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A Critical Review of Statement of Government Accounting Standard (SGAS) Regarding Accounting for Investment

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Abstract:

Research aims: This article aims to provide a critical review of the Statement of Government Accounting Standard (SGAS) of Indonesia regarding Accounting for Investment (2016 Revision)

Design/Methodology/Approach: This article is a critical review, which criticism seen from a philosophical and theoretical point of view.

Research findings: There are five issues that need improvement so that SGAS Accounting for Investment becomes better. The five issues are the definition of government investment that is not in line with the vision of government organizations, inconsistency between investment definition and accounting treatment of investment proceeds, lack of comprehensive accounting treatment for negative investment value, inconsistency between investment definition and disclosure terms, inaccuracy of diction or grammar choice, and incomplete glossary.

Theoretical contribution/Originality: the arguments presented in this article can be used by scholars who focus on government accounting to develop a theory of government accounting.

Practitioner/Policy implication: Findings of this study can be inputs for the Government Accounting Standard Committee (GASC) to improve government accounting standards in Indonesia, especially SGAS of Accounting for Investment.

Keywords: Accounting for Investment; Indonesia; Statement of Government Accounting Standard (SGAS)

Introduction

On October 22, 2010, the Government of the Republic of Indonesia issued accrual-based Government Accounting Standards (GAS) (Republik Indonesia, 2010). This GAS was issued in order to implement the provisions of Article 36 paragraph (1) of Law no. 17 of 2003 concerning State Finance and Article 70 paragraph (2) of Law no. 1 of 2004 concerning the State Treasury, namely the use of the accrual basis for government accounting in Indonesia. The GAS are prepared by the Government Accounting Standards Committee (the GASC). At the beginning of its publication in 2010, the GAS consisted of twelve Statement of Government Accounting Standard (SGAS). As of the time of writing, in 2021, there have been seventeen SGAS. This means that for eleven years there were only five new GASs.

In its journey from 2010 to 2021, the GASC has updated the GAS four times, namely 2016 edition, 2019 edition, 2020 edition, and 2021 edition. In addition, the GASC has also compiled an English version of SGAS and has updated twice: in 2019 and 2020. The GASC will continue to update GAS so that there is continuous improvement in government accounting practices in Indonesia. One of the sources of input for the improvement of GAS is the critical studies provided by scholars. However, it is unfortunate that inputs in the form of critical studies are rarely found in Indonesia.

This paper is intended to provide a critical review of SGAS No.6 concerning Accounting for Investment with the argument that investment accounting has so far received less attention, both from the GASC and from its users. This is evidenced by the absence of a Technical Bulletin of Investment Accounting and the lack of questions, which is meaning less discussion, about investment accounting submitted to the GASC (see Bunga Rampai¹ 2012 - 2021). On the other hand, there are many cases that arise related to government investments that require strong investment accounting treatment arrangements. An example of a classic case related to central government investment is the cessation of operations of PT Merpati Nusantara Airlines (CNN Indonesia, 2018), while a classic case related to local government investment is the loss of 70% of local water companies throughout Indonesia (Media Indonesia, 2019). The latest government investment case that attracted public attention at the time this paper was written was the huge loss suffered by Garuda Indonesia Airways, a flag carrier of Indonesia (Republika, 2021).

It is very difficult to find journal articles that discuss a critical review of government accounting standards of Indonesia, especially SGAS regarding Accounting for Investment. Therefore, the critical review that I develop in this article is based on philosophical and theoretical points of view. In discussing the findings, I develop arguments, for the most part, referring to regulation, not a theory. In the context of state financial management which includes government accounting, regulatory positions (i.e. constitution, laws, and government regulations) are equivalent to theory in the context of non-governmental entities.

In addition, the discussion of findings in this article is not compared with International Public Sector Accounting Standards (IPSAS) because the accounting of a government is not relevant to be compared with IPSAS or other government accounting. This is because government accounting is influenced, one of the factors, by the government system of a country. Government accounting is strongly influenced by the local context of a country. Thus, if the government system is different, then the accounting system is also different. This different accounting system will certainly affect the accounting standards. For example, the Republic of Indonesia, which is very detailed in regulating state financial management (a very formal rule-based approach) will be different from other countries whose state financial management arrangements emphasize substance, not formality (i.e. principle-based approach). As a result, the recognition of the

¹ Bunga Rampai Case Study of Government Accounting is a collection of questions/cases submitted by state ministries/agencies and local governments along with responses made by the GASC.

occurrence of a transaction, for example the recognition of expenditure, will have different recognition criteria. Thus, it is irrelevant if the findings in this paper are discussed from a point of view originating from outside the Indonesian context. Furthermore, comparing Indonesian GAS with IPSAS is irrelevant because it implies that the accounting system in Indonesia is apple-to-apple with IPSAS. In the context of a business organization where ownership is possible for cross-border shareholders, shares can be traded on international exchanges, and company operations are also possible to cover cross-country (borderless), the issue of convergence between a country's accounting standards and International Accounting Standards (IAS) becomes relevant. However, this is not the case in the context of a sovereign government organization where ownership of a country is only specific to its citizens and is not divided into tradable shares. A country cannot be intervened by another country. Thus, it is not relevant to compare financial statements between countries because they are not comparable due to the different systems of state governance and the principle of sovereignty. Thus, the issue of convergence between government accounting standards and IPSAS is irrelevant. As a result, it is not relevant to compare Indonesian government accounting standards with IPSAS.

From a practical point of view, I hope that this critical study can provide inputs for the GASC to improve GAS in Indonesia, especially SGAS of Accounting for Investment. In addition, from an academic point of view, I hope that the arguments I present in this article can be used by scholars who focus on government accounting to develop a theory of government accounting.

This article is divided into three parts, namely introduction, content, and conclusion. The introductory section, as explained in the previous paragraphs, explains why a critical review of investment accounting standards needs to be written. The second part is the substance of this paper which contains critical thinking on the contents of SGAS Accounting for Investment. Not only giving criticism, but this section also contains suggestions for improvement of SGAS of Accounting for Investment. The third part contains conclusions which are the essence of the discussion presented in the second part.

Critical Review

The following paragraphs present a critical review of the contents of SGAS 06 Accounting for Investment (2016 revision) as contained in the 2021 Government Accounting Standards (Bahasa Indonesia version) and in the 2020 Government Accounting Standards of the Republic of Indonesia (english version).

Definition of Government Investment is not in Line with the Vision of Government Organizations

SGAS Accounting for Investment (2016 revision) (KSAP, 2020; 2021) defines investments as “assets that are intended to obtain economic benefits such as dividends, interest and royalties, and/or social benefits, thus increasing the ability of the government to provide services to the community”. This definition is in line with the definition of accounting contained in Article 1 Number 1 of Government Regulation Number 63 of 2019 concerning Government Investment which defines Government Investment as the placement of a number of funds and/or financial assets in the long term for investment in the form of shares, debt securities, and/or direct investment to obtain economic, social and/or other benefits (Republik Indonesia, 2019a). In addition, the investment objectives in the SGAS are also in line with the investment objectives as stated in Article 201 of Government Regulation Number 12 of 2019 concerning Regional Financial Management, which states that local governments can invest in order to obtain economic, social, and/or other benefits (Republik Indonesia, 2019b).

The main alignment of the investment definitions of the three regulations is on the similarity of the principle of investment objectives that the government's motivation to invest is not solely to obtain economic benefits but is also intended to obtain social and other benefits. Examples of social benefits resulting from government investment include job creation, reduced crime rates, reduced congestion, reduced transaction costs, and so on.

However, the sequence of intentions that puts the motivation for economic benefits first before the motivation for social benefits will lead to the perception that the motivation to obtain economic benefits is more important than the motivation to obtain social benefits. This is not in line with the main vision of the government organization, which is to create an independent, united, sovereign, just and prosperous society with social justice for all the people of Indonesia (Republik Indonesia, 1945). Placement of economic motives in the first order also not in accordance with the background and motivation of the establishment of the state (in this case a government organization) which is motivated and triggered by non-economic factors (Ritonga, 2020). Ritonga (2020) explains that the formation of a state, where individuals who have similar backgrounds, spontaneously, rationally, and voluntarily surrender their sovereignty, and unite with others to form a country can be attributed to the Voluntary Theory. The Voluntary Theory is supported by the Social Contract Theory, which sees someone, or political obligations morality depend on contracts or agreements between them to establish an organization. Thus, it can be concluded that the main motive to establish a state is non-economic.

In addition, placing economic benefits in the first place as an investment motive will have the potential for disorientation in investment decision making in government organizations, where government leaders will focus more on considering economic benefits than social benefits in making decisions related to government investment. Therefore, it is highly recommended to revise the government's investment objectives

as stated in SGAS Accounting for Investment by placing intention to obtain social benefits first and then followed by intention to obtain economic benefits: "...are intended to obtain social benefits, economic benefits such as dividends, interest, and royalties, and/or other benefits ...".

Furthermore, in the paragraphs relating to the statement of investment motives, it is better to state in full the government's investment motivation. Currently, there are paragraphs in SGAS Accounting for Investment stating that the motive for government investment is solely to obtain economic benefits. For example, this can be seen in paragraph 15 lines 7 and 8 in Figure 1.

6	15. A permanent investment conducted by the government are investments
7	that are not intended for sale, but to obtain dividends and/or have a significant
8	influence in the long term and/or maintain institutional relations. Permanent
9	investments can be:
10	(a) Government Equity Participation in state/local enterprises, international
11	agencies and other entities that are not owned by the state;
12	(b) Other permanent investments owned by the government to generate revenue
13	or improve public services.

Figure 1 Paragraph 15 of SGAS No. 06 Accounting for Investment
Source: KSAP (2020)

Inconsistency between Investment Definition and Accounting Treatment of Investment Proceeds

SGAS of Accounting for Investment only regulates the recognition of investment proceeds in terms of economic benefits, namely dividends, deposit interest, and bond interest. This SGAS does not regulate the recognition of investment proceeds from the aspect of social benefits or other benefits as stated in the investment definition. The absence of provisions governing the recognition of investment proceeds from social or other aspects results in the incomplete presentation of investment accounting information. This condition will result in reduced quality of accountability for the management of government investment. This condition is certainly not in line with the principle of full disclosure as one of the principles of accounting and financial reporting of the government (see the Conceptual Framework of Governmental Accounting (KSAP, 2021) in which the government must explain as clearly as possible every people's resource it manages.

If it is considered that information about social benefits or other benefits is not reliable from the aspect of measurement, then information about the social benefits of government investments must be disclosed in the disclosure section of the Investment Account. In addition to disclosing what are the social benefits and other benefits generated by government investment, it is also advisable to regulate the monetization efforts by the government for any social benefits or other benefits generated by its

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investments. Thus, efforts to make the management of people's resources accountable and transparent will become clear and in accordance with the principle of government accountability.

30	46. In equity method, recognition of loss in government's investment value which is presented in the balance sheet recognized until the investment becomes zero. The difference of unrecognized loss in government investment disclosed in the notes to financial statement.
31	
32	
33	
34	47. In the equity method, the investment may be reduced so that it becomes
35	zero or negative due to losses suffered. If as a result of losses suffered, the
36	investment value becomes negative, the investment will be presented in the balance
37	sheet at zero point, but the negative values will be disclosed in the notes to financial
38	statements.
39	48. Recognition of share of profit can be done again when the share of
40	profit has been closed unrecognized accumulated losses value when the
41	negative investment value presented at zero point.
Statement of Government Accounting Standard (SGAS) 06 - 142	
1	49. In the condition of negative investment value presented at zero point, the
2	share of profit is used in advance to cover the accumulated losses. Additional
3	investment from recognition of share of profit is allowed after accumulated losses
4	covered. Those condition disclosed in the notes to the financial statements.
5	50. If as a result of losses, the investment value became negative and
6	the government has a legal responsibility to bear losses on the business
7	enterprises which receive investment (investee), then the part of accumulated
8	losses are recognized as a liability.
9	51. Recognition of share profit when part of accumulated losses are
10	recognized as liabilities will reduce the value of the obligation. This condition is
11	disclosed in the notes to the financial statement.

Figure 2 Paragraph 46-51 of SGAS No. 06 Accounting for Investment
Source: KSAP (2020)

Lack of Comprehensive Accounting Treatment for Negative Investment Value

The accounting treatment under equity method for situations where the investee suffers a deep loss (see paragraphs 46-51 in Figure 2) that mathematically causes the value of government investment to be negative is biased towards government investment whose main purpose is dominated by economic motivation. In fact, the government also invests a lot, which is driven by social motivation, in companies that produce products and services that greatly affect the lives of many people.

For example, in the context of the central government, State Electricity Company (PT PLN), often receives an injection of funds from the central government in very large amounts even though it always loses large amounts of money (CNBC Indonesia, 2020). During year 1992 to 2021, PT PLN received 18 times capital injections from the central government (Kumparan, 2021). In 2021 alone, PT PLN received an injection of IDR 5 trillion (CNBC Indonesia, 2021). In the context of local government, most local governments in Indonesia have drinking water companies that provide more social benefits than economic benefits. Most (70%) of these companies are losing money (Media Indonesia, 2019), there is even a drinking water company that always loses in 25

years (PDAM Pacitan, 2020). In turn, the local government must inject fresh funds so that the company can operate to serve the community even though it is always at a loss.

Although legally and formally the government is only responsible for a maximum number of resources invested (Republic of Indonesia, 2003), in reality the government is responsible for more than the resources invested because the products and services produced by these companies affect people's lives. As a result, even though the company continued to lose money, the company still received an injection of funds from the government. The phenomena as described above have not been adequately regulated by the SGAS of Accounting for Investment.

Based on the arguments above, the accounting treatment under equity method for situations where the investee suffers a large loss so that mathematically it results in a negative government investment value must be regulated more systematically. Firstly, it should be stated in advance about the distinction between which government investment is dominated by economic motivation and which government investment is primarily motivated by social benefits. Secondly, it should regulate the accounting treatment for negative investment values for government investments with the main motivation being to obtain economic benefits. The accounting treatment is the same as in paragraphs 46-49. However, it is necessary to add a statement stating that as long as the investment value is still negative, investors must stop using the equity method. This provision has not been stated by the current standard. Thirdly, regulate the accounting treatment for negative investment values for government investments with the main motivation being to obtain social benefits. The accounting treatment is the same as in paragraphs 50-51, but by adding a provision on social responsibility in paragraph 50. Currently, it is stated as "...and the government has a legal responsibility to bear losses ...", then it should be corrected to "...and the government has a legal responsibility and/or social responsibility to bear losses...".

Inconsistency between Investment Definition and Disclosure Terms

The Figure 3 shows a snapshot of the government's investment disclosure provisions in the SGAS Accounting for Investment. Of the ten information (point (a) to (j) that must be disclosed relating to government investment, none of them relates to disclosure of social and other benefits. This indicates a discrepancy between the stated definition of investment and the disclosure. It is highly recommended that this SGAS of Accounting for Investment should add an obligation for the government to disclose the social and other benefits generated by its investment when the accounting treatment of investment proceeds in the SGAS Accounting for Investment is still only concerned with regulating investment proceeds from the aspect of economic benefits.

Inaccuracy of Diction or Grammar Choice and Incomplete of Glossary

There are inaccuracies in the choice of words or grammar in the accounting treatment arrangements for important matters. For example, in the Disclosure Section (see Figure 3), the use of the word "among others" (line 23) indicates uncertainty about the

minimum information that must be disclosed. This is exacerbated by the absence of the conjunction "and" after point (i) to indicate that the ten pieces of information are cumulative. This condition results in uncertainty regarding the scope of the adequacy of disclosure. This will result in potential problems arising in the audit of government financial statements because the adequacy of disclosure is one of the criteria considered by the Supreme Audit Agency in the formulation of an audit opinion on government financial statements (Republik Indonesia, 2004).

21	DISCLOSURE
22	<i>54. Other things that should be disclosed in the financial statements</i>
23	<i>related to government investments, include, among others:</i>
24	<i>(a) The accounting policies for the determination of investment values;</i>
25	<i>(b) The types of investments, permanent and non-permanent;</i>
26	<i>(c) Changes in the market price of investments both for short term and long</i>
27	<i>term investments;</i>
28	<i>(d) A significant decline in the value of investments and the cause of the</i>
29	<i>decline;</i>
30	<i>(e) Investments carried at fair value and the reason for its application;</i>
31	<i>(f) Reconciliation of beginning and ending investment value on investment</i>
32	<i>with equity methods;</i>
33	<i>(g) Investments which presented at zero values and part of accumulated</i>
34	<i>losses which over the investment values;</i>
35	<i>(h) Incurred liabilities from part of accumulated losses which exceeding</i>
36	<i>investment values in the case of government has a legal responsibility;</i>
37	<i>(i) Changes in investment posts classification;</i>
38	<i>(j) Changes in interest portion or significant influence which causing</i>
39	<i>changes in accounting methods.</i>
Statement of Government Accounting Standard (SGAS) 06 - 143	

Figure 3 Government Investment Disclosure Provision

Source: KSAP (2020)

Another example of inaccuracies of diction of grammar choice can be found in paragraph 19 (see Figure 4) which regulates investment recognition criteria. When setting criteria for an object, between one characteristic and another characteristic must be given a clear conjunction, namely "and" or "or" so that users can definitely understand whether the criteria stated are cumulative or alternative. An excellent example of writing criteria can be seen in the SGAS on Accounting for Fixed Assets in paragraph 15 (KSAP,2021) which discusses the criteria for recognizing fixed assets.

The list of terms and definitions contained in SGAS Accounting for Investment does not include all the important terms contained in the standard body. The definition of key terms is very important so that there are no misunderstandings for the users. For example, there are significant differences in the definition of investment between government organizations and business organizations. If this investment term is not defined in the glossary, it is possible that users will interpret investment in business organizations and government organizations as the same. Important terms that should

be included in the glossary include active markets (see paragraph 22); discount, premium, amortization (see paragraph 36).

31	RECOGNITION OF INVESTMENT
32	<i>19. Cash disbursements to acquire investment and/or assets</i>
33	<i>conversion, and grant receipts in the form of investments can recognized as</i>
34	<i>investments if they meet the following criteria:</i>
35	<i>(a) There is the possibility of economic benefits and social benefits or service</i>
36	<i>potential in the future that can be obtained from investments by the</i>
37	<i>government;</i>
38	<i>(b) The acquisition value or fair value of the investments can be measured</i>
39	<i>appropriately (reliable).</i>
<hr/> <small>Statement of Government Accounting Standard (SGAS) 06 - 138</small>	

Figure 4 Paragraph 19 of SGAS Accounting for Investment
Source: KSAP (2020)

Conclusion

The critical analysis above shows that there are many issues in SGAS of Investment for Accounting that need to be considered by the GASC in order to make the SGAS better. There are four fundamental issues that need to be followed up immediately so that the accountability quality of government investment management becomes better. The four main issues are the definition of government investment that is not in line with the vision of government organizations, inconsistency between investment definition and accounting treatment of investment proceeds, lack of comprehensive accounting treatment for negative investment value, and inconsistency between investment definition and disclosure terms. Other issues that should not occur for future accounting standards development are inaccuracy of diction or grammar choice and incomplete glossary.

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