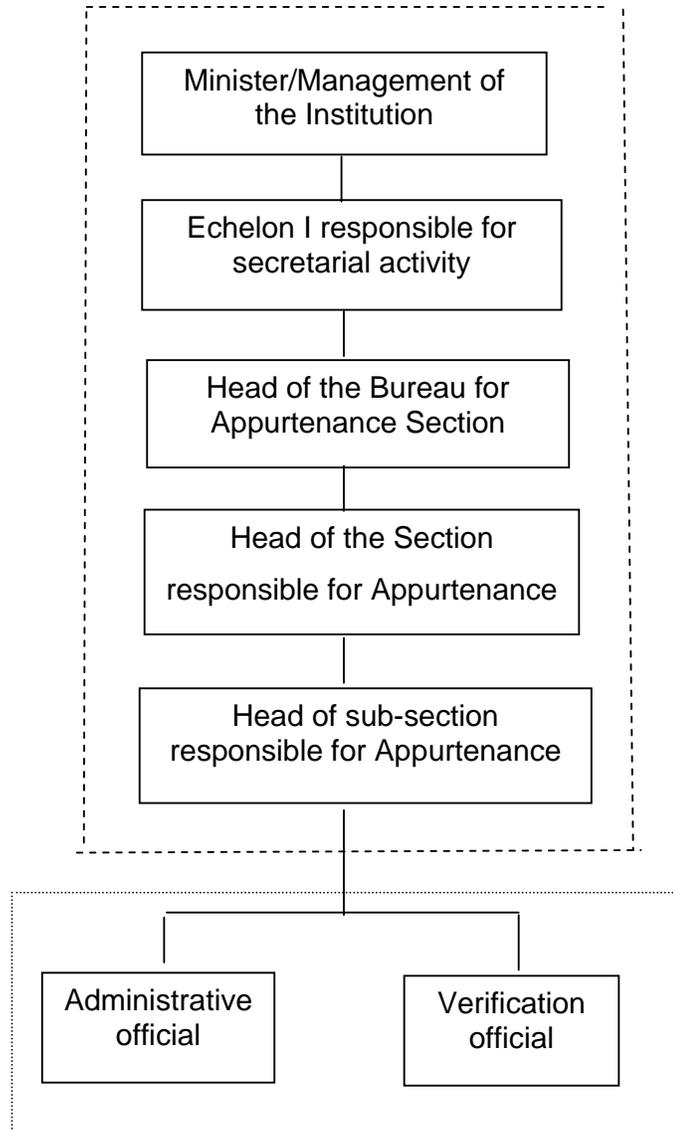
d. Authorized Asset User Accounting Unit.

UAKPN represents a BMN's accounting unit at the level of working units (authorized asset user possessing an authority to control/manage and use the BMN and to control the budget in accordance with the prevailing provisions. The Official in charge is Head of the Office/Working Unit. For the assisting task/de-concentration's UAKPB, the official in charge is Head of the Working Unit of Local Apparatus (SKPD).

2.2 Chart of the Organization



2.2.1 Organization of the BMN's Accounting/UAPB

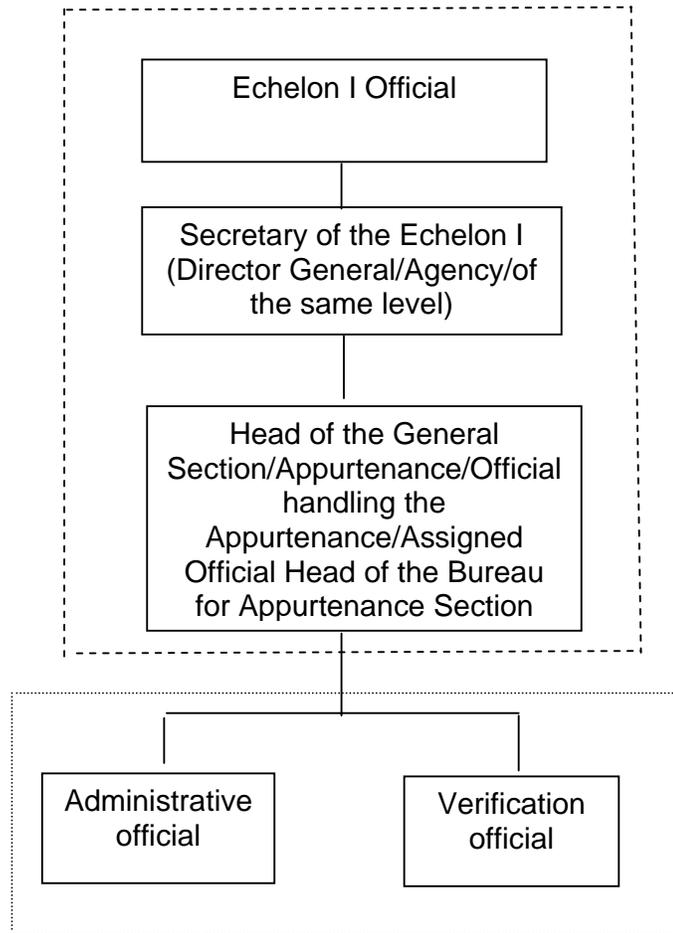


Note:

 Official in charge

 BMN.s accounting official

2.2.2 BMN's Accounting Organization (UAPPB-E1)

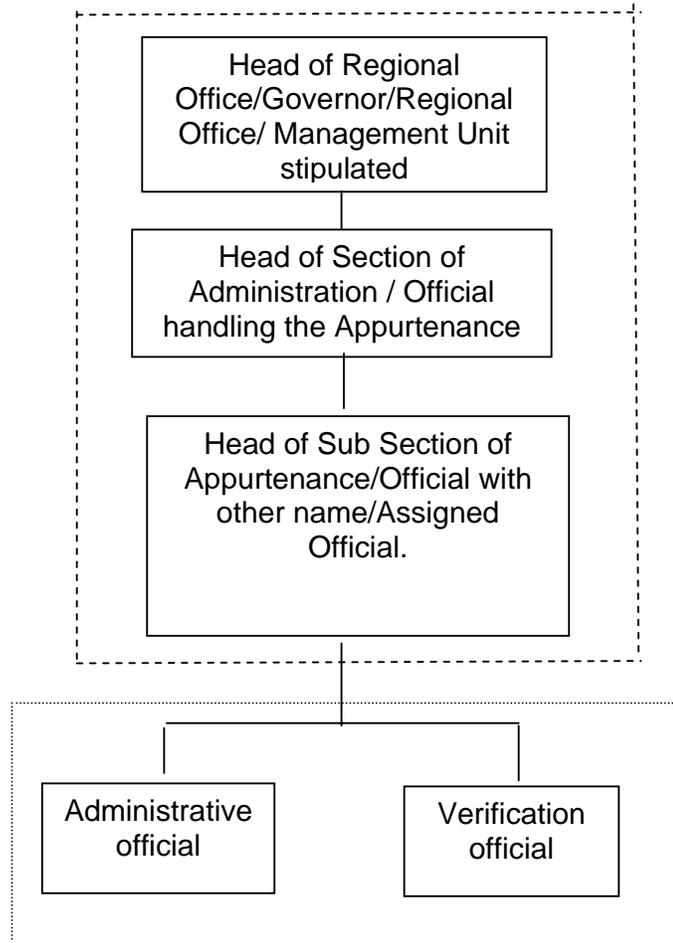


Note:

 Official in charge

 BMN.s accounting official

2.2.3 BMN's Accounting Organization UAPPB-W

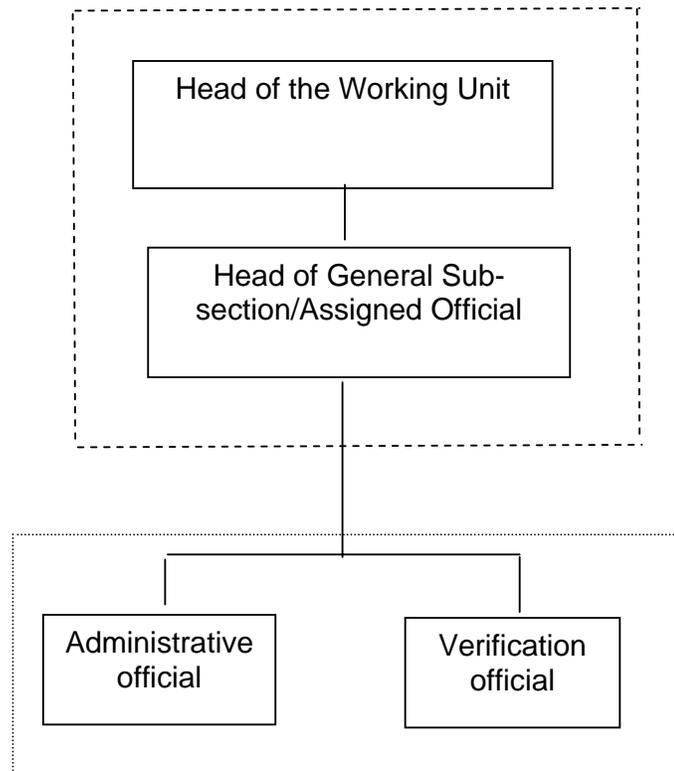


Note:

 Official in charge

 BMN.s accounting official

2.2.4 BMN's Accounting Organization UAKPB



Note:

-  Official in charge
-  BMN.s accounting official

III. TASK AND FUNCTION OF BMN'S ACCOUNTING UNIT

3.1 UAKPB LEVEL

The primary task of the UAKPB's official in charge is to organize/manage the BMN's accountings within the circle of the working unit with the following functions:

- a. to organize/manage the BMN's accountings
- b. to compile and submit the BMN's periodic report.

To execute this task and function, UAKPB shall perform the following activities:

3.1.1 UAKPB's official in charge

An UAKPB's Official in Charge shall perform the following activities :

- a. To appoint and assign the BMN's Accounting Official,
- b. To prepare the implementation plan of the BMN's accounting system
- c. To coordinate the implementation of BMN's accounting system;
- d. To sign the report on activities and letters for outside parties with respect to the system implementation.
- e. To evaluate working performance of the operators.
- f. To study the inventory book; book of the historic goods, stock book and to sign the Report on Assets Condition (LKB), Assets Inventory Card (KIB), List of Room Inventory (DIR), List of Other Inventory (DIL) and the Report on BMN.
- g. To submit BMN's transactional data to the accounting unit at each end of the month for the making of balance sheet of the UAKPA level.
- h. To coordinate internal reconciliation process between the Report on BMN and Financial Statement.
- i. To submit the Report on BMN each semester and at the ending of the fiscal year to UAPPB-W or UAPPB-E1 for the Central UAKPB. The submission of the Report on BMN at each end of the year shall be supplemented by LKB. The de-concentration/Assisting task not only to submit the Report on BMN to the De-concentration/Assisting Task's UAPPB-W, but also to submit the Report on BMN and LKB to UAPPB-E1 and to the State Ministries/Institution allocating such de-concentration/assisting task's funds.
- j. To accept the BMN from the procurement process with a Minute of Delivery.

3.1.2 BMN's Accounting Official

The BMN's accounting officials at the UAKPB level consisting of Administrative and Verification Officials shall perform the following activities:

- a. To keep and maintain the source document and other BMN's Accounting documents.
- b. To register the BMN into the B1, book of historic goods, book of stock, based on the source document.
- c. To give a registration mark at the BMN.
- d. To make DIR, KIB and DIL.
- e. To compile BMN's transactional data at the ending of each month.
- f. To conduct data matching between the Report on BMN and Financial Statement compiled by financial accounting official and to make correction should any mistake is found. .
- g. To prepare the Report on BMN on six-monthly basis and the Report on BMN with LKB at each end of the fiscal year.
- h. To keep and maintain the archive of BMN's data and to balance the book at each end of the fiscal year.

3.2 UAKPB-W LEVEL

The primary task of the UAKPB-W's official in charge is to organize/manage the BMN's accountings at the level of Regional Office or other working Units stipulated as UAPPB-W with the following functions:

- a. to organize/manage the BMN's accountings
- b. to compile and submit the BMN's periodic report.

To execute this task and function, UAKPB-W shall perform the following activities:

3.2.1 UAKPB-W's official in charge

An UAKPB-W's Official in Charge shall perform the following activities:

- a. To appoint and assign the BMN's Accounting Official,
- b. To prepare the implementation plan of the BMN's accounting system
- c. To coordinate the implementation of BMN's accounting system;
- d. To perform fostering and monitoring of the implementation of SABMN in his working area.
- e. To sign the report on activities and letters for outside parties with respect to the system implementation.
- f. To evaluate working performance of the operators.
- g. To study the inventory book; book of the historic goods, stock book and to sign the Report on Assets Condition LKB), Assets Inventory Card (KIB), List of Room Inventory (DIR), List of Other Inventory (DIL) and the Report on BMN.
- h. To coordinate internal reconciliation process between the Report on BMN and Financial Statement.
- i. To submit the Report on BMN each semester and at each end of the fiscal year to UAPPB-E1 and to Regional Office of the Directorate General of General State Treasury (PBN) existing in their respective region.

3.2.2 BMN's Accounting Official

The BMN's accounting officials at the UAKPB-W level consisting of Administrative and Verification Officials shall perform the following activities:

- a. To keep and maintain the Report on BMN and LKB from UAKPB.
- b. To compile the inventory book and heritage assets based on the joint report on BMN of UAKPB.
- c. To prepare the Report on BMN of the UAPPB-W level each semester and at each end of the fiscal year.
- d. To conduct data matching between the Report on BMN and Financial Statement compiled by financial accounting official and to make correction should any mistake is found
- e. To compile the LKB at each end of the Fiscal Year.
- f. To keep and maintain the archive of BMN's data and to balance the book at each end of the fiscal year.

3.3 UAPPB-E1 LEVEL

The primary task of the UAPPB-E1's official in charge is to organize/manage the BMN's accountings at the Echelon I level with the following functions:

- a. to organize/manage the BMN's accountings
 - b. to compile and submit the BMN's periodic report.
- To execute this task and function, UAKPB shall perform the following activities.

3.3.1 UAPPB-E1's official in charge

An UAPPB-E1's Official in Charge shall perform the following activities :

- a. To appoint and assign the BMN's Accounting Official,
- b. To prepare the implementation plan of the BMN's accounting system
- c. To coordinate the implementation of BMN's accounting system;
- d. To perform fostering and monitoring to the implementation of BMN's accounting system
- e. To sign the report on activities and letters for outside parties with respect to the system implementation.
- f. To evaluate working performance of the operators.
- g. To study the inventory book; book of the historic goods, stock book and to sign the Report on Assets Condition LKB), Assets Inventory Card (KIB), List of Room Inventory (DIR), List of Other Inventory (DIL) and the Report on BMN.
- h. To coordinate internal reconciliation process between the Report on BMN and Financial Statement.
- i. To submit the Report on BMN each semester and at each end of the fiscal year to UAPB.

3.3.2 BMN's Accounting Official

The BMN's accounting officials at the UAKPB-W level consisting of Administrative and Verification Officials shall perform the following activities:

- a. To keep and maintain the Report on BMN and LKB from UAKPB.
- b. To compile the inventory book and heritage assets based on the joint report on BMN of UAKPB.
- c. To prepare the Report on BMN at the level of UAPPB-E1 at each semester and at each end of the fiscal year.
- d. To compile based on the joint between LKB UAPPB-W and/or Central UAKPB at each end of the fiscal year.
- e. To conduct data matching between the Report on BMN and Financial Statement compiled by financial accounting official and to make correction should any mistake is found
- f. To keep and maintain the archive of BMN's data and to balance the book at each end of the fiscal year.

3.4 UAPB LEVEL

The primary task of the UAPPB-E1's official in charge is to organize/manage the BMN's accountings at the Echelon I level with the following functions:

- a. to organize/manage the BMN's accountings
- b. to compile and submit the BMN's periodic report.

To execute this task and function, UAKPB shall perform the following activities :

3.4.1 UAPB's official in charge

An UAPB's Official in Charge shall perform the following activities :

- a. To appoint and assign the BMN's Accounting Official,
- b. To prepare the implementation plan of the BMN's accounting system
- c. To coordinate the implementation of BMN's accounting system;
- d. To assign the official in charge for BMN's Accounting Organization at each unit level of BMN's accounting organization.
- e. To evaluate working performance of the operators.
- f. To study the inventory book; book of the historic goods, stock book and to sign the Report on Assets Condition LKB), Assets Inventory Card (KIB), List of Room Inventory (DIR), List of Other Inventory (DIL) and the Report on BMN.
- g. To coordinate internal reconciliation process between the Report on BMN and Financial Statement.
- h. To establish the team to update the data of the Report on BMN
- i. To submit the Report on BMN to the Minister of Finance, in this case, the Director of the State Property/Asset Management at each semester
The report of the end of the fiscal year shall be equipped with LKB.

3.4.2 BMN's Accounting Official

The BMN's accounting officials at the UAPB level consisting of Administrative Official and Verification Official shall perform the following activities:

- a. To keep and maintain the Report on BMN and LKB from UAKPB.
- b. To compile the inventory book based on the joined data of BMN's UAPPB-E1.
- c. To prepare the Report on BMN at the level of UAPB at each semester and at each end of the fiscal year.
- d. To compile LKB based on the joint between LKB UAPPB-W and/or Central UAKPB at each end of the fiscal year.
- e. To conduct data matching between the Report on BMN and Financial Statement compiled by financial accounting official and to make correction should any mistake is found
- f. To perform the updating of BMN's data with the Directorate General of General State Treasury in this case, the Directorate General of the management of the BMN/State's Assets
- g. To keep and maintain the archive of BMN's data and to balance the book at each end of the fiscal year.

III. BMN'S ACCOUNTING PROCEDURE

4.1. ACCOUNTING PROCEDURE AT UAKPB LEVEL

4.1.1. Source Document

The UAKPB consisting of the De-concentration/Assisting Task's UAKPB shall perform the recording process on the source document, verification and BMN reporting. The source document in SABMN shall include those originating from BMN's transaction paid from the Financing and Calculation Budget. The Source Document used in this accounting process at the level of UAKPB is as follows :

- a. Initial Balance

Using the recordings and or BMN's report from the previous period and if it is required, an inventorying process may be conducted.

- b. Acquisition/Development/Abolishment
 - Minute of Delivery of BMN
 - BMN's Ownership evidences
 - SPM/SP@D;
 - Purchasing Invoice
 - Receipt
 - Abolishment Letter
 - Other legal document

4.1.2. Types of BMN's Accounting Transactions

The transactions recorded in the BMN's Accountings cover three types of BMN's transactions namely the acquisition, changes and abolishment.

4.1.2.1. Initial Balance

- The initial balance shall represent the BMN's balance at the beginning of the current fiscal year or the beginning of the year of SABMN implementation representing the accumulation of all BMN's transactions occurring in the previous year.

4.1.2.2 BMN Acquisition

- Purchasing, constitutes the transaction of BMN acquisition from the result of the purchasing process.
- Entry Transfer, represents the transaction of BMN acquisition from the Entry transfer from the other UAKPN within one UAPB.
- Grant, represents the transaction of BMN acquisition from the receipt of BMN from the third parties outside the concerned State Ministries/ Institutions.
- Confiscation, represents the transaction of BMN acquisition by virtue of the court decision.
- Completion of the development, represents the transaction of BMN acquisition from the completion of any development such as the building construction and other BMN having been delivered under a Minute of Delivery.
- Cancellation of the abolishment represents the BMN recordings from the result of the cancellation of abolishment of any BMN previously having been abolished/expelled from the inventory book.
- Entry Reclassification, represents the transaction of BMN acquisition previously has been recorded under another classification

4.1.2.3. Change of BMN

- Subtraction, represents the transaction of the reducing value of BMN using the area unit or other units, the subtraction of which not causing the loss of all BMN.
- Development, represents the transaction of the development of BMN capitalized resulting in the transfer of book from B1 extra-compatible to B1 Intra-compatible or the change of value/unit of BMN in B1 Intra-compatible.
- Change of condition represents the recording of the change in BMN condition.
- Correction on the change of value/quantity represents the corrected recording on the value/quantity of BMN having been previously recorded and reported.

4.1.2.4. Abolishment of BMN

- Abolishment, represents the transaction to abolish any BMN from the inventory book based on the decision of abolishment made by the competent authority;
- Exit Transfer represents the transaction of the delivery of BMN to other UAKPB within one UAPB.
- Grant, represents the transaction of the delivery of BMN to any third party;
- Exit Reclassification, represents the transaction of BMN into other B<N classification. This transaction is related to the transaction of Entry Reclassification;
- Recording correction represents the transaction to change the recording of BMN which has been previously reported.

4.1.3. BMN's Classification and Codification

The BMN's classification and codification shall be based on the provision of the prevailing BMN's classification and codification. At the SABMN, any assets may be classified into: category, field, group and sub-groups. If there is any assets still unregistered yet by those classification, then it may be classified into the nearest type and or its function.

4.1.4. BMN's Registration Number

BMN's Registration Number indicated the registration number of BMN at the Inventory Book and Book of Heritage assets per BMN's sub-group and sub-sub group. Compiled on the basis of acquisition consecutive number.

4.1.5. Unit of Assets

The unit of assets in BMN's accounting uses the standard and measurable unit.

4.1.6. BMN's capitalization

Determination of capitalization value in BMN's accounting shall refer to the Decision of the Minister of Finance of the Republic of Indonesia Number 01/KM.12/2001 dated 18 may 2001 on Guidance of BMN/Asset Capitalization. The capitalization applied in the BMN's

Accountings has caused the Inventory Book is divided into two kinds, namely of:

- 1) B1 Intra-compatible covers the BMN in the form of fixed assets satisfying the capitalization criteria and all BMN obtained prior to coming into effect the capitalization policy, and BMN obtained through the transaction of entry transfer/Revenues, from the exchange/entry transfer and the from BMN transferred from B1 extra-compatible at the time the accumulation value of the acquisition cost and the value of its development has reached the capitalization minimum value.
- 2) B1 extra-compatible covers the BMN in the form of fixed assets unfulfilling the criteria for capitalization.

The heritage assets shall be booked and reported in its quantity and without any financial value due to its cultural, environmental, educational and historic values that it is not possible to be represented by any financial value based on the market value as well as its acquisition price.

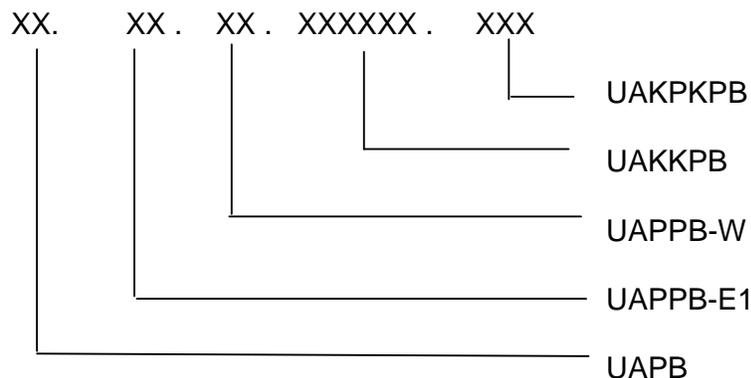
Costs for the acquisition, construction, enhancement, reconstruction, must be regarded as the expenditures occurring in that year, not capitalized by any asset value or to add the asset value. Such cost shall include all cost disbursed so as that make this heritage asset keeps existing in the condition and at location of the current period.

4.1.7. Determination of BMN condition

The determination of BMN condition shall refer to the Attachment II of the Regulation of the Minister of Finance of the Republic of Indonesia Number 01/KM.12/2001 dated 18 may 2001 on Guidance to the State Property/Asset Capitalization in the Government's Accounting System. Then criteria of the BMN condition are Excellent/Good (B), slightly damaged (RR) and heavily damaged (RB).

4.1.8. Location Code

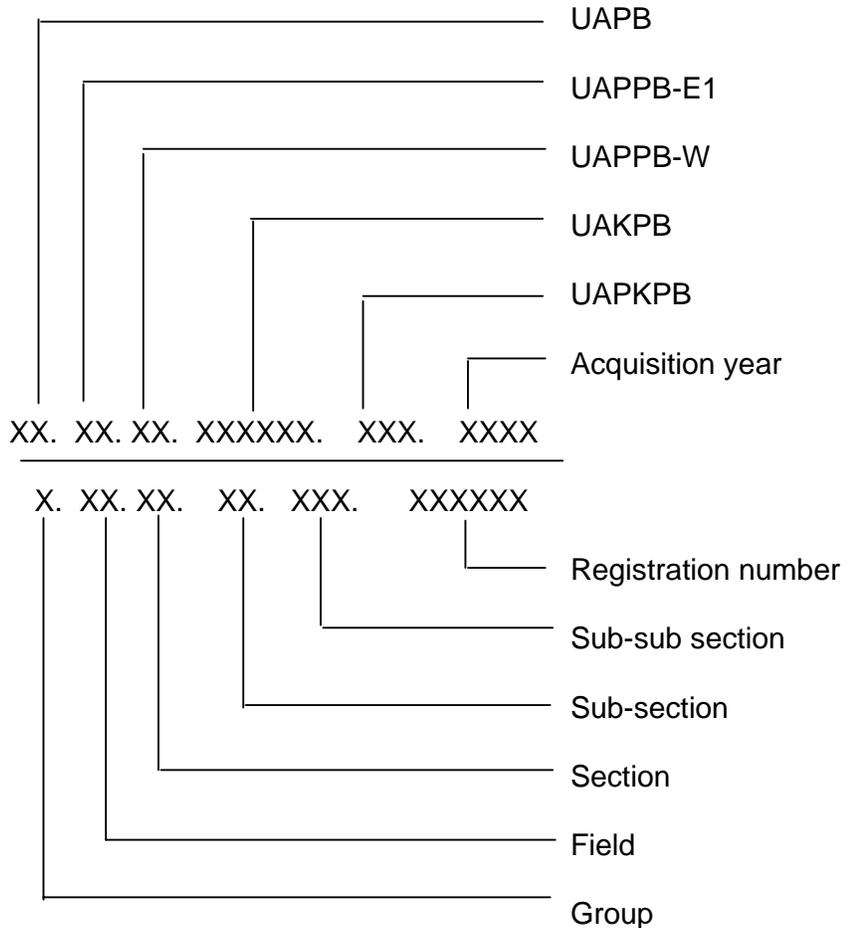
Code Location is any code used for identifying the responsible BMN's accounting unit This Code consists of 15 (fifteen) figures containing the codes for UAPB, UAPPB-E1, UAPPB-W, UAKPB and UAKPKPB by the following composition:



W levels shall be classified into sub-section, while at the level of UAPPB-E1 and UAPB is classified into section.

4.1.10. Registration Code

The Registration Code consists of the Location Code added by the code of acquisition year and asset code added by its consecutive number. The registration code represent BMN's identification code with the following arrangement :



Example :

In the accounting period of 2003, the Bureau of Secretariat General of the Department of Finance (office code 231421.000) processed the purchasing of the Note-Book Computers. At the time its acquisition of such equipment, the number of last registered for the Note Book controlled by the concerned working unit 000037. Based on aforementioned matters, then UAKPB mat give its identification code as follows :

15.01.00.231421.000.2003

2.12.01.02.003.000038

Basically the BMN in the form stock uses no asset registration code

4.1.11. Stock

The stock shall be recorded in the Stock Book for each type of items. Based on the rest of each type of item recorded in the Stock Book, then a Report on Stock shall be made. This report on stock shall be compiled by the item sub-section and reported at each semester. Since this Report on Stock is made on the basis of the rest or balance at the end of the reporting period based on the result of their physical examination, then the Report on Stock at the level of UAPPB-W through UAPB shall be made based on a joint Report on Stock of the BMN's subordinate organizations and presented at the Field of Item. As the substitute of this Book of Stock is the archives of the Report on Stock from all BMN's subordinate organizations.

Presentation of estimated stock in the Balance Sheet shall be based on the result of BMN's classification mapping process pursuant to the Decision of the Minister of Finance Number 18/KMK.018/1999 together with the ledger's balance sheet estimation.

4.1.12. Output from SABMN at UAPPB level

The document/reports resulted in from SABMN at the AUPPB level are:

- a. Intra-compatible Inventory Book (BI)
- b. Extra-compatible Inventory Book (BI)
- c. Book of Heritage Asset;
- d. Book of Stocks
- e. Inventory card for land asset (KIB)
- f. Inventory card for building assets (HIB)
- g. Inventory card for motor/transportation vehicle (KIB)
- h. Inventory card for the weaponry (KIB)
- i. Other Inventory Book (DIL)
- j. Book of Room Inventory (DIR)
- k. Six-monthly/semester Report on BMN
- l. Annual Report on BMN.
- m. Report on Asset Condition

4.1.13. Accounting Procedure

1. Monthly and Six-Monthly (semester) Processes

- Entering the BMN's transactional data into Intra-compatible Inventory Book (BI), extra-Compatible Inventory Book (BI), Book of Heritage Asset and Book of Stocks based on the Document Number.
- Preparing or updating the data of KIR, DIR and DIL.
- Making the Report on BMN at the end of the semester.
- Requesting the approval from the official in charge of UAKPB for the Report on BMN.
- To submit the BMN's transactional data to the Financial Accounting Unit at the latest on the fifth day of the following

month for the making of the balance sheet at the level of UAKPA.

- To submit the Report on BMN with its ADK to UAPPB-W, UAPPB-E1, no longer than 10 (ten) days) after the ending of each semester. For the Assisting Task/De-concentration's UAKPB not only to submit the Report on BMN and its ADK but also to submit the Report on BMN and its ADK to UAPPB-E1 at the State Ministry/Institution allocating such Assisting Task/ De-concentration Funds.
- Archiving the Report on BMN orderly and neatly.

2. Final Process of the Accounting Period

- To instruct to each room's official in charge to recheck the BVMN condition existing in their respective room;
- To record any changes of the BMN condition having been verified by the Room's Official in charge into SABMN.
- Making the LKB.
- Requesting the approval from UAKPB's official in charge for the LKB.
- Making Annual Report on BMN based on the balance at BI Intra-compatible inventory book, extra-compatible inventory book and Book of Heritage Asset.
- Requesting the approval from UAKPB's official in charge for the Report on BMN
- To submit the Annual Report on BMN and LKB with its ADK to UAPPB-W, UAPPB-E1, to Central UAKPB no longer than 15 (fifteen) days after the ending of each fiscal year. For the Assisting Task/De-concentration's UAKPB not only to submit the Report on BMN and its ADK to UAPPB-W but also to submit the Report on BMN and its ADK to UAPPB-E1 at the State Ministry/Institution allocating such Assisting Task/ De-concentration Funds.
- Archiving the BI Intra-compatible inventory book and BI extra-compatible inventory book, book of heritage asset and copy of LPK and Report on BMN neatly and orderly.
- Conducting the process of back-up data and year end balancing of book.

4.2. ACCOUNTING PROCEDURE AT THE LEVEL OF UAPPB-W

Document/Reports resulted in from BMN's Accounting System at the level of UAPPB-W are as follows :

- a. BI Intra-compatible Inventory Book
- b. BI Extra-compatible Inventory Book
- c. Book of Heritage Assets
- d. Semester Report on BMN
- e. Annual Report on BMN
- f. LKB.

Accounting Procedures

1. Semester/six-monthly Process

- Receiving the ADK and Report on BMN from UAKPB
- Joining/combining the ADK and BMN Report received from UAKPB into UAPPB-W's Intra-compatible Inventory Book, BI Extra-compatible Inventory Book and Book of Heritage Assets
- Preparing semester report on BMN;
- Requesting the approval from UAPPB-W's official in charge for the semester report on BMN.
- Conducting internal reconciliation process to the Report on BMN and Financial Statement with UAPPA-W and making correction for any mistake possibly found.
- To submit the Report on BMN with its ADK to UAPPB-W, UAPPB-E1, no longer than 10 (ten) days after the ending of each semester. For the Assisting Task/De-concentration's UAKPB not only to submit the Report on BMN and its ADK but also to submit the Report on BMN and its ADK to UAPPB-E1 at the State Ministry/Institution allocating such Assisting Task/ De-concentration Funds.
- Archiving the Report on BMN orderly and neatly.

2. Final Process of the Accounting Period

- Requesting the approval from UAKPB's official in charge for the LKB.
- Making the Annual Report on BMN
- Conducting internal reconciliation process to the Report on BMN and Financial Statement with UAPPA-W and making correction for any mistake possibly found.
- To submit the Annual Report on BMN and LKB to UAPPB-E1 and to the Regional Office of the Directorate General of Treasury no longer than 25 (twenty five) days after the ending of any Accounting Period.
- For the Assisting Task/De-concentration's UAKPB to submit the Report on BMN without ADK to UAPPB-E1 at the State Ministry/Institution allocating such Assisting Task/ De-concentration Funds .
- Conducting the process of back-up data and year end balancing of book.

4.3. ACCOUNTING PROCEDURE AT THE LEVEL OF UAPPB-E1

Document/Reports resulted in from BMN's Accounting System at the level of UAPPB-E1 are as follows :

- a. BI Intra-compatible Inventory Book
- b. BI Extra-compatible Inventory Book
- c. Book of Heritage Assets
- d. Semester Report on BMN
- e. Annual Report on BMN
- f. LKB.

Accounting Procedures

1. Semester/six-monthly Process

- Receiving the ADK and Report on BMN from UAKPB-W, Central UAKPB within the circle of Assisting Task/De-concentration's UAPPB-E1 and UAKPB.
- Joining/combining the ADK and BMN Report received from UAKPB-W, Central UAKPB within the circle of Assisting Task/De-concentration's UAPPB-E1 and UAKPB into UAPPB-E1's Intra-compatible Inventory Book, BI Extra-compatible Inventory Book and Book of Heritage Assets.
- Preparing the semester report on BMN;
- Requesting the approval from UAPPB-E1's official in charge for the semester report on BMN.
- Conducting internal reconciliation process to the Report on BMN and Financial Statement with UAPPB-E1 and making correction for any mistake possibly found.
- To submit the Report on BMN with its ADK to UAPB no longer than 28 (twenty eight) days after the ending of concerned semester.
- Archiving the Report on BMN orderly and neatly.

2. Final Process of the Accounting Period

- To compile B1 Intra-compatible Inventory Book, BI Extra-compatible Inventory Book and Book of Heritage Assets, Report on BMN and LKB.
- Requesting the approval from UAPPB-E1's official in charge for the Report on BMN and LKB.
- Conducting internal reconciliation process to the Report on BMN and Financial Statement with UAPPB-E1 and making correction for any mistake possibly found.
- To submit the Annual Report on BMN and LKB to UAPB-E1 no longer than 33 (thirty three) days after the ending of any Accounting Period. .
- Archiving B1 Intra-compatible Inventory Book, BI Extra-compatible Inventory Book and Book of Heritage Assets, Report on BMN and LKB orderly and neatly
- Conducting the process of back-up data and year end balancing of book.

4.4. ACCOUNTING PROCEDURE AT THE LEVEL OF UAPB

Document/Reports resulted in from BMN's Accounting System at the level of UAPB are as follows :

- a. BI Intra-compatible Inventory Book
- b. BI Extra-compatible Inventory Book
- c. Book of Heritage Assets
- d. Semester Report on BMN
- e. Annual Report on BMN
- f. LKB.

Accounting Procedures

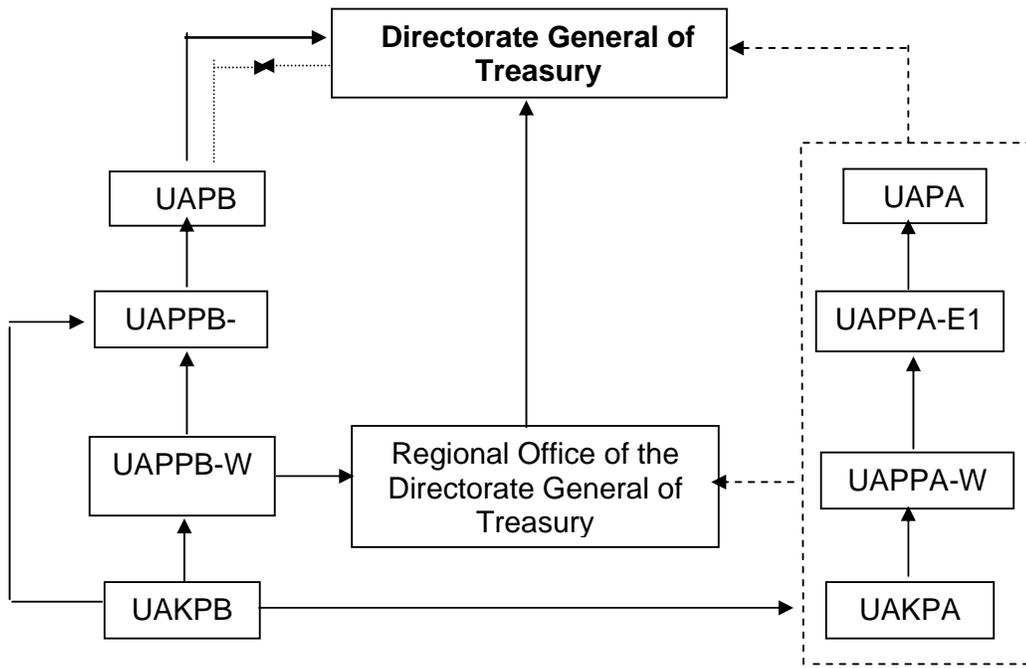
1. Semi-annual Process

- Receiving the ADK and Report on BMN from UAKPB-E1
- Joining/combining the ADK and BMN Report received from UAKPB-E1 into B1 Intra-compatible Inventory Book, BI Extra-compatible Inventory Book and Book of Heritage Assets
- Preparing the semi-annual report on BMN and requesting the approval from UAPB's official in charge for this semi-annual report on BMN.
- Conducting internal reconciliation process to the Report on BMN and Financial Statement with UAPA and making correction for any mistake possibly found.
- To submit the Report on BMN with its ADK to the Minister of Finance in this case the Director General of Treasury no longer than 33 (thirty three) days after the ending of concerned semester.
- Archiving the Report on BMN orderly and neatly.

2. Final Process of the Accounting Period

- To print the LKB, B1 Intra-compatible and Annual Report on BMN
- Requesting the approval from UAPB's official in charge for the Report on BMN.
- To submit the Report on BMN with ADK to the Minister of Finance in this case the Director General of Treasury no longer than 40 (thirty three) days after the ending of any fiscal year.
- Conducting data updating of the Report on BMN with the Directorate General of Treasury in this case the Directorate of BMN/State Asset Management at the ending of each fiscal year and making any correction for any mistake possibly found..
- Conducting internal reconciliation process to the Report on BMN and Financial Statement with UAPA-W and making correction for any mistake possibly found.
- To submit the Annual Report on BMN with ADK to the Minister of Finance in this case the Director General of Treasury no longer than 50 (fifty) days after the ending of the fiscal year.
- Archiving the copies of LKB, B1 Intra-compatible Inventory Book and the Report on BMN orderly and neatly
- Conducting the process of back-up data and year end balancing of book.

CHART OF FLOW OF BMN'S REPORTING



Note :

- > Flow of BMN's data and Report
-> Flow of BMN's data updating
- > Flow of data and financial statement (balance sheet)
- Financial Accounting Unit

V. POLICY IN STATE'S PROPERTY ACCOUNTING

Any asset/goods is a part of the state's property representing a kind of unit which can be assessed/calculated/ measured, weighed and valued not including the money and securities or commercial paper. According to the Law Number 1 of 2004 on State Treasury, the State's Property (BMN) is all goods/assets purchased or acquiesced by burdening them into the State Budget and from other legal acquisition.

BMN has a variety of types both in the objective of its acquisition and its expected beneficial life time. Therefore, in its accounting treatment, there is any BMN categorized as a current asset and another regarded as a fixed asset.

The BMN categorized as the current asset when it is expected to be used or possessed to be resold within the period 12 (twelve) months reckoning from the reporting date Any BMN fulfilling this criteria shall be regarded as the Stocks.

While the BMN categorized as a fixed asset is any asset possessing a beneficial life time longer than 12 (twelve) months, and not purposed to be sold in a normal process by the Authorized User of the Asset and obtained or erected with the purpose for being used. Any BMN fulfilling this criteria shall include Land, Equipment and Machines, Building and Constructions, Road, Irrigation Network, other Fixed assets and other Building still under construction.

In central government's accounting system the policy from BMN accounting policy shall cover the problems of recognition, measurement, assessment and disclosure.

5.1 STOCK

The stock is a current asset in the form of goods or appurtenances or equipment purposed to support the government operational activities, and those purposed for sale and/or delivered within the framework of public servicing.

The stock shall cover any goods or equipment purchased and stored to be used later, for example any consumable goods such as office utensils and non-consumable goods such as the equipment's components and pipe and any used goods such as the used components.

The stock may cover any consumed goods, ammunition, material for maintenance, spare-parts, stocks for strategic/anticipation purposes, revenue stamp/tax tape, raw material, half-processed products, land/building for sale or granted for public facility, and livestock or trees for sale or given to the public.

The stock for strategic/anticipation purpose among other are reserved energy (for example oil) or reserved food (for example: rice)

5.2.1. Stock Recognition

Any stock shall be recognized at the time it is received or when its ownership right and/or control is transferred. At the end of any accounting period, the stock is recorded based on the result of its physical inventory.

The stock of raw material and equipment owned and to be used in physical construction carried out by self-management work is classified as an estimated asset of the construction under progress and not included as stock.

5.2.2 Measurement

The stock is regarded as amounting to :

- (1) **Acquisition cost** if it's acquiesced by a purchasing. The acquisition cost of any stock shall cover the purchasing price, transportation cost, handling cost, and other expenses which can directly burdened at the stock acquisition. The price discount,

rebate and others shall reduce the acquisition costs. The used purchasing value is the stock acquisition cost last obtained.

- (2) **Standard cost** if any stock is obtained by self-producing, The stock standard cost shall cover the direct expenses related to the produced stock and any fixed and variable overhead costs allocated systematically occurring in the process of conversion from raw material into finished stock.
- (3) **Proper/reasonable value**, if it is obtained by other process such as from donation/ confiscation.

5.2.3 Disclosure

The stock is presented in the Balance Sheet in conform with its monetary value. Besides, in the Notes to the Financial Statement the followings must also be disclosed :

- (1) Accounting policy used in the stock measurement;
- (2) Further description on the stock such as that the goods or equipment is used in public service or used in any production process, goods stored for sale or delivered to the public and half-processed products for sale or delivered to the public;
- (3) Stock condition;
- (4) Other matters which is necessary to disclose with respect to the stock, for example that the stock is obtained by grant or confiscation

The stock with a damaged or worn-out condition shall not be reported in the balance sheet, however, it must be disclosed in the Noted to the Financial Statement.

5.2. FIXED ASSET

5.2.1 Land

Land grouped as the fixed asset is any land obtained and used to support the government operational activities and must be in a ready for use condition.

Any land possessed or controlled by a governmental institution in any foreign country, for example, a land used for the Representative of the Republic of Indonesia overseas, it is only recognizable if its ownership is based on a controlling agreement made in accordance with the law and regulation prevailing in the country where the Representative of the Republic of Indonesia permanently domiciles.

5.2.1.1 Recognition

Land ownership is indicated by the evidence that there has occurred a legal transfer of ownership and /or control on such land in the form of land certificate. If any land acquisition is not yet supported by a legal evidence then such land may be recognized only when an evidence of the control on such land has been transferred, for example a payment has been made and the control on land certificate in the name of the previous owner.

5.2.1.2 Measurement

Any land shall be assessed or valued by its acquisition cost covering its purchasing price or land acquisition cost, other costs disbursed with respect to the costs for obtaining the right on land, land maturing cost,

land measurement, land piling up, and other costs expended until such land is ready for use.

If land measurement by using the acquisition cost is not possible, then the land value shall be based on a proper/ assessment value at the time of acquisition.

5.2.1.3 Disclosure

Land value revealed in the Balance Sheet is in conform with its monetary value. Besides, in the Notes to the Financial Statement the followings must also be disclosed :

Basis of the assessment used

Reconciliation amount recorded at the beginning and ending of the period according to the type of lands indicating an addition :

- land release
- other land mutation

5.2.2 Building and Construction

The building and construction shall cover all buildings and constructions purchased or constructed with the purpose of being used in the government operational activities and in its ready for use condition. Including in this category of building and construction are the Building, Monument, Tower, Traffic Sign/Beacon and Control Point Structures.

5.2.21 Recognition

Any building and construction obtained not from the donation is recognizable in any accounting period when such asset has been ready for use and based on the amount of capital expenditure recognized for such asset. Building and construction obtained from the donation is recognizable at the time such building and construction is accepted and its ownership right is transferred.

Recognition on any building and construction is determined by the type of its transaction covering its addition, development, and subtraction.. The addition is an increase in building and construction value due to an addition, extension and enlargement of any part of the building/construction. Costs for such addition shall be capitalized and added to its acquisition price of such building and construction.

The development is made to increase the value of the building and construction with respect to its higher usefulness affecting the duration of its beneficial life time, increase in efficiency and reducing its operational cost.

The subtraction is a reduced value of the building and construction due to its reducing quantity of the assets.

5.2.2.2 Measurement

The building and construction is assessed by its acquisition costs. If the assessment on the building and construction by using its acquisition cost is not possible, then the value of this fixed asset shall be based on its proper/estimation value at the time of acquisition.

Acquisition cost of the building and construction erected by means of a self-management shall cover the labor cost, raw material, and indirect cost including its planning and monitoring costs,

appurtenances, electricity, rent of equipment and all other costs disbursed with respect to the construction of this fixed asset.

If such Building and Construction is obtained through any contract, then its acquisition cost shall cover the contract value, planning plan and monitoring, permit and licensing and consultant costs.

5.2.2.3 Disclosure

Building and Construction displayed in the Balance Sheet is in conform with its monetary value. Besides, in the Notes to the Financial Statement the followings must also be disclosed :

- (1) Valuation basis used to determine its value
- (2) Reconciliation amount recorded at the beginning and ending of the period according to the type of lands indicating an addition :
 - Addition
 - Development; and
 - Abolishment
- (3) Accounting policy for capitalization with respect to the building and construction.

5.2.3. Equipment and Machines

The equipment and machines cover the machines and motor vehicles, electronic equipment, and office inventory having significant value and its beneficial life time longer than 1 (twelve) months and in ready for use condition, Physical form of such equipment and machines may include : Heavy Equipment, Transportation Device, Workshop equipment and measuring gauges, agricultural equipment, Office and household utensils, Studio equipment, Communication and Transmitter Equipment, Laboratory equipment, Weaponry, Computer, Exploration Equipment, Drilling equipment, Production tools, Processing and Purifying Equipment, Exploration Supporting Facilities, Safety Tools, Exhibition gauge, and Processing/Production Unit.

5.2.3.1 Recognition

The equipment and machines obtained not from donation shall be recognizable within any accounting period when such asset are in ready for use condition based on the amount of capital expenditure disbursed for such assets.

The equipment and machines obtained from donation is recognizable at their delivery time and their ownership has been transferred.

The recognition on such Equipment and Machines shall be determined by the type of its transaction covering the addition, development and subtraction. The addition is an increase in the value due to a new procurement, extension and enlargement. Such additional cost shall be capitalized and added into the acquisition cost of such Equipment and Machines.

The development is an increase in the value of such Equipment and Machine due to enhancement of its usefulness affecting the duration of its beneficial life time, an increase in its efficiency and reducing operational cost.

The subtraction is a reduced value of the building and construction due to its reducing quantity of the assets.

5.2.3.2 Measurement

The acquisition cost for the equipment and machines illustrates the amount of expenditure disbursed to obtain such equipment and machines until they are in ready for use condition. The acquisition cost for the Equipment and Machines originating from any purchase shall cover the purchasing price, transportation cost, installation cost and other direct cost used to obtain and prepare the equipment and machines to their ready for use condition.

The acquisition cost for the equipment and machines constructed by self-management shall cover a direct labor cost, raw material and indirect cost including for planning and monitoring costs, appurtenances, electricity, rent of tools and all costs occurring with respect to the construction of such equipment and machines.

5.2.3.3 Disclosure

The Equipment and Machines displayed in the Balance Sheet shall be in conform with their monetary value. Besides, in the Notes to the Financial Statement the followings must also be disclosed :

- (1) Valuation basis used to determine its value
- (2) Reconciliation amount recorded at the beginning and ending of the period indicating :
 - Addition
 - Development; and
 - Abolishment
- (3) Accounting policy for the capitalization with respect to the building and construction.

5.2.4 Road, Irrigation and Networks

The Road, Irrigation and Networks shall cover any road, irrigation and networks constructed and controlled by the government and in ready for use condition. Including to this kind of asset are the road and bridge, Water Structure, Installation and Networks.

5.2.4.1 Recognition

The road, irrigation and networks obtained not from donation shall be recognizable within any accounting period when such asset are in ready for use condition based on the amount of capital expenditure disbursed for such assets.

The road, irrigation and networks obtained from donation is recognizable at their delivery time and their ownership has been transferred.

The recognition on such road, irrigation and networks shall be determined by the type of its transaction covering the addition, development and subtraction. The addition is an increase in the value due to a new procurement, extension and enlargement. This additional cost shall be capitalized and added into the acquisition cost of such Road, Irrigation and Networks.

The development is an increase in the value of such Road, Irrigation and networks due to enhancement of its usefulness affecting the

duration of its beneficial life time, an increase in its efficiency and reducing operational cost.
The subtraction is a reduced value of the building and construction due to its reducing quantity of the assets.

5.2.4.2. Measurement

The acquisition cost for the road, irrigation and networks illustrates all costs disbursed to obtain such equipment and machines until they are in condition of ready for use. Such costs covers the acquisition and or construction and other costs expended until these Road, Irrigation and Networks are in condition of ready for use

The acquisition cost for the road, irrigation and networks constructed by self-management shall cover a direct and indirect costs consisting of the labor cost, raw material, planning and monitoring costs, licensing and permit settlement costs, rent of tools and emptying and dismantling costs of the former construction.

5.2.4.3. Disclosure

The Road, Irrigation and Networks displayed in the Balance Sheet shall be in conform with their monetary value. Besides, in the Notes to the Financial Statement the followings must also be disclosed :

- (1) Valuation basis used to determine its value
- (2) Reconciliation amount recorded at the beginning and ending of the period indicating :
 - Addition
 - Development; and
 - Abolishment
- (3) Accounting policy for capitalization with respect to the Road, Irrigation and Networks..

5.2.5 Other Fixed Assets

Other fixed asset shall cover those which are not able to be classified into the categories of Land; Equipment and Machines, Building and Construction, Road, Irrigation and Networks obtained and used for the government operational activities and in the condition of ready for use. Including in this kind of fixed asset are the Literature Collections/Books, Artistic/cultural Objects, Sport Facilities, Animal, Fishes and Plant/Trees.

5.2.5.1. Recognition

Other Fixed Assets obtained not from donation shall be recognizable within any accounting period based on the amount of capital expenditure disbursed for such assets.

Other Fixed Assets obtained from donation shall be recognizable at their delivery time and their ownership has been transferred.

The recognition on such Other Fixed Assets shall be determined by the type of its transaction covering the addition and subtraction. The addition is an increase in the value of Other Fixed Assets due to a new procurement, extension and enlargement. This additional cost shall be

capitalized and added into the acquisition cost of such Other Fixed Assets.

The subtraction is a reduced value of the building and construction due to its reducing quantity of the assets.

5.2.5.2. Measurement

The acquisition cost for the other fixed assets illustrates all costs disbursed to obtain such equipment and machines until they are in condition of ready for use. Such acquisition costs of the Other Fixed Assets obtained by the contract shall cover the contract disbursement value, planning and monitoring costs and licensing and permit settlement costs.

The acquisition cost for Other Fixed Assets constructed by self-management shall cover a direct and indirect costs consisting of the labor cost, raw material, planning and monitoring costs, licensing and permit settlement costs, rent of tools and consultation cost.

5.2.5.3. Disclosure

The Other Fixed Assets displayed in the Balance Sheet shall be in conform with their monetary value. Besides, in the Notes to the Financial Statement, the followings must also be disclosed :

- (1) Valuation basis used to determine its value
- (2) Reconciliation amount recorded at the beginning and ending of the period indicating the Addition and Abolishment
- (3) Accounting policy for the capitalization with respect to Other Fixed Assets.

5.2.6. CONSTRUCTION UNDER PROGRESS

The Construction under progress is the assets still in their process of construction at the time any Financial Statement is made. The Construction under Progress shall cover the land, building and construction, equipment and machines, road and irrigation and networks and other fixed assets that their acquisition and / or construction need a certain length of time and still unfinished. Since the Construction Under Progress is not yet regulated by the Decision of the Minister of Finance Number 18/KMK.018/1999 dated 14 January 1999 on Classification and Codification of the Inventory of State's Property/Assets, then the Construction Under Progress has not processed in SABMN that it is directly registered by the Financial Accounting Unit and presented only in the Balance Sheet. The Construction under Progress is not registered at the Ledger's Estimations within the Government's Accounting System.

5.2.6.1 Recognition

The Construction under Progress represents the asset purposed to be used to support the government operational activities and or used in a longer time by the community that therefore it is classified as fixed assets.

Any shaped assets must be recognized as the Construction Under Progress if its acquisition costs is reliably measurable and still in the process of construction.

Any Construction under Progress can be transferred into a concerned fixed asset after its construction is completed and ready for use in accordance with its acquisition purpose.

5.2.6.2 Measurement

The Construction under Progress shall be recorded in its value equal to its acquisition cost.

The acquisition costs for any construction carried out by self-management shall cover:

- Any cost relating directly to the construction activity covering the labor cost at the location including supervisor, material costs, displacement of the facility, equipment and material from and to the project location, rent of facility and equipment and design and technical assisting cost directly relating to the construction activity.
- The cost attributable to the activities in general and to be allocated to such construction shall cover the insurance cost; design and technical assisting costs indirectly relating to a certain construction; and other costs which can be identified for the concerned construction such as the cost for inspection.

The acquisition cost for the construction carried out by the contractor shall cover:

- The installment having been paid to the contractor in connection with the stage of work completed.
- Payment of any claim to the contractor or any third party with respect to the implementation of the construction contract

5.2.6.3 Disclosure

The Construction under Progress displayed in the Balance Sheet shall be in conform with their monetary value: Besides, in the Notes to the Financial Statement, the followings must also be disclosed :

- (1) Detailed contract of the Construction under Progress including its phases which has been completed and the period of its completion ;
- (2) Value of the Construction contract and the financing resources;
- (3) Amount of costs disbursed;
- (4) Down payment given;
- (5) Retention

5.3 JOINT ACQUISITION

The acquisition cost for the respective asset obtained jointly shall be determined by allocating such joint price based on the proportion of the proper value of the their respective assets

5.4 HERITAGE ASSETS

The heritage asset is not displayed in the balance sheet, however, such asset must be disclosed in the Notes to the Financial Statement.

Some fixed assets are classified as heritage asset for cultural, environmental and historical interest. The example for these heritage assets are the historic buildings, monument, archeological sites such as temples and works of art. The characteristics below often regarded as a typical character of any historical asset:

- a. It has a cultural, environmental, educational value and its history cannot be fully construed by any financial value based on the market price.
- b. The applicable law and regulation prohibit or restricts strictly to release them for sale;
- c. It is difficult to be replaced and its value will keep increasing from time to time notwithstanding its condition physically decreasing.
- d. It is difficult to estimate its beneficial life time. For some cases it can even reach hundred of years.

Any heritage asset is usually expected to be safeguarded and conserved for unlimited period of time. For which, it is protected by the prevailing law and regulation.

The government possibly has a lot of heritage assets obtained in many years with various ways in their acquisition including by the purchasing, donation, heritage, confiscation or seizure. These heritage assets are recorded by their quantity, for example the number of unit possessed or the number of monument unit.

The cost for the acquisition, construction, up-grading, reconstruction, must be charged as the expenditure of the year of its disbursement. Such cost includes all cost expended to make such heritage assets keep existing in their condition and location in the current period.

Some heritage asset also gives other benefit to the government not only from its historic value, for example, a historic building being used for the office. For such case, to this heritage asset, the same principles as to any other fixed asset shall be applied.

VI. MAPPING OF ITEM CODE TO THE LEDGER ITEM CODE

The mapping of item code to the ledger's item code is required since the recording of the BMN using its own codification namely as regulated by the Decision of the Minister of Finance of the Republic of Indonesia No. 18/KMK/018/1999 dated 14 January on Inventory Classification and Codification of the State's Property/Assets is different from those at the estimation of Ledger's balance sheet. Therefore for displaying the BMN as fixed assets and stocks in the balance sheet must be conducted a mapping or conversion of item code to the ledger' item code as regulated by the Decision of the Minister of Finance Number 13/PMK.06.2003 on the Scheme of Standard Estimation.

The mapping of item code to the ledger's item code shall be conducted according to the provisions as regulated in the following pages of this Attachment.

**MAPPING OF BMN (ITEM) CLASSIFICATION INTO
ESTIMATION OF THE LEDGER'S ITEM**

BMN Classification According to the Decision of the Minister of Finance No. 18/KMK.018/1999	Estimation of the Ledger's Asset in the Scheme of Estimation Standard
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Item Code	Name of Item	Code	Estimation Name		
1.01	Land	131111	Land		
2.01	Heavy equipment	131311	Equipment and Machines		
2.02	Transportation devices				
2.03	Workshop equipment and Measuring Gauge				
2.04	Agricultural equipment				
2.05	Office and Household Utensils				
2.06	Studio equipment, Communications and Transmitters				
2.07	Medical equipment				
2.08	Laboratory equipment				
2.11	Weaponry				
2.12	Computer				
2.13	Exploration equipment				
2.14	Drilling equipment				
2.15	Production, Processing and Purifying equipment				
2.16	Exploration Supporting facilities				
2.17	Work safety equipment				
2.18	Exhibition tools				
2.19	Processing / Production unit				
1.06	Building			131511	Building and

1.07	Monument		Construction
1.08	Tower		
1.09	Traffic sign/beacon		
1.10	Point of Control Tower/Pasti		
1.02	Road and bridge	131711	Road, irrigation and Networks
1.03	Water installation		
1.04	Installation		
1.05	Networks		
2.09	Literature Collection/Books	131911	Other fixed assets
2.10	Art/Cultural works/Sport facilities		
3.01	Cultural item		
3.02	Animal		
3.03	Fishes		
	Plans/Trees		
-	Not yet regulated by the Decision of the Minister of Finance No. 18/KMK.018/1999	132111	Construction under Progress

**MAPPING OF BMN (ITEM) CLASSIFICATION INTO
ESTIMATION OF THE LEDGER'S ITEM**

BMN Classification According to the Decision of the Minister of Finance No. 18/KMK.018/1999	Scheme of SABMN's Estimation Standard
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Item Code	Name of Item	Code	Estimation Name
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. 4	Stock	1151	Stock
		11511	Stock for Operational material
4.01.03.01	Office Utensils	115111	Consumption Goods
4.01.03.02	Paper and covers		
4.01.03.03	Printing material		
4.01.03.04	Computer hardware		
4.01.03.05	Electric appurtenance		
4.01.01.03	Explosive	115112	Ammunition
4.01.03.05	Office furniture	115113	Maintenance material
4.01.02.00	Spare-parts	115114	Spare-parts
		11512	Stock for sale or delivered to the public
	Not yet regulated by the Decision of the Minister of Finance No. 18/KMK.018/1999	115121	Revenue stamp/Tax tape
		115122	Land and building for sale or delivered for public facilities
		115123	Livestock/ animal and trees for sale or delivered to the public.
		11513	Material stock for production process
4.01.01.01	Building and Construction material	115131	Raw material
4.01.01.02	Chemical substances		
4.01.01.04	Fuel and Lubricating Oil		
4.01.01.05	Raw material		
4.01.01.06	Nuclear and chemical		

	substances		
	Not yet regulated by the Decision of the Minister of Finance No. 18/KMK.018/1999	115132	Item/goods under process
	Not yet regulated by the Decision of the Minister of Finance No. 18/KMK.018/1999	11519	Other Stock Items
	Not yet regulated by the Decision of the Minister of Finance No. 18/KMK.018/1999	115191	Stock for a strategic/anticipation purpose
4.02.01.00	Component	115192	Other stocks
4.02.02.00	Piping		
4.03.01.00	Used component and piping		

THE MINISTER OF FINANCE
OF THE REPUBLIC OF INDONESIA

JUSUF ANWAR