



## Boosting Government Assets as A Revenue Center: Risk and Treatment

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### ABSTRACT

*The Ministry of Finance, through the Directorate General of State Assets Management (DGSAM), strives to increase the contribution of asset management as a source of Non-Tax State Revenue through the Asset Utilization mechanism (in the form of assets rent, etc.). However, empirical data indicates that Asset Utilization activities are not optimal. This study aims to conduct a risk assessment of the government assets rental business process. The study was conducted qualitatively following the risk assessment steps according to ISO 31000:2018 Risk Management. Based on data obtained (by document analysis and interviews) and referring to the organization's risk appetite, the risk assessment shows that eight significant risks need to be anticipated and mitigated by DGSAM related to the assets rental business process. To increase the effectiveness of the assets rental business process in generating Non-Tax State Revenue, we recommend DGSAM as Assets Manager to increase the effectiveness of control in the assets rental business process and implement risk mitigation as an embedded strategy in improving asset management.*

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### Introduction

The concept of asset management in the public sector is developing along with pressure to adopt best practices in asset management (Ngwira & Manase, 2016). In the past, managing property assets owned by an entity was considered an activity to maintain the usability of assets to support operational tasks. Nowadays, asset management is not just to support operational tasks but also to provide additional income for organizations (Rustanto, 2019).

In the public sector, government assets utilized optimally can contribute income as Non-Tax State Revenue or Penerimaan Negara Bukan Pajak (PNBP) (Rustanto, 2019; Yasir et al., 2020). This statement aligns with the 2020-2024 Strategic Plan of the Directorate General of State Assets Management (DGSAM), which states that the management of State Assets (further named as assets) is used to support public services and is also a source of PNBP (DGSAM, 2020). According to Hariyanto & Narsa (2018), through the Ministry of Finance, the Indonesian Government is trying to adjust the dynamics of asset management from initially focusing on administrative matters to optimizing assets as a source of state revenue.

The need to optimize assets as a source of state revenue is increasingly urgent in line with the government's plans to move the country's capital. After the enactment of

Law Number 3 of 2022 concerning the National Capital or Ibu Kota Negara (IKN) on February 5, 2022, the Government continues the process of accelerating the transfer of IKN (Christy, 2022). National economic conditions are minimal to finance the development of the IKN. Therefore, a breakthrough method is needed, including optimizing the use of assets, one of which is by renting (Suharyono & Hadiningrat, 2023). The transfer of IKN will undoubtedly impact the management of assets in Jakarta. The use of government assets in the old IKN is a concern for the Government (Sari, 2022). Regarding rentals, assets (such as office buildings) in Jakarta can supply the commercial building rental market in Jakarta. By renting out assets, the government will gain benefits in the form of rental income and reduced maintenance costs, which will be the responsibility of the tenant (Sari, 2022; Suharyono & Hadiningrat, 2023).

The State Revenue and Expenditure Budget, or Anggaran Pendapatan dan Belanja Negara (APBN), shows that capital expenditure continues to increase. The increase in the number and value of fixed assets indicates the potential contribution of assets to PNBPN. However, it is indicated that the PNBPN contribution from assets is not optimal. Based on data from the Central Government Financial Report (LKPP) 2022, PNBPN from government assets is IDR 1,016.226 billion (BPK, 2023a). Further, from the author's calculation, PNBPN from utilizing assets only contributed 0.52% of the total PNBPN, mostly from rent for land, buildings, and structures.

Furthermore, based on data from the Audit Result Report (LHP) of The Audit Board of Indonesia or Badan Pemeriksa Keuangan (BPK) for 2021 and 2022, there are many findings related to asset utilization, especially rent (BPK, 2022, 2023b). Some findings related to rent are delays in rent payments, under-collected PNBPN on rent, potential under-receipt of PNBPN on rent, and PNBPN on rent that has not been collected. DGSAM needs to follow up on findings according to its role as an Asset Manager who has the authority to formulate regulations, provide approval, set tariffs, provide guidance, supervision, and control, as well as other authorities by regulations.

There are many studies on asset management in Indonesia, but a study that uses a risk management perspective is relatively rare (Wibowo, 2021). John & Anthony (2021) stated that asset management practices must have good risk management. (Prayoga, 2017) found that a solid relationship exists between implementing good governance and asset management practices in Indonesia. According to Rustanto (2019), to optimize assets, the Ministry of Finance c.q. DGSAM needs to make efforts in asset utilization and improve performance and efficiency. The study by Yudianto (2021) used KPKNL Yogyakarta as an object concluded that there needs to be several improvements in the business process of utilizing assets. For further study, Yudianto (2021) suggested that analyses related to asset utilization business processes be carried out wider, especially with DGSAM as the Asset Manager. Furthermore, Wibowo (2021) analyzed several fraud risks in the asset sales business process with various levels of risk. For further study, Wibowo (2021) suggested to carry out risk assessments of business processes related to other asset management cycles, for example, the use of assets.

In managing assets as a revenue center, Wijaya & Hamidah (2018) found that DGSAM needs to instill a new paradigm to build a mindset as an Asset Manager.

According to Hariyanto & Narsa (2018) and Yudiyatno (2021), currently, there are still many assets that are idle, underused, and not using their highest and best use (HBU).

By Government Regulation (PP) Number 60 of 2008 concerning Government Internal Control Systems (SPIP), every Government Institution activity must consider the internal control system to provide adequate assurance in achieving objectives (RI, 2008). PP explained that one of the essential elements in implementing activities is implementing adequate risk management. However, the PP has not provided detailed guidelines regarding the risk management process. As the manager of state finances and assets, the Ministry of Finance has issued Minister of Finance Regulation (PMK) Number 222/PMK.01/2021 concerning Risk Management for State Financial Management and Minister of Finance Decree (KMK) Number 105/KMK.01/2022 as implementation instructions (Kemenkeu, 2021, 2022). The risk management design refers to ISO 31000 Risk Management-Guidelines, adapted to the organization's needs.

One of the risk management processes in these guidelines is risk assessment. ISO 31000 explains that risk assessment must be systematic, collaborative, and iterative (ISO, 2018). In line with this, The Institute of Risk Management (2019) explained that risk assessment is integral to most operational risk management frameworks. Risk assessment provides a structured mechanism regarding operational exposure and control effectiveness (IRM, 2019). Risk assessment helps organizations prioritize risks, identify control weaknesses and gaps, and monitor the actions taken to overcome these weaknesses and gaps (IRM, 2019).

Considering DGSAM's strategic objectives in managing assets and the critical role of risk assessment in achieving strategic objectives, this study aims to analyze the risks related to the assets rental business process. These study questions are:

- 1) What are the risks of managing government assets as a revenue center?
- 2) What are the appropriate mitigation steps to treat these risks?

The scope of the study is limited to the land and/or building rental business process because it has the highest value. The study object is DGSAM as the manager of government assets. The types of risks identified are limited to operational risks.

The study was conducted qualitatively with document analysis and interviews as data sources. Documents analyzed include audit results, organizational risk profiles, strategic plans, and performance reports. Interviews were conducted with key informants directly involved in asset management, from elements of operational units, risk management functions, internal compliance, and internal audit at the Ministry of Finance (Inspectorate General).

This study had several novelties. First, most previous studies on government assets used an asset management approach, while this study combined it with a risk management approach as an integral part of asset management (ISO 55002, 2018). Second, previous studies usually took the theme of asset management in general, while this study was more specific to the business process of utilizing assets through rental schemes. Third, most previous studies were carried out at the operational office, while this study took a case study at DGSAM as the asset manager.

Implementing risk assessment in the asset rental business will help the Ministry of Finance c.q. DGSAM in developing an effective risk management strategy in

managing assets as a revenue center. Furthermore, this study can enrich references related to risk management studies in the public sector, especially in asset management.

The results of this study are presented in several sections. After the study background, the literature review and methodology are described. The results and discussion section will explain the results of the risk assessment and mitigation proposals. The final section will outline the conclusions and implications.

## **Literature Review**

### **New public management theory**

New Public Management (NPM) is a perspective that aims to improve the performance of public sector administration by using private sector concepts (Alamsyah, 2016; Lapuente & Van De Walle, 2020). Matei & Antonie (2014) state that NPM uses two main concepts, cost efficiency and resource optimization, to improve public performance. Dimeski (2019) explained that the main objective of NPM is to formulate organizational strategies to be more efficient, effective, transparent, and responsive to society so that public needs can be met.

According to Lapsley (2009), explained further by Bracci et al. (2021), risk management is one of the recommended practices in the private sector that needs to be adopted by the public sector. Risk management is a governance tool to support decision-making and establish policies (Bracci et al., 2021). Ahmeti et al. (2017) asserted that there is no fundamental difference between the public and private sector risk management, so the public sector can adopt and implement the private sector risk management concept.

### **Stakeholder theory**

Stakeholder theory is related to strategic business planning (Mardian et al., 2023; Santoso et al., 2023). This theory requires that the focus of business decisions and strategies is not only directed at shareholders but also at other stakeholders (Gherghina, 2023; Mardian et al., 2023). Stakeholder theory has been widely studied and used in private companies because of its potential to achieve satisfactory organizational outcomes and create sustainable value among different stakeholder groups. However, the stakeholder theory principles still need to be consolidated in the public administration field (Sarturi et al., 2023). According to stakeholder theory, information about risk in asset management is important for stakeholders to know, in order to formulate policies.

### **Government asset management in Indonesia**

Risk management is relevant to asset management (ISO 55002, 2018; John & Anthony, 2021). According to Doran (2015), asset management dynamics are evolving from focusing on maintaining compliance functionality to performance functionality. In the past, managing property assets was considered an activity to maintain the usefulness of assets to support operational tasks. Currently, asset management is not just to support operational tasks but is a source of additional income for organizations (Rustanto, 2019).

In Indonesia's government asset management system, asset management as a source of income can be carried out by asset utilization. According to PP Number 27

of 2014, asset utilization is using assets by another party without changing ownership (RI, 2014). There are several mechanisms for utilizing assets; the most commonly used is rent (Yudiyatno, 2021).

Asset Managers and users are essential in managing assets (PP Number 27 of 2014). In Indonesia, the Ministry of Finance carries out the role of Assets Manager as State General Treasurer (BUN) through DGSAM. In the rental mechanism, the Asset Users submit a request for rental approval, carry out the rental after obtaining approval from the Asset Manager, approve the rental continuation request, submit a rental application extension, and determine sanctions and fines arising in implementing the asset's rent.

According to Rustanto (2019), asset utilization, increasing asset performance and value, and increasing asset efficiency are alternative strategies the Indonesian government needs to implement to optimize assets. Prayoga (2017) stated that a robust relationship exists between implementing good governance and asset management practices in Indonesia. Therefore, good asset management needs to be supported by good governance.

### **Risk Assessment**

ISO 31000 defines risk assessment as the entire process of identifying, analyzing, and evaluating risks (ISO, 2018). Based on stakeholder knowledge and views, risk assessment must be systematic, iterative, and collaborative. The risk assessment process must use the best information available: relevant, valid, and up-to-date, plus any further investigations required. Hessami et al. (2021) stated that for Asset Managers to determine the best way to analyze risk, it is essential to understand the type or level of uncertainty.

The risk assessment process has three main stages: risk identification, analysis, and evaluation. ISO 31000 explains that risk identification is a process for finding, accepting, and describing risks that can support or hinder an organization in achieving its goals (ISO, 2018). The second stage in risk assessment, according to ISO 31000, is risk analysis. BSN (2021) describes risk analysis as a risk management process to develop an understanding of risk. ISO 31000 explains that risk analysis aims to understand the nature and behavior of risks, including risk ranking when necessary (ISO, 2018). The third stage of risk assessment is risk evaluation. ISO 31000 states that risk evaluation is comparing the analysis results of each risk with predetermined risk criteria to determine the level and type of risk to make decisions regarding risk follow-up if necessary.

### **Risk Treatment**

The risk assessment results will be input for risk treatment, determining and selecting various risk treatments (ISO 31000, 2018). Then, as part of the risk management process, all risks and controls must be monitored and reviewed periodically to ensure the various assumptions and results provided in the risk assessment process and whether they are still relevant to current conditions or need to be updated. ISO 31000 defines risk treatment as selecting and implementing risk management options (ISO, 2018).

## **Method**

## Type of Research

This study employed a qualitative method. Wahyuni (2019) described that qualitative research is an inductive approach that aims to gain an in-depth understanding of a person's or group's experience. Furthermore, qualitative research provides more profound information about a particular object or context, explains cause and effect, evaluates effectiveness, and helps formulate specific strategies or theories (Wahyuni, 2019). This study used a case study approach. According to Ellet (2018), the case study approach had the advantage of developing structured and objective information and conclusions related to specific topics. In this case, the issues analyzed are risks associated with the asset rental business process.

## Data collection technique

According to ISO 31000, the risk assessment process must be systematic, iterative, and collaborative, based on the knowledge and views of stakeholders, and must use the best information available (ISO, 2018). Therefore, the data collection process in this study uses two techniques: document analysis and interviews (ISO 31010, 2019).

### 1. Document analysis

Document analysis utilized DGSAM internal and external documents. Documents used as objects of analysis include the DGSAM Strategic Plan (2020-2024), DGSAM risk profile (2022), SOP, DGSAM Performance Report (2021-2022), Internal Compliance Unit Internal Control Monitoring Results Report (2020-2022), Inspectorate General and BPK Audit Results Report (2018-2022), and State Asset Report (2021-2022).

### 2. Interview

DGSAM applies The Three Lines Model as an internal control system. To obtain comprehensive information from all parts of the lines, this study involved informants representing Line 1 (operational/management/policy formulation unit), Line 2 (Internal Compliance Unit and Risk Management Unit), and Line 3 (Internal Auditor). Data collection in this study was done through semi-structured interviews by preparing draft questions based on the literature. ISO 31010 further explains semi-structured interviews as one of the techniques recommended for use in the risk identification and analysis stages. This technique also aims to gather insights from stakeholders relevant to the risk assessment process. Research informant data is presented in Table 1 below:

**Table 1 Informant of the study**

No.	Informant	Role in Business Process	Organization Unit	Informant Code	Topic of Interview	Interview Duration
1	Head Office	Leads the implementation of business processes as an operational activity (Line 1)	KPKNL A (Operational Unit)	K-OP	RI, IC, RT	50 minutes
2	State Management Analyst	Implementing business process (Line 1)	KPKNL B (Operational Unit)	OP-1	RI, IC, RT	40 minutes
3	State Management Analyst		KPKNL C (Operational Unit)	OP-2	RI, IC, RT	52 minutes

4	State Management Analyst		KPKNL D (Operational Unit)	OP-3	RI, IC, RT	60 minutes
5	Internal Compliance Analyst	Assessing the internal control effectiveness (Line 2)	Secretariat Directorate General	KI-1	RI, IC, RT	40 minutes
6	Internal auditor	Assessing governance, risk, and compliance (Line 3)	Inspectorat General	IJ-1	RI, IC, RT	60 minutes
7	Internal auditor	Assessing governance, risk, and compliance (Line 3)	Inspectorat General	IJ-2	RI, IC, RT	45 minutes
8	Policy Analyst	Formulating the regulation and SOP (Line 1)	Directorate of Assets Management Policy	CO-1	RA, RT	70 minutes
9	Risk Management Analyst	Managing the risk of DGSAM (Line 2)	Secretariat Directorate General	RM-1	RA, RT	30 minutes
10	Government Appraisal	Implementing appraisal function (Line 1)	KPKNL E (Operational Unit)	GA-1	RI, IC, RT	30 minutes

Notes:

RI	Risk Identification
IC	Internal Control
RA	Risk Analysis
RT	Risk Treatment

Source: designed by Author

## Result and Discussion

### Risk identification result

The first stage of risk assessment is identifying risks. The results of risk identification are presented in a structured manner based on the main stages in the assets rent business process. Based on document analysis and interviews, we identified 16 risks related to the asset rental business process, presented in Table 2 below.

**Table 2 Risks Related to Assets Rental Business Process**

Risk Code	Description of Risk	Rental Business Process	Source of Identification	
			Document Analysis	Interview
R1	Idle assets are not utilized	Planning	√	√
R2	A third party controls the asset, so it can not be rented	Planning	√	√
R3	K/L and prospective tenants do not fulfill the required documents	Approval	√	√
R4	The preparation of administrative documents for rental approval applications takes too long.	Approval	√	√
R5	Inaccurate review of rental terms	Approval	√	√
R6	Error in determining the amount of adjustment factor in calculating the rental value	Approval	-	√
R7	Rental values do not match market expectations	Approval	√	√
R8	Delay in issuing rental approval documents	Approval	√	√
R9	Mistakes in determining the value of the rental agreement	Approval	√	√
R10	Assets are rented without DGSAM approval	Implementation	√	√
R11	The rental approval is not followed up with a rental contract	Implementation	√	√

R12	Less/late payment of rent	Implementation	√	√
R13	Failure to pay/default on rent	Implementation	√	√
R14	Delay in approval of asset rent extension	Implementation	√	√
R15	Damage/decrease in the condition of the rented asset	Implementation	√	√
R16	Rental implementation is not following the contract	Implementation	√	√

Source: designed by Author

### Risk analysis result

Once risks are identified, we analyze the risks to determine the likelihood and impact of each risk. We use the risk analysis criteria used by DGSAM as regulated in KMK Number 105 of 2022. By comparing the data obtained with the risk analysis criteria and strengthened by consensus with Informants CO-1 and RM-1, we present the results of the risk analysis in a heatmap (Figure 1) as follows:

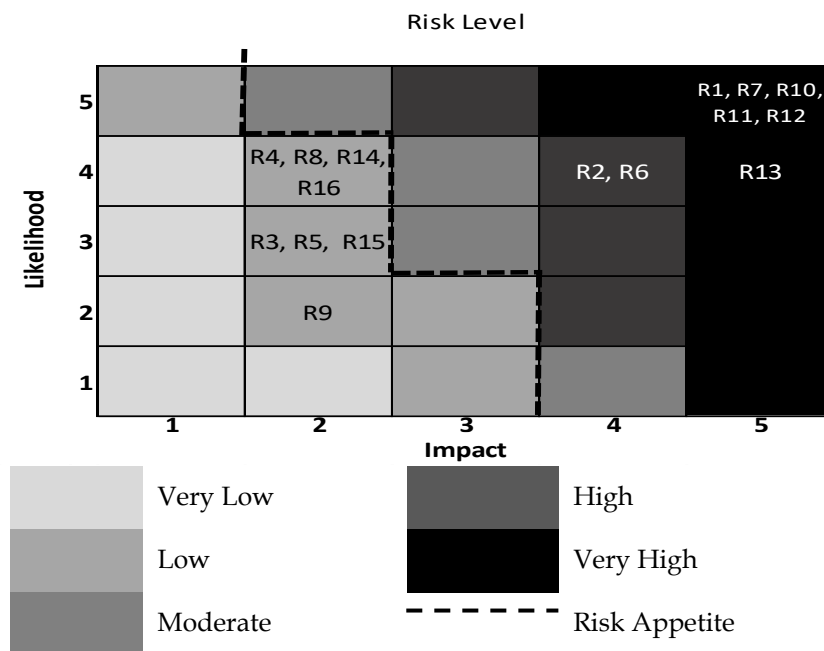


Figure 1 Heat Map of Rental Risk Analysis

Source: designed by Author

### Risk evaluation result

The third stage of risk assessment is conducting a risk evaluation. In carrying out risk evaluations, we referred to the Ministry of Finance's risk appetite as regulated in KMK Number 105 of 2022. In the KMK, the Ministry of Finance sets the risk appetite at low and very low levels. Next, we evaluated the risks to determine the level of each risk. We conclude that eight risks were above the risk appetite and eight risks were under the risk appetite. Risks above the risk appetite consist of six risks at a very high level and two at a high level. All risks above the risk appetite are explained further in the discussion section.

### Discussion

This section discusses eight significant risks that DGSAM needs to mitigate regarding the asset rental business process. For each risk, we describe the causes of its



occurrence and the impacts it causes. Next, we propose several mitigation proposals by referring to best practices, causes of risks, and input from informants.

1. *Idle assets are not utilized*

The first risk that needs to be mitigated by DGSAM is the existence of idle assets that are not being utilized. This risk impacts the loss of potential state revenue (PNBP). Idle assets in this context are assets that K/L does not use for operational functions. This risk explains the condition that the K/L does not seek to rent out the idle assets it owns to other parties.

As stated by Hariyanto & Narsa (2018), Rustanto (2019), and Yasir et al. (2020), many assets in the form of land and buildings are underutilized and underused. According to Yudiyatno (2021), there is no mapping of the potential of idle assets that can be utilized to obtain economic and social benefits. On the other hand, the utilization of assets from rentals is also very dependent on rental applications from prospective tenants, not based on the initiative of Ministries/ Agencies to utilize assets.

LHA Inspectorate General of the Ministry of Finance for 2021 stated that there are problems in idle assets management, including K/L providing inaccurate data on plans for the use/utilization of assets that are indicated to be idle and even not providing answers to clarifications submitted by DGSAM. The 2022 BPK LHP also stated that problems arose because DGSAM, as the Assets Manager, did not have adequate data on assets utilization, and assets were indicated to be idle (BPK, 2023b). This is because DGSAM still does not have an appropriate mechanism for mapping potential assets that can be optimized through the asset rental mechanism.

Several informants identified this risk. Informant OP-1 explained that many cases of assets have not been utilized optimally. Informant OP-2 also stated that K/L often has strong intentions to control assets, but this is not followed by optimizing the assets they own. This case is due to the absence of rewards and punishment for asset utilization. As the head of the office, the K-OP informant confirmed a risk of idle or potentially idle assets, which have not yet been exploited. This is usually discovered during field observations. Informants KI-1, IJ-1 and IJ-2 also agree with this risk.

2. *The assets are controlled by a third party so that they cannot be rented out*

The second risk that needs to be mitigated relates to the legality aspect of assets. This risk describes the condition that there is a possibility that government assets are controlled by a third party illegally. Control of assets by third parties means that assets cannot be used to support K/L operations or even optimize assets properly. The impact is the potential loss of state revenue because the asset cannot be used as a rental object.

One of the problems in optimizing assets presented by Rustanto (2019) is the large number of government assets in the form of land and buildings that are not registered. This means these assets do not have legal ownership, thus preventing Asset Managers from optimizing their use. Kuntadi et al. (2022) explained that implementing good management is necessary to achieve optimal benefits from assets. The DGSAM risk profile (2022) also stated that there are problems related to controlling assets by other parties, including assets not supported by adequate documents and, therefore, prone to lawsuits. LHA (2021) also shows several cases of assets being controlled by other parties. This is caused by weak asset security, both administrative and physical, so

DGSAM cannot carry out proper asset management efforts. Problems related to assets controlled by third parties are also described in the LHP (BPK, 2022, 2023b).

The results of interviews with research informants also showed that there was still a risk of assets being controlled by third parties. Informant OP-2 found cases related to land assets owned by third parties, making it difficult to utilize them. Informant KI-1 also stated that assets may be difficult to utilize because not all assets are managed prudently by Ministries/Agencies.

### 3. *Error in determining the amount of adjustment factor in calculating the rental value*

Several informants identified the risk of errors in determining adjusting factors. Informant OP-3 found cases of inappropriate adjustment factors in the type of business activity of the prospective tenant. Informant K-OP experienced another case as head of the operational unit office. Informant K-OP explained the case of determining the amount of the adjusting factor in his office regarding periodicity. In line with this, informant KI-1 also explained a potential risk at the analysis stage in the form of errors in determining the amount of the adjusting factor. Informants IJ-1 and IJ-2, as Internal Auditors, also stated that this risk occurs when the DGSAM adjusts the value determined by the appraiser to deviate from the PMK.

Based on the statements from the informants, it can be concluded that two main things can cause the incorrect determination of the amount of the adjustment factor. First, the failure of the DGSAM (in this case, the operational unit) in identifying the type of business in the proposed rental application. Second, using periodicity causes the rental value to be higher and not according to the applicant's expectations. Misidentification of prospective tenants will result in the loss of potential PNBP because the rental value is determined to be lower than the actual rental value. Meanwhile, an incorrect calculation of rental periodicity will result in the cancellation of the rental agreement because the rental value is considered too high for the prospective tenant.

### 4. *The rental value does not match market expectations*

The following identified risk is the risk of inaccuracies in asset valuation or above market expectations. This risk explains that the valuation by the functional appraiser generates a high deviation from the applicant's proposal (not reflecting market value). Sakawati et al. (2020) explained that there were problems related to determining rental rates, including not referring to applicable regulations, not paying attention to the condition of assets, and not considering market prices. This creates a risk that the rental value will not align with market expectations. Yudiyatno (2021) further explained that there are problems with inaccurate rental value assessments due to the unclear size of the asset to be rented. LHP (2021) found that asset rental rates were not supported by working papers for calculating rates and basic building unit prices (BPK, 2022). This shows that there are problems related to inaccuracies in the assessment process. Furthermore, LHA (2020) at one of the KPKNL identified the risk of inaccurate fair value results from asset appraisals. Several informants identified risks or problems related to this. Informant OP-1 explained that the case that often occurs regarding asset rentals is that the rental price is not financially attractive. According to informant OP-2, rental applicants generally expected lower prices because the asset belongs to the government.

Based on the analysis of documents and statements from informants, it can be concluded that two main things can cause inaccurate rental values and not matching market expectations. Firstly, from the internal side, the appraiser does not understand the assessment object comprehensively and has not applied the assessment rules correctly. Secondly, from the external side, the value proposed by the applicant does not yet reflect the value prevailing in the market. This risk results in a potential loss of state revenue because the asset becomes financially unattractive for prospective tenants.

5. *Assets are rented without DGSAM approval*

The risk of renting assets without DGSAM approval explains the condition of an asset rental outside the applicable mechanism. In this risk scheme, assets are rented without a letter of approval from DGSAM as the Asset Manager (Sakawati et al., 2020; Yudiyatno, 2021). The source of this risk is the K/L as the Asset Users. Purnama (2017) and the DGSAM risk profile (2022) explain problems related to asset rental outside the proper mechanisms. LHA (2018) and LHA (2020) identified findings related to rentals without DGSAM approval in several Government Agencies in the KPKNL work area. In one of the Government Agencies that was part of the audit sample, it was found that the case was caused by a lack of compliance with asset leasing by applicable regulations.

Furthermore, several repeated findings from the BPK (2021, 2022, 2023b) show that many asset rents are unsupported by a DGSAM approval letter. This shows that many asset rents do not have an adequate legal basis. Other findings related to asset rentals also occurred in several K/L, such as rentals in canteens, shops, and kiosks. This is generally caused by the poor quality of asset management in K/L and inadequate monitoring and control activities for asset management and PNBPN.

The interview results also confirmed these risks. All informants thought many asset rentals were outside the applicable provisions, but the number was difficult to ascertain. This case is generally only known if there is a report from another party. This risk results in PNBPN not being deposited into the state treasury or being deposited, but the value cannot be accounted for.

6. *The rental approval is not continued with the rental contract*

The following risk is the risk of the rental approval not continuing with the rental contract. This risk explains that K/L, as the Asset Users, K/L does not follow up on the asset rental approval that DGSAM has issued through a contract with partners/potential tenants. Several documents and interviews confirm this risk. LHA (2020) revealed findings regarding approvals that had not been followed up. The DGSAM Performance Report (2022) and DGSAM Risk Profile (2022) explain that many rental agreements are not followed up with rental agreements. The documents further explain that the cause or root of the problem is that K/L cannot find a partner after the approval letter is issued, or the partner considers that the rental value is too high, so the agreement cannot be implemented.

The results of the interviews confirmed the frequent occurrence of this risk. All informants stated that the main problem related to asset leasing was that rental approval was not followed up with a rental agreement. This is usually caused by the

rental value being considered too high. This risk impacts the potential loss of state income from asset rentals.

#### 7. *Underpayment/late payment of assets rent*

The following risk is the risk of underpayment/late payment of assets rent. This risk explains the condition that there is an insufficient difference between the rental agreement value and the PNBP deposit value, or the tenant makes payments beyond the deadline in the agreement letter. Dinarjito (2017) explained several problems related to the payment and implementation of assets rent, such as underpayment and rental income being late/not yet deposited into the state treasury. This can be caused by non-compliance or inattention by K/L regarding existing provisions in PNBP management so that collections are carried out over time. BPK's LHP for 2020-2022 and Inspector General's LHA (2022) findings related to under/late payment of assets rent are always identified (BPK, 2021, 2022, 2023b).

The results of the document analysis were confirmed from the interview results. Informants OP-1, K-OP, KI-1, IJ-1, and IJ-2 explained that many cases were still related to underpayment and the late payment of assets rent. Informant OP-2 added that the complicated bureaucracy in K/L caused the process of issuing rental agreements to take a long time. In addition, because rent must be paid in advance, tenants need quite a long time to prepare the payment. This shortage or delay in payment of assets rent impacts the loss of PNBP on rent.

#### 8. *Failure to pay/default on assets rent*

The subsequent significant risk is the risk of default on assets rent. This risk explains the condition that an asset rent is carried out without any PNBP being deposited into the state treasury or there are arrears from the tenants.

BPK's LHP (2020) explained a case related to a land rental agreement where the tenant had not made rental payments at the end of the inspection (BPK, 2021). Apart from that, there are tenant arrears cases, but K/L has not imposed late fines. In the BPK's LHP (2021), several cases emerged; for example, there were room rentals that had not been paid, building rentals that had not been charged rent, and rentals that had not been subject to PNBP (BPK, 2022). In 2022, the BPK again found that PNBP had not been paid or there were arrears from tenants (BPK, 2023b).

Informant OP-1 explained that many tenants still do not make any payments for the assets they rent. Informant OP-2 also stated that several cases were related to payment failure or default. This can happen because the tenant cannot pay and objects to the rental value. Informant KI-1 and IJ-1 also identified the risk of tenants not making payments or deposits to the state treasury even though they were still renting.

Based on the description above, there are two causes of this risk. First, tenants do not have adequate ability to pay or do not have good faith. Second, tenants who object to the rental value and, therefore, choose to default. This risk has a significant impact on the loss of PNBP on rent.

### **Risk Treatment**

The risk assessment results show that eight risks were above the risk appetite, and eight were under the risk appetite. Regarding risks under the risk appetite, the Ministry of Finance c.q. DGSAM accepts these risks but still needs to maintain and implement existing controls. For risks above the risk appetite, we formulate mitigation

proposals by referring to best practices, the results of identifying the causes of the risk, and input from research informants. Our risk mitigation proposals are clustered into short-term and long-term proposals. Short-term mitigation is expected to be implemented immediately in less than one year. In contrast, long-term mitigation is expected to be implemented within a year or more and is part of continuous improvement in the assets rental business process.

1. Short-term Treatment

*a. Increasing the intensity and scope of supervision and control*

The interviews with several informants showed that the supervision and control (Wasdal) activities carried out by DGSAM have not been practical. This ineffectiveness was proven by DGSAM's inability to identify idle assets quickly. On the other hand, wasdal activities were often considered as activities that focus on fulfilling administration. To mitigate the risk of idle assets not being utilized, assets controlled by a third party, assets rented without going through the applicable procedures, or rent agreements not followed up with contracts, DGSAM needs to increase the intensity and depth of the scope of wasdal activities. Informant OP-3, KI-1, IJ-1, IJ-2, and CO-1 suggested that DGSAM should improve this implementation immediately. Incidental alert activities need to be carried out more frequently. Apart from that, to deepen the Wasdal results, DGSAM needs to identify potential assets that can be utilized and carry out field observations to determine the physical condition of the assets and their potential utilization.

*b. Combined assurance of the asset utilization process in K/L*

The asset rental process involves various parties, such as DGSAM as the goods manager, K/L as the assets user, and third parties who rent the asset. This condition causes a wide span of control that needs to be carried out to ensure that each rental mechanism has gone through adequate procedures and controls. DGSAM cannot carry out the asset rental control testing process but must involve various parties, both internal to the Ministry of Finance and K/L. To build a unified supervision pattern, DGSAM can develop combined assurance by involving the assurance function of the Ministry of Finance and K/L. Informant KI-1, IJ-1, and CO-1 suggested this treatment to increase the role of K/A internal auditors. In implementing combined assurance, each assurance function can carry out assurance according to their respective duties and responsibilities but in coordination with the assurance functions of other units.

*c. Increased quality assurance for the valuation process*

The appraisal activity to determine the fair value of the rent is a vital activity stage and determines the rent's success. On the other hand, the results of control effectiveness testing show that the quality control process resulting from the valuation had not been consistently implemented. Therefore, DGSAM must encourage and ensure that all assessors consistently carry out quality control activities to implement assessments.

*d. Remind and monitor rental payments*

To minimize the risk of late payments and default by tenants, DGSAM needs to monitor all rental approval letters and rental agreement letters. Furthermore, DGSAM must remind K/A and tenants to make rental payments before the due date.

*e. Manually reconcile rental payments*

To detect delays/shortages/failures in rental payments early, DGSAM needs to reconcile PNBP from asset rental proceeds periodically. DGSAM can match all rental values stated in the rental agreement with the contract value and state revenue data from asset rental results. If there is a discrepancy, DGSAM can immediately carry out an investigation and investigation.

## 2. Long-term Treatment

### a. *Improved integrated SOP*

The interview results found that the current asset rental SOP had not been integrated from the beginning to the end of the process. So far, the SOP only linked the process of verifying requirements, assessment, and issuing a rental agreement. DGSAM also needs to carry out supervision and control to ensure that the rental approval letter is followed up with the implementation of the rent through an alert mechanism. Therefore, in the future, it is necessary to improve the SOP by integrating and linking the SOP related to the issuance of rental agreements with the SOP of Wasdal.

### b. *Improved regulations related to idle asset management*

According to informants, many assets were indicated to be idle. On the other hand, existing regulations regarding the procedure for determining idle assets are relatively long. If assets are indicated to be idle, DGSAM will confirm this with the relevant K/L. Determining idle assets depends on the results of this confirmation. Informants said that K/L often did not provide confirmation or that the confirmation provided was not by natural conditions. Based on input from the informant, regulation regarding the management of idle assets needs to be refined; for example, by containing a provision clause, if the K/L does not submit a use/utilization plan for more than two months, DGSAM can immediately determine the idle assets and seek utilization.

### c. *Developing a portfolio of potential assets*

DGSAM collects proposals for asset utilization plans every year. However, until now, DGSAM has not developed a proposed utilization plan for its asset portfolio. As a result, DGSAM does not yet have an asset profile that has the potential to be rented from each K/L. DGSAM should ideally have an asset portfolio from each K/L to mitigate the risk of unused idle assets. This portfolio of potential assets is used to explore various alternative uses for assets and assess the basis for encouraging K/L to optimize these assets. The existence of a potential asset portfolio can also be used to estimate PNBP from asset utilization, setting targets, and one of the basis for providing incentives for K/L that contribute to PNBP.

### d. *Certification, negotiation, and legal action for assets controlled by third parties*

The results of the risk analysis found that there were still many potential assets that cannot be utilized because unauthorized third parties control them. DGSAM and K/L must provide physical, administrative, and legal security for these assets. Asset certification activities must be prioritized for security activities, especially for free and clear-standing assets. On the other hand, for assets controlled by other parties or in dispute, DGSAM must carry out negotiations or take legal action. Negotiations can take the form of a request to vacate the asset, or a third party can retain control of the

asset but be charged a rental fee. Legal action can be taken through forced eviction by collaborating with law enforcement officials or through court mechanisms first.

*e. Use of analytical data in the assessment process*

The valuation activities carried out by DGSAM appraisers so far have been carried out through field surveys to determine the physical condition of assets and look for relevant comparative data. This process requires a relatively long time. On the other hand, the comparative data used by the assessor can be biased and subjective, thus having an impact on the resulting value. To minimize the risk of an assessment process that is too long and less accurate, DGSAM needs to develop an assessment mechanism based on analytical data. This is suitable for application to similar and large numbers of assessment objects, for example, residential rentals, Automated Teller Machines (ATM), or canteens. This activity can be carried out in conjunction with asset portfolio development. Through this activity, appraisers can have more accurate and objective data to be used as a reference for determining the fair value of assets.

*f. Digitalization of business processes and interconnection with the state revenue system*

Nowadays, digitalization has become mandatory, including for the public sector. In government assets management, DGSAM is developing a State Assets Management Information System (SIMAN) to integrate all asset management systems end to end. In the long term, SIMAN development needs to be an organizational concern to increase the effectiveness of asset management and mitigate risks in asset management, including in the asset rental business process. Interconnections of state revenue systems must accompany the digitalization of business processes. This is to simplify the process of monitoring rental payments and reconciling state revenues from asset utilization results.

*g. Providing incentives for K/L*

Another thing that needs to be part of DGSAM's long-term mitigation to management as a revenue center is providing incentives for K/L that successfully utilize assets and generate PNB. According to research, one of the causes of low PNB from asset utilization is the reluctance of K/L to utilize assets due to the lack of asset incentives. Regarding PNB management, some formations can be implemented through a permit mechanism. This mechanism provides flexibility for K/L to use PNB obtained from using the asset to support K/L operations; this mechanism has not been widely implemented in managing PNB originating from asset use. Therefore, DGSAM can start the asset incentives practice of providing incentives through the use permit mechanism and preparing the necessary supporting regulations.

## **Conclusion**

Asset rent is the most frequently used asset utilization scheme to boost assets as a revenue center. A proper implementation of assets rent can contribute to state revenue optimally. This study analyzed the risks associated with the asset rental business process. Following the risk assessment steps according to ISO:31000, this study successfully identified 16 risks that the Ministry of Finance c.q. DGSAM needs to be anticipated. Furthermore, referring to the risk analysis criteria and risk appetite

used by the Ministry of Finance, we analyzed all these risks and found eight significant risks as follows:

1. Error in determining the amount of adjustment factor in calculating the rental value;
2. The assets are controlled by a third party so that they cannot be rented out;
3. Error in determining the amount of adjustment factor in calculating the rental value;
4. The rental value does not match market expectations;
5. Assets are rented without DGSAM approval;
6. The rental approval is not continued with the rental contract;
7. Underpayment/late payment of assets rent;
8. Failure to pay/default on assets rent.

By referring to best practice, the results of identifying risk causes, and input from research informants, we formulated mitigation proposals which boil down to several things: (1) increasing the effectiveness of existing controls, (2) improvement of SOP and regulation; (3) asset portfolio development; (4) asset security; (5) digitalization of business processes and development of analytical data; and (6) implementation of incentives for K/L that generate PNB from the use of asset.

At a theoretical level, the results of this study complement several previous theories which show that the concept of risk management needs to be applied in the public sector (Bracci et al., 2021; Lapsley, 2009), including in fixed asset management (ISO 55002:2018, 2018; John & Anthony, 2021). At the practical level, the study results showed that there were still many challenges and problems in managing government assets. This is in line with the results of previous studies, as stated by Dinarjito (2017), Rustanto (2019), Sakawati et al. (2020), Yudianto (2021), and Kuntadi et al. (2022).

DGSAM needs to carry out risk assessment activities periodically so that the development of all risks can be known and anticipated at the first opportunity. To develop effective risk mitigation, DGSAM needs to maintain the effectiveness of existing controls in the short term. In the long term, DGSAM needs to develop an action plan roadmap and use it as a reference in improving asset management business processes.

In accordance with IRM (2019), this study help DGSAM prioritize risks, identify control weaknesses, and monitor actions taken to overcome these weaknesses. Thus, the results of the risk assessment can help DGSAM to minimize the possibility of repeated BPK findings, optimize the potential for PNB from asset rental, and create a reliable asset rental business process in line with the spirit of bureaucratic reform. In addition, this study can enrich references related to research study field of public sector risk management and asset management and maintain continuity from previous study.

#### **Suggestion for further research**

For further research, we recommend testing the maturity of the application of risk management in asset management practices or deepening the business process of utilizing assets through mechanisms other than rental. Future research risk identification and analysis should include the organization's internal perspective and involve external parties as Asset Users.

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