



ATTACHMENT I
GOVERNMENT REGULATION OF THE REPUBLIC OF INDONESIA
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INTRODUCTION TO GOVERNMENT ACCOUNTING STANDARDS



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This introduction describes the objectives, duties, and procedures of the activities of the Government Accounting Standards Committee (KSAP), and explains the scope of the Government Accounting Standards (SAP). The contents of this introduction can be used as a reference for interpreting the SAP which are prepared by the KSAP.

PREFACE

1. One of the concrete efforts to establish transparency and accountability of state finance management is the delivery of reports of accountability statements of government finance that fulfill the timelines principle and are prepared by adhering to the generally accepted government accounting standards. Such efforts are regulated in Law No.17 Year 2003 on State Finance which requires that the form and content of accountability statements on the execution of the Revenue and Expenditure Budget for Central/Local Government (APBN/APBD) should be prepared and presented in accordance with the government accounting standards which are stipulated through government regulation.
2. Law No.17 Year 2003 on State Finance and Law No.1 Year 2004 on State Treasury assign further the duty of preparing the accounting standards to an independent standard committee which is established by a presidential decree on government accounting standard committee.
3. In accordance with the mandate of the abovementioned laws, the President has issued Presidential decree Number 84 Year 2004 on Government Accounting Standard Committee (KSAP) dated 5 October 2004 and lastly amended by Presidential Decree Number 2 Year 2005 on



Amendments to Presidential Decree Number 84 Year 2004 on the Government Accounting Standard Committee. The Presidential Decree strengthens the position of the KSAP that has been established by the Minister of Finance in RI Minister of Finance Decree Number 308/KMK.012/2002 on Central and Local Governments Accounting Standard Committees dated 13 June 2002.

4. The KSAP consists of the Government Accounting Standard Consultative Committee (Consultative Committee) and the Government Accounting Standard Working Committee (Working Committee). The Consultative Committee has the duty to provide consultation and/or opinion for formulating the draft of Government Regulation on Government Accounting Standards. The Working Committee has the duty to prepare, formulate, and compile the draft of Government Regulation on Government Accounting Standards. KSAP submits the draft of the Government Regulation on Government Accounting Standards to the Minister of Finance for the process of promulgating the Government Regulation.
5. The SAP are accounting principles which are applied in the preparation and presentation of government financial statements. Therefore, the SAP become a legally bound requirement in the efforts to improve the quality of government financial statements in Indonesia.
6. Besides preparing the SAP, the KSAP is authorized to issue various other publications, such as Interpretation of Statements of Government Accounting Standards (IPSAP) and Technical Bulletins.
7. IPSAP and Technical Bulletins serve as further guidelines and information that will be issued by the KSAP to facilitate the understanding and application of SAP, as well as an anticipation to overcome the problems of accounting and financial reporting.



OBJECTIVE AND STRATEGY OF THE KSAP

8. The KSAP has the objective of improving the accountability and reliability of government financial management through the preparation and development of government accounting standards, including supporting the implementation of such standards.
9. In achieving such objective, the KSAP refers to the best international practices, such as adapting the International Public Sector Accounting Standards (IPSAS) that was published by the International Federation of Accountants (IFAC).
10. The “adaptation” strategy means that in principle the development of the SAP is oriented towards IPSAS, however it is adjusted to the existing conditions in Indonesia, among others are by observing the applicable laws, existing financial practices, and the readiness of resources of the SAP users.
11. The SAP development strategy is conducted through a transition process from cash basis to accrual basis which is known as cash toward accrual basis. With this basis, revenues, expenditures, and financing are recorded based on cash basis while assets, liabilities, and equity are recorded on accrual basis.
12. The standard transition process toward accrual basis is expected to be finalized in year 2007.
13. In the preparation of the SAP, the KSAP employs references issued by:
 - a. International Federation of Accountants;
 - b. International Accounting Standards Committee;
 - c. International Monetary Fund;
 - d. Indonesian Institute of Accountants (IAI);
 - e. Financial Accounting Standard Board – USA;
 - f. Governmental Accounting Standard Board – USA;



- g. The Indonesian Government in the form of regulations covering state finances;
- h. Other professional organizations in various countries in the sectors of financial reporting, accounting, and government auditing.

GOVERNMENT FINANCIAL REPORTING

- 14. Government financial statements are intended to fulfill the general purpose of financial reporting, and not the specific needs of the users. The term “financial statements” includes all reports and various explanations that accompany such reports.
- 15. Besides the preparation of general purpose financial statements, the reporting entity may produce financial statements that are prepared for specific needs. If needed, the KSAP supports the use of SAP for preparing the special purpose financial statements.

GOVERNMENT ACCOUNTING STANDARDS (SAP)

The Position of SAP

- 16. Law Number 17 Year 2003 on State Finance stipulates that SAP should be enacted in the form of Government Regulation.
- 17. Every central and local government reporting entity is obliged to apply the SAP. Besides, it is expected that there are efforts to harmonize various regulations both at central as well as local governments with the SAP.

Scope

- 18. The SAP is implemented in the government environment, namely the central government, the local government, and organization units within the scope of the central/local governments, if according to the regulations such units are obliged to present the financial statements.



19. The limitation on the application of SAP will be explicitly stated in each issued standard.

Due Process of the SAP

20. The due process of the SAP preparation is a procedural mechanism that covers phases of activities conducted in each preparation of Government Accounting Standard (PSAP) by the Committee.
21. The due process of the SAP is the process that is internationally accepted with some adjustments to existing condition in Indonesia. Adjustments are carried out due to urgent considerations and the ability of the users to understand and to carry out the standards. The due process of SAP consists of the following phases:
 - a. Identification of Topic to Be Developed into Standards
This phase is a process of identification of accounting and reporting issues that require regulation in the form of government accounting standards.
 - b. Establishment of Working Group (Pokja) within the KSAP
The KSAP can establish Working Group with the task to discuss approved topics. Members of the Working Group come from various institutions and are competent in their fields.
 - c. Limited Research by Working Group
To discuss a certain topic, a Working Group will conduct a limited research on literatures of accounting standards that are applicable in various countries, best practices in accounting, other regulations, and other sources related to the topic to be discussed.
 - d. Drafting of the SAP by the Working Group
Based on the results of limited research and other references, the Working Group will prepare a draft of SAP. This completed draft will be discussed in-depth by the Working Group.
 - e. Discussion of Draft by the Working Committee



The draft prepared by the Working Group will be discussed by the Working Committee. This discussion will prioritize the substance and implication of application of standards. With such approach, it is expected that the draft will become a good quality accounting standard. During this discussion, it will be possible to change the original draft proposed by the Working Group. During this phase, the Working Committee will also discuss this draft with the Supreme Audit Body (BPK) for arriving to a common perception.

f. Making Decision on Publicizing the Exposure Draft

The Working Committee consults to the Consultative Committee to make the decision on the launching of the exposure draft.

g. Launching of SAP Exposure Draft

The KSAP launches the exposure draft by sending it to the stakeholders, such as the public, the legislative, audit institutions, and other related institutions to obtain feedback.

h. Limited Hearings and Public Hearings

Hearings are conducted in two phases, namely the limited hearing and the public hearing. A limited hearing is conducted by inviting parties from academicians, practitioners, government accounting observers to obtain response/input in order to complete the exposure draft.

A public hearing is a process of hearing with the public that has interest in the SAP. This phase is intended to invite the response from the public towards the SAP draft.

i. Discussion on Response and Input Towards the Exposure Draft

The KSAP conducts discussion on the response/input obtained from the limited hearing, the public hearing, and other input from various parties to complete the exposure draft.

j. Finalization of Standard

In the framework of finalization of the SAP draft, the KSAP will consider the inputs from the BPK. Additionally, this phase will be



the final phase for completion of substance, consistency, coherence as well as language. Finalization of each PSAP is marked by the signing of the PSAP draft by all members of the KSAP.

Promulgation of Government Accounting Standards

22. Before promulgating the draft into Government Regulation, the KSAP through the government, will request for the consideration from the BPK RI on SAP draft. The Consultative Committee thereafter proposes to the President the final SAP through the Minister of Finance for its promulgation as a Government Regulation.

Initial Socialization of Standards

23. After being promulgated as a Government Regulation, the SAP is then disseminated and socialized to the public including the society, government institutions, and organizational representatives. Besides, the KSAP will conduct initial socialization of the standard to the users. The form of such initial socialization will be in the form of seminars/discussions with users, continuing professional education programs, training of trainers (TOT) and others.

Language

23. All drafts and standards, including interpretations and technical bulletins issued by the KSAP will be in the Indonesian language. The process of translating them to other language should be confirmed to the KSAP.



THE PRESIDENT OF THE REPUBLIC OF INDONESIA

(Signed)

Dr. H. SUSILO BAMBANG YUDHOYONO

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THE STATE SECRETARIAT OF THE RI

Head of Administration Bureau,

(Signed)

Sugiri, S.H.