

ISSUES AND THREATS OF ASSET MANAGEMENT IN GLOBAL PERSPECTIVE

Bambang Istijono

Lecturer of Technical Faculty of Andalas University

ABSTRACT

Based on President Regulation Number 38 Year 2008 concerning Change of President Regulation Number 6 Year 2006 concerning State/Local Asset Management, stated that all properties bought or gained by National/Local Budget or other valid gain are belonging to State/Local government. Thus State/Local government has obligation to implement asset management that comprise of requirement planning and budgeting, procurement, utilizing, usage, securing and maintaining, assessing, abolishing, transferring, administrating, guidance, as well as conduct monitoring and controlling on asset.

Several numbers of local governments are indicated Proper With Exception in opinion of Investigation Report from Financial Investigation Board. This shows the lack of professionalism in managing asset. Asset management is highly affected by regulation, human resources, source of fund and management/organization structure that managed assets.

In global perspective, issues and threats faced in state/local asset management are very complex, however related to asset management cycle, there are some points should be paid attention, those are planning and budgeting, procurement and maintenance stages. Besides conducive control environment, all government agencies must conduct risk analysis that can hinder achievement of agency objectives by observing life cycle and aim of state asset management and also considering disaster risk of one region.

Recommendation in asset management as follows: regulation established by government should be equipped with effective and applicative agency policy; conduct increasing of human resources capacity in managing asset that understand law and regulation comprehensively; unify asset and financial management in one organization unit; and need to implement asset arrangement followed up by asset database.

1. BASE OF ASSET MANAGEMENT

1.1 President Regulation Number 6 Year 2006 as revised become President Regulation Number 38 Year 2008

- a. State property is all properties bought or gained by National Budget or come from other valid gain.
- b. Local Property is all properties bought or gained by Local Budget or come from other valid gain.
- c. Asset come from other valid gain as follows:
 - Asset obtained from donation/contribution or the same type
 - Asset obtained from implementation of agreement/contract
- d. State/Local asset management comprise of:
 - Requirement planning and budgeting;
 - > Planning and determination of requirement of procurement and asset management is very important to support smoothness and sustainability of preparing demands and equipments in order to implement tasks from agencies.
 - > Good, efficient and effective planning will diminish expense of local budget and local asset.

- > Implementation of requirement planning and budgeting needs good coordination and pay attention to standardization defined suitable with each local condition
 - > Requirement planning and budgeting is not an independent activities, but inseparable activities within asset management.
 - > Requirement planning and budgeting proposed by the lowest level of government official (*bottom-up planning*) because they are more understand about implementation of tasks and equipments needed as well as existing condition.
 - Procurement;
 - Utilizing;
 - Usage;
 - Securing and maintaining;
 - Assessment;
 - Abolishing;
 - Transferring;
 - Administration;
 - Developing, monitoring and controlling.
- e. *Asset Manager* is government official that has responsibility and authority to establish policies and guidance as well as conduct state/local asset management
- Government official manage State asset is Minister of Finance
 - Holding authority of local asset management is Governor/Regent/Major
 - Managing local asset is Provincial/Local Secretary
- f. *Asset User* is government official who hold authority to use state/local asset
- State asset user is Minister/Head of institution as head of state ministry/institution
 - Local asset user is head of Agency
- 1.2 Regulation of Home affair Minister Number 17 Year 2007 Concerning Technical Guidance of Asset Management**
- a. Local asset is all local properties both bought or gained by Local Budget or obtained from other valid gain, mobile or fixed with all parts or constitute certain unit that can be assessed, counted, measured or weighed including animal and plants, except money and marketable securities.
- b. Local Asset management is part of financial management that conducted separable from State Asset Management
- c. Authority of Local Asset is holding by Governor/Major/Regents, while Ministry of Home Affairs function to implement guidance and facilitate local asset management.
- 1.3 The importance of Asset Management**
- a. Objective and aim from asset management is to achieve suitability between asset availability and entity strategy (organization) efficiently and effectively. This covers all life cycle of asset since planning and budgeting till guidance, monitoring and controlling as well as related risk and cost arrangement along life cycle of asset.
- b. New paradigm of Local/ State Asset management which is indicated by the establishment of Government Regulation Number. 6 /2006 as a derivation from Government Regulation Number. 1 /2004 concerning State Treasure, has initiated new optimism of best practices in arranging and managing State asset that is more properly arranged, accountable, and transparent.
- c. Professional and modern state asset management by prioritize good governance in one side is expected will be able to increase trust of state financial management from community/stakeholder
- d. State asset management as referred in Article 1 paragraph (1) and Article (2) Government Regulation Number 6/2006 is not just an administrative, but more develop thinking in managing State asset, with way to increase efficiency, effectiveness and create added value in managing asset. .
- e. Contribution from good asset management in term of diminish capital and maintenance expense, increasing of non tax revenue (if asset could generate economic and social benefits) and as supporting of National budget through underlying asset.

- f. Properly arranged asset management will avoid asset laundering, that is shifting of state asset through law smuggling without awareness of asset manager
- g. Frequently appear Financial Report of Central Government by Financial Investigation Board that state disclaimer / no opinion. Disclaimer opinion is caused by asset/state properties particularly State property is not experiencing inventorying process and assessing in appropriate condition, so that existing validity and accurate data should be crossed check in field.
- h. Financial Report of Central Government is government report in responsibility for people mandate, especially related to utilization of public fund and also for other stakeholder (donor organizations, private sectors etc)
- i. Asset management is a very strategic and vital function. In political view, this directly relates to realize people sovereignty to protect Indonesian homeland, means that every parts of Indonesian region should be protected and maintained from the outsider. In fiscal view, asset management must be our concern, more than 80% of our asset composition is fixed asset (land or building), where in Financial Report of Central Government still become problem and focus of government external auditor in giving opinion. In meeting between Financial investigation board and parliament (Tuesday, 12/6/2007) stated that State asset in 90% government department/institution is not properly managed, no proper inventory, so that Financial Report indicates bad quality.
- j. Modern and professional state asset management with priority on good governance is expected could increase trust and outsider acknowledgment on bureaucracy reformation implemented by government, as a result, government image in view of international institutions and donors will be better.
- k. Good asset management is expected able to provide existing condition of all State asset value, with source from National/Local Budget and other valid gain.

2. CONDITION OF STATE/LOCAL ASSET MANAGEMENT

2.1 Regulation

- a. There are changes from several law and regulation regarding asset management, such as Law Number 17/2003 concerning State Financing, Law Number 1 Year 2004 concerning State Treasure, Law Number 6 Year 2006 concerning State/Local asset management, Regulation of Minister of Finance Number 120/PMK.06/2007 concerning administration of state asset and regulation of Minister of Finance Number 96/PMK.06/2007 concerning procedure of implementation of utilization, usage, abolishing and transferring of state asset.
- b. Protruding characteristic of those law products is placing law foundation in administration of State financial and conduct explicit separation between administrative authority and treasuring authority.
- c. National policy that is the existence of local autonomy and changing of cabinet structure that cause abolition of one ministry in one side and establish ministry in the other side and finally bring implication of asset mutation.
- d. Those law substance consist of performance review process on State asset management, developing human resources, physical controlling of fixed asset, appointment and review of indicator and measure of performance, function separation, authorization on transaction and important events, accurate and on time recording, access limitation of resources and its recording, accountability on resources and its recording as well as good documentation on transaction and important incidents.
- e. Policy regarding State asset management arrange in Government regulation number 6 year 2006 concerning State/Local asset management. At local level, that regulation is elaborated in Regulation of Minister of Home Affairs Number 17 Year 2007 concerning local asset management

Several policy concerning state asset management already established by government, however why leakage still frequently happen?

- a. Firstly, the existing regulation is insufficient to build controlling system on all cycle of asset management. If explored, there are several regulation are not established yet, particularly related to utilization stage, usage, securing, and maintaining State asset. Technical department should struggle for completing of regulation about asset management..
- b. Secondly, established regulations are not equipped with effective and applicative agency policy that can become system framework for reference in implementing of applicative and effective intern controlling system for related agency.

2.2 Human Resources

- a. Asset or financial management is insufficient only by knowing management technique. However, aspect of human resource as asset manager is also should be known wisely
- b. Human resources owned by Local government are still in limited level, both mental and intellectual. In this case, ability means as individual capacity to do a task. In asset management context, several tasks should be done by human resources, starting with proposal of asset procurement until method of asset maintenance. Asset management pattern is not only comprise of monitoring aspect but also utilization optimalization aspect to create local government vision and mission.

2.3 Source of Fund (Local Budget)

- a. *Asset with source from implementation of Local budget* is output/outcome from realization of capital expense in one fiscal year. However, acknowledgement of asset value differs from budget of capital expense. Interpreting on Regulation of Ministry of Home Affairs Number 13/2006 enable us to state that amount of capital expense equals with amount of asset addition in balance sheet. This is inappropriate if balance sheet reviewed in accountancy concept, because assessment of asset should be equals with gain values (*full cost concept*). It means all cost issued till asset ready to use should be counted as cost of that asset. In performance budget concept, cost issued is all expenses that become input in implementation of

activities generate asset. Therefore, it includes employee expense and good and service expenses as an addition of capital expense. Thus, cost for asset is all expenses to achieve *outcome*.

- b. *Asset with source from Local budget*. In this case, asset obtained is not because realization of local budget comprise of capital, employee and good and service expenses. Local government frequently accept asset from another parties such as donor institutions and community. Recently, some regions accept significant asset addition from other parties, for instance in Aceh, North Sumatra, and DIY. In Aceh, ALGAP and LGSP give contribution working equipment such as laptop, internet network and printer. This is also added by building construction for office provided by international NGO.

2.4 Management/Organization Structure

- a. Arrangement of asset manager organization is still facing policy contradiction established by government. In attachment of Regulation of Ministry of Home Affairs Number 57 Year 2007 stated that "especially for *revenue division, management and asset can be developed according to organization principles (line and staff function), that is revenue function becoming revenue agency and asset and financial function becoming Financial Division and equipment Division*". This is not suitable with Government regulation Number 41 Year 2007 article 22 paragraph 3 and 4 that stated organization of local financial manager and local asset/properties could be unified becoming one agency.
- b. Now asset management function in general still implemented by organization that separate with local financial management organization. In some regions asset management function is conducted by Equipment and General Bureau/Division in Provincial/Local Secretariat. As a consequence, asset management is not integrating with financial management system, both in policy and administrative aspects. In political side, asset management tends to be partial and lack of attention to consequence on general financial management system. In administrative

side, asset management is not directly connecting to needed reports in responsibility of local financial thus creates duplication and inefficiency.

3. ISSUES AND THREATS OF ASSET MANAGEMENT (GLOBAL PERSPECTIVE)

1. *Planning and Budgeting.* In practice, necessities frequently are not budgeted, while unimportant things are budgeted. This happens because certain interests, such as monetary interest that accepted by government official before procurement conducted.
2. *Procurement.* The most difficult stage, because besides sensitive on corruption practice, threat become suspected (and finally become convicted criminal) is relatively high. Thus, the frequent problem is procurement mechanism; direct appointment, direct selection or tender? Uniquely, some of government official avoid becoming procurement committee because afraid of trapped in corruption cases. As a result, even though participate in certification exam (as a requirement to be procurement committee as stated in President Number .80/2003), generally intentionally fail in that exam.
3. *Maintenance.* Every maintenances relate to budget for maintenance. Maintenance expense, in fact, is one of expense object that is frequently made fictitious. Refer to Report of Budget realization, or Local budget accounting, realization of maintenance cost is 100%. Interestingly, based on research in developing countries, particularly in Afrika and Amerika Latin (IMF, 2007; World Bank, 2008) phenomenon of *ghost expenditures* is an usual thing. It means, allocation for maintenance always budgeted *incrementally* even though some assets are damage or disappear This occur because the absence of transparency in abolishing or transferring government asset.
4. *Abolishing.* Asset abolishing means no asset value recorded in balance sheet. Abolishing from big book conducted after the ownership of asset is not in provincial/ditRICT/city but in other parties or destroyed or disposed. In accountancy perspective, abolishing conducted through making of journal, for example debit fund equity account – invest in fixed asset and credit fixed asset
5. Besides the existence of conducive controlling environment, government agency must implement risk assessment that hinders achievement of agency goal. By paying attention to life cycle and aim of state asset management, risk identified in asset management as follow:
 - a. Planning and Budgeting, risk which is possible occur as below :
 - Plan of asset procurement is not supporting agency entity strategy
 - Budget for asset procurement is not realistic (too big/little)
 - b. Procurement, risk that is possible happen:
 - Asset procurement is too expensive (inefficient) / Mark Up
 - c. Required Asset specification is not suitable with necessity.
 - d. Utilization, risk which is possible occur:
 - Asset could not be utilized
 - Operational cost is too high.
 - e. Usage, risk that is possible happen:
 - Asset procurement is not beneficial
 - Asset utilized by people/organization that don't have authority/right.
 - f. Asset usage cooperation cause State loss
 - g. Securing and maintaining , risk that is possible happen:
 - State Asset is damage
 - Asset use period is less than acceptable standard
 - h. Assessment, risk that is possible happen
 - Asset values could not be measured
 - Asset value Overstated or Understated.
 - i. Abolishing, risk that is possible happen:
 - Asset is still beneficial but already abolished
 - j. Transferring, risk that is possible happen
 - Asset releasing with low price
 - k. Administration and reporting, risk that is possible happen

- Asset report is not synchronous with Financial report
 - Get note in Opinion of BPK-RI regarding LKPP/D
1. Monitoring, guidance and controlling, risk that is possible happen
 - Fail in risk mitigation.
 - Fail prevent deviation.
 6. There is information imbalance related asset data by giving wrong information. This is because the absence of asset database
 7. Community sense of belonging on state asset should be developed that is realized in term of community involvement in maintaining and securing asset, so that increase their participation.
 8. There is part of community perspectives, that state asset is a common property, realized by their effort to utilized/owned without paying attention to applied law norms such as mastering of official house, seperti penguasaan rumah dinas, illegally occupying and plundering of state land.
 9. Natural disaster issues should be followed by risk analysis on all infrastructure asset, thus mitigation effort could be conducted. Product of risk analysis must be communicated to local government as a source to establish policy such as spatial plan.
 10. Indonesia is frequently affected by disaster, thus for all asset should be conducted risk analysis.. as an example, flood in Indonesia has caused loss with amount Rp 70 trillion a year. State has struggle for development, community already save their money, however loss occur because we did not implement right mitigation effort
- b. Regulation established by government should be equipped with effective and applicative agency policy that is not contradictive with higher regulation. Regulation and policy established by central government become system framework for reference in implementing of applicative and effective intern controlling system for related agency..
 - c. All agencies should equip these regulations with applicative and effective local policies For example, in goods and services procurement (President decision number 80 year 2003, article 10 Number (7)) stated that "committee with odd amount with member at least 3 people who understand procurement method, related activities substances and contract agreement law, both from inside or outside related agencies".
 - d. Implementation for government agency, in order to increase effectiveness of controlling system, those regulations should be equipped with detailed regulation. For example, local government could established policy "in procurement of goods between Rp 50 million until Rp 100 million, procurement committee consist of 3 people from related agency that understand procurement method, related activities substances and contract agreement law. In procurement of goods between Rp 100 million until Rp 1 billion, procurement committee consist of 5 people that understand procurement method, related activities substances and contract agreement law, where one of them come from technical agency to assist technique evaluation. In procurement of goods above Rp 1 billion, procurement committee consist of 7 people that understand procurement method, related activities substances and contract agreement law, where two of them come from technical agency to assist technique evaluation and another two people come from law bureau to assist formulation of contract document".

4. RECOMMENDATION

4.1 Regulation

- a. The existing regulation is insufficient to build controlling system on all cycle of asset management. If explored, there are several regulation are not established yet, particularly related to utilization stage, usage, securing, and maintaining State asset. Technical department should struggle for completing of regulation about asset management..

4.2 Human resources

- a. Regarding human resources, Ishak (2002), said that: "human resources is key holder from all activities. Capital gained will disappear if human resource as manager

does not have capacity to arrange that capital” Besides that, in academic world, stated that human resources is an important and central asset to develop an organization.

- b. Vision of state asset management is becoming *the best state asset management on the world*. It’s not only technique and administrative aspect, but also shifting to the way how to think as an asset manager who has capacity to formulate national asset requirement accurately as well as increase benefits and values of that asset. Challenge to realize that vision is not easy, need big effort from all parties, take into account complexity of problem surrounding asset management Because of that, asset management should be handled by professional and capable human resources, and understand law and regulation that arrange state asset.
- c. For that reason, it need to recruit and appoint human resources that have suitable education background, have good managerial ability, working experience, understand law and have communication and good networking cross-sector and also with vertical agency. This because asset problem is a hard and complex problem, thus capable personnel and able to make significant changes in asset management is urgently needed.

4.3 Management/Organization structure

Affiliation of asset management function into financial management function is one of alternatives to create integration of financial management system. By affiliating organization of asset management into organization of financial management, thus expected:

- a. Asset is considered important as economic resources owned by local government
- b. Asset management could be better handled so that asset can be initial capital for local government to develop financial capacity
- c. Simplify coordination between manager and user in financial and asset management.
- d. Simplify in formulating policy of planning, administrating, productivity increasing, guidance, monitoring and controlling.
- e. Simplify implementation of asset and financial management

- f. Realize comprehensive financial report (balance sheet, cash flow and asset)
- g. By inventorying and assessing asset, it is projected that accurate and reliable database could be realized that will be used to formulate requirement plan and budgeting of goods or capital expenses on ministry/state institution.

4.4 Asset Arrangement (Inventory and Revaluation)

- a. State asset management should become joint momentum to make inventory and re-arrange asset in order to utilize in accordance with allocation, and able to provide benefits for state in order to give service for community.
- b. Inventory process and revaluation are inseparable part from asset management, as stated in Government Regulation Number 6 Year 2006 concerning State/Local asset management, where asset management consist of : (1) requirement planning and budgeting, (2) procurement , (3) utilizing, (4) usage, (5) securing and maintenance, (6) assessment, (7) abolishing, (8) transferring, (9) administration, (10) guidance, monitoring, and controlling.
- c. Output from asset arrangement is availability of comprehensive and accurate asset database. In logistic cycle, first stage from asset management is requirement planning and budgeting. Formulation of asset requirement plan is conducted by seeing availability of asset owned with activities plan of implementation task and function and supporting facilities. In the future, asset database will play strategic role in every decision making of asset requirement plan by asset manager and also for proposing budget in National/Local budget. Synergic cooperation between budget planner and asset manager will happen in order to formulate and allocate state requirement plan in one fiscal year, thus capital budget will more represent real need of asset according to field condition as well as create efficient and effective capital expense, not only incrementally. Good and integration of requirement process and budgeting with source from accurate and reliable database will become first gate to

develop asset management in general (logistic cycle).

5. REFERENCES

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