

FINANCIAL STATEMENTS IN FOREIGN CURRENCIES

CASE OF PERTAMINA

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Abstract

Since 2011, Pertamina company has made a financial statement in US Dollar. However, it is unclear how Pertamina prepares financial statements in US Dollar, where the listing system still uses the Rupiah currency. The issue of this paper is that there is uncertainty and disagreement about the practice of currency changes in financial reporting. The purpose of this paper is to describe the company's currency changes. This paper discusses the case of Pertamina Company. The practice of changing financial transactions from Rupiah to US Dollar poses a risk of error in the financial statements. This paper proves descriptively about possible errors of the currency changes in Pertamina company.

Keywords: financial report, foreign currency, currency risk

Introduction

Pertamina is a state-owned enterprise primarily engaged in petroleum business domiciled in Indonesia. Pertamina came partly from a Dutch company which was later taken over by the government in early independence. As the largest state-owned company in the business and ownership of assets and in compliance with the prevailing regulations in Indonesia, is subject to the laws of Indonesia, especially as a State-Owned Enterprise (BUMN), although it is involved in trade transactions with foreign parties, and not different from other SOEs. However, as a business entity located in the territory of Indonesia sebahagian transactions made Rupiah currency and subject to regulations such as other business entities. [1]

Function of financial statements[2]

Every body conducting business activities requires information about the business process called financial statements that typically consist of Balance Sheet, Profit / Loss Statement. This financial report has a function as a tool in carrying out management functions that provide financial information on several aspects of a business entity that has been prevalent and prepared based on guidelines made international institutions International Accounting Standards Committee and International Federation of Accountants and has been generally applicable in most this world including Indonesia. Thus a member country does not need to create its own guidelines. Likewise, Indonesia as a member of the agency does not need to create its own guidelines. So far Indonesia has also followed these guidelines, if necessary with adjustments.

The financial statements provide information on the results of management, especially those related to finance, while those not related to finance such as the level of efficiency are not directly reflected in the financial statements. Thus the financial statements also describe the implementation of management functions. Some indicators of management success can be known through various criteria that can be known from some company records. In a business entity that seeks to profit one of the indicators about the success of management is determined by the amount of profits earned. Please note that not all business entities have equal opportunity to earn a profit; the level of competition is one factor about success. Likewise monopoly inhibits competition.

Must understand that the information in the financial statements have limitations. It is therefore a prerequisite to understand the limitations well. For example the value of an asset in the balance sheet is not a definite concept. If a fixed asset such as a machine is recorded on the balance sheet with the amount of Rp 800 million rupiah does not mean that when sold it costs Rp 800 million; can be higher or lower. But that does not mean that its value can be determined at will. To understand well a financial report is only those who have studied accountancy successfully; as well as for the preparation of financial statements. The information in the financial statements is not an absolute thing, but is based on the official guidance on the preparation of financial statements. If recorded in the value sheet of an asset, such as a building with a total of Rp 200 billion, does not mean that the amount is in accordance with facts such as prices on the free market. Similarly, the depreciation is not an absolute number but is based on estimates and guidelines. The figures listed in the financial statements are based on the facts of the transaction and some according to the calculations that are guided by the accounting standards.

Pertamina as a BUMN

Pertamina is under the Ministry of SOEs but has its own organization as a business enterprise that commonly has three separate organs namely General Meeting of Shareholders, Board of Commissioners and Board of Directors. It is not clear how the role of each organ in running Pertamina's business. In addition, the Minister of SOEs has great authority in determining various policies[3]. But Pertamina is different in many ways with other state-owned enterprises, in its operations, finances and others. Such a distinction should not change Pertamina's previous financial reporting system based on Rupiah, but since 2011 it has been converted to US Dollar.

Most of Pertamina's operations are within Indonesian territory, and official financial transactions are expressed in Indonesian Rupiah. Pertamina recording system is still done with the Rupiah, but since

2011 Pertamina made its financial statements in US Dollar. It is unclear how to generate a report in US Dollar but the listing system is still in Rupiah currency. Questioned how to dismiss the financial statements of the listing system in Rupiah, but the report is stated in US Dollar. In the next section will be discussed this issue.

Pertamina is a government-owned enterprise that has similarities and differences with other business entities. However, in making the financial statements all companies follow the official guidelines that are valid and also audited by the Supreme Audit Agency or the appointed Public Accounting Firm. Although Pertamina's financial statements have been audited by the Public Accounting Firm with "reasonable opinions", carefully studying the reliability of its financial statements is questionable. The next discussion will explain it.

Crude oil transactions and subsidies

Crude oil production in Indonesia is derived primarily from the production sharing contract with some foreign oil companies by a meticulous calculation. The government gets crude from the production sharing contract which is then processed by Pertamina and partly exported. How the calculation of these crude oil transactions between the government and Pertamina is unclear unless a special examination is made of this transaction. Which can be known from the financial statements only the amount of crude oil yields to the government and the amount of "subsidy" provided by the government to Pertamina. Crude oil which is the government's right is given to Pertamina to be processed into fuel oil. Some of the crude oil is exported and also the shortage is imported at the prevailing price.

In the government's financial statements the crude oil delivered to Pertamina is required as a government subsidy to be processed into fuel oil which is then sold to the public. The notion of "subsidy" is unclear, because of the questionable way of calculating fuel prices. All of these transactions are recorded in Indonesian Rupiah both in government and Pertamina's books. The calculation of "subsidies" is increasingly difficult as the selling price of fuel by the government to the public is not based on actual costs, but based on a concept called "economic price" under the Minister of Energy and Mineral Resources regulations.

From the calculation of BBM made by the authorized party calculation called "economic price" which according to calculation (accounting) normal deviant and unacceptable and political nuance described below. briefly "economic price" is to determine the price of fuel explained as follows:

- Crude oil is purchased by Pertamina

from government and import Rp 5,943 / L

- Lifting, Refinery, Transportation 1.394
- Taxes etc. 15% 1,063
- Fuel costs (economic price) Rp 8,400 / L

• It is not clear where these numbers were obtained. But in fact this is the official calculation used. According to calculations (accounting) the normal way of calculation is erroneous and political nuances and therefore unacceptable. This incorrect calculation does not affect the financial statements because all financial transactions that produce financial statements are based on facts.

Financial statements in foreign currency and foreign currency conversion

All business entities conducting domestic transactions are made in Rupiah currency; the recording in the financial statements is also made in Rupiah currency. The official financial statements for all purposes such as liability to the owner of the company, dividend distribution, calculation of debt settlement tax and others are conducted in Rupiah currency. Foreign companies that conduct business activities in Indonesia must prepare financial statements which are stated in Rupiah currency, especially if there is obligation to pay taxes. Similarly, an Indonesian domestic company that exports and imports goods must make its financial statements in Rupiah and not in foreign currency. Any entity may make financial statements in foreign currency for special purposes not for official purposes.

Financial transactions denominated in foreign currencies are unusual, which is usually done at the prevailing exchange rates, which can be set if the objective is for an official liability report. Summa foreign currency transactions conducted by a business entity in Indonesia must be converted to Rupiah at the time the transactions occur. Domestic companies incidentally conduct transactions that are not made in Rupiah currency, and for recording must be converted foreign currency into Rupiah. This kind of conversion is done to create an official financial report. If desired, the financial statements can be converted into foreign currency; such financial statements are not official but only for special purposes.

Financial transactions with third parties are based on actual prices, such as the purchase price or the selling price of the goods or services. But there are internal financial transactions conducted under the policies and accounting standards applicable such as the write-off of receivables. Policy does not

necessarily mean generating substantial profits or reducing losses. The principle of accounting policy is determined among others to produce objective financial statements, not misleading and useful. For example, the amount of depreciation is done by accounting guidance so that the asset value in the balance sheet does not always represent the "real" price. It is concluded that all financial transactions conducted by all business entities in Indonesia are factually recorded and recorded in Rupiah in bookkeeping which will result in financial statements as accountability to the owner or to the government and can also be used as the basis for calculating the tax.

In the event that an additional financial statement is not made of financial liability in US Dollar currency, a conversion can be made at any time into Rupiah; for example by setting an unchanged exchange rate for example US \$ 1 = Rp 10,000. Dollar currency is considered the same as the Rupiah currency. Thus all transactions in Rupiah can be converted to US Dollar at any time with the exchange rate. The financial statements in US Dollar are for informational purposes only and not as financial liabilities.

Reasons for changes to reporting currency[4]

What are the reasons for currency changes in the financial statements? The financial statements of Pertamina for the fiscal year 2012 explain the reasons for the change of the reporting currency from Rupiah to US Dollar which is abbreviated as follows.

- The selling price of products dominated by United States Dollar;
- Raw material costs and purchases of products referring to prices in US Dollars;
- Rates that fluctuate against the US Dollar;
- Funding dominated by the US Dollar.

All of these reasons do not cause a change in the Rupiah currency report to US Dollar, hence this is unacceptable unless the objective is not a financial liability to the owner. The US Dollar currency is also unstable and fluctuates against other foreign currencies. All financial statements of Indonesian companies must prepare financial statements as financial liabilities in Rupiah and not foreign currency. Therefore Pertamina's financial statements stated in US Dollar apply only to the internal interest, not to be published and accountable, let alone the way the conversion is also questioned. According to the fact that this conversion was made at the closing of the book at the exchange rate

at the time of the book closing, and therefore not based on the transaction. If Pertamina wishes to make a financial statement in US Dollar currency, all financial transactions should be recorded in US Dollar which will result in financial statement in US Dollar; not by making a report keuangan course with US Dollar money.

Financial statements which are expressed not in Rupiah may only be used for internal purposes, and not to be made available to the general public much less for financial accountability.

Facts Pertamina financial statements

Since the beginning of Pertamina its financial statements until the fiscal year 2011 are made in Rupiah currency. It is certain that most financial transactions are conducted domestically in Rupiah currency and the results of transactions and records also use the Rupiah currency. Beginning of 2011 begins with the preparation of financial statements in US Dollar, so the financial statements of the fiscal year 2011 are made in Rupiah and US Dollar. This does not mean, however, that the change causes the listing system to be expressed in US Dollars only the financial statements stated in US Dollars. How to convert financial statements in Rupiah to US Dollar no explanation. The fact is only the financial statements are Balance Sheet and Income Statement that changed from Rupiah to US Dollar. It is not known how the recording system made in Rupiah generates financial statements in US Dollars.

The conversion of Rupiah to US Dollar quoted from Pertamina's financial statements at the end of 2011 is shown in part as follows.

	<u>Rpjuta</u>	<u>\$ ribu</u>	<u>Konversi per US \$</u>
<i>Kas</i>	29.011.482	3,199,325	9,060
<i>Piutang d/ pem.</i>	16.584.074	1,828,857	9,060
<i>Asettetap</i>	70.151.349	7,972,593	8,790
<i>Total aset</i>	311.999.104	34,923,643	8,930
<i>Pinjaman j. Pdk</i>	26.506.635	2,923,096	9,060
<i>Total Hutang</i>	193.659.461	21,641,033	8,950
<i>Ekuitas</i>	118.339.643	13,282,610	8,910
<i>Modal saham</i>	82.569.779	9,809,882	8,840

Differences in exchange rates indicate strangeness! There is no explanation on how to convert Rupiah to US Dollar. The US Dollar exchange rate against the Rupiah at the end of 2011 according to

Bank Indonesia stands at Rp 9,336 per US Dollar, meaning that the US Dollar exchange rate should be higher than the reported rate. What is the effect of an underestimate US dollar exchange rate on financial information? Consequently there is an understatement of all estimates in the financial statements. The question is based on the prevailing exchange rate of Rp 9,336 per US Dollar, why are all of these exchange rates different from the prevailing exchange rates used for all the forecast conversions? The development of the US Dollar exchange rate against the Rupiah from 2004 to the end of 2011 according to Bank Indonesia:

2004	Rp 9.113
2005	9.036
2006	9.447
2007	11.005
2008	9.466
2009	9.065
2010	9.879
2011	9.336

How to assign a different exchange rate for each account and the result of this different exchange rate to equity? Equity represents the value of Pertamina amounting to Rp 118,339,643 million at the end of 2011 equivalent to US \$ 13,282,610 thousand at conversion rate of Rp 8,910 / US \$, while the actual exchange rate is Rp 9,336 / US \$ or equity amount of Rp124,006,447 million means recorded less than it should be. Miscalculated or wrong concept!

Technically accounting is unlikely or extremely difficult to do directly in US Dollars. In the case of a US Dollar report, all transactions are made in US currency but are difficult or impossible to implement. Alternatively, the US Dollar exchange rate against the Rupiah currency does not change for example every US Dollar is valued equal to Rp 10,000 by involving Bank Indonesia. It is also not easy to implement. Apart from that the legal basis for making reports in currencies other than Rupiah currency must exist, and can not be determined by the Pertamina leadership alone.

Since the fiscal year of 2012 there is no official information regarding Pertamina's financial statements in the rupiah currency; all reported financial statements are stated in US Dollars. Only by studying directly from the accounting records can be known facts.

Currency changes in financial statements and indications of irregularities

As of the financial year of 2011, Pertamina's financial statements are made in Rupiah. At the end of the year also made a report in US Dollar currency, so that for the year the book was made financial statements in the currency of Rupiah and US \$. Then for the following years all published financial statements are generally made in US Dollar currency. The preceding explanation is the reason for changing the reporting currency from Rupiah to US Dollar. Changed only financial statements only, while the recording system continues as usual. However, the most important is the process and way of changing the reporting currency and whether the way the conversion is based on a manner that can be accounted for and in accordance with the usual accounting principles.

The accounting principles mention several ways of valuing the elements of financial statements based on the acquisition price if necessary by reducing values such as depreciation, market prices, estimated prices. This method of assessment is not freely applied and must follow the official guidelines. The usual financial statements and required according to the rules are prepared in the official currency in effect in Rupiah. The reason why the US Dollar currency used in the financial statements cited above is irrelevant. The principle of recording is based on the value of the Rupiah currency at the time of the transaction. The purchase in foreign currency is converted at the time of purchase. If in June 2016 the purchase of a machine with a price of US \$ 10,000 with the exchange rate of US Dollar 1.00 equal to Rp 12,000 will be recorded in the machine value book of Rp 120,000,000. If at the end of the price of US \$ 1.00 increases to Rp 13,000 the value of the machine in the bookkeeping fixed Rp 120,000,000 and not based on the exchange rate at the end of the year of Rp 130,000,000 as done in the Pertamina report. Therefore, Pertamina's financial report converting Rupiah to US Dollar in the preparation of the year-end report is false.

Broadly the result of the value of US Dollar in the financial statements can only be seen from the amount of change in Equity. Since the year of the US Dollar report in 2011 to 2015 for four years shows the increase in the Equity according to Pertamina's financial statements as follows.

US\$ ribu	Kurs*	US\$Ekuivalen	
		Tanggalneraca Rpjuta	
Ekuitas 31/12/2015	19,475,238	13.795	268.660.908
Ekuitas 31/12/2011	13,382,610	9.336	124.940.047
Pertambahan	6,092,628	23.589	143.720.861

*Menurut Bank Indonesia

An additional US \$ 6,092,628 thousand equivalent to Rp 143,720,861 million earned an exchange rate of Rp 23,589 per US Dollar. An unlikely amount of exchange rate which means the method of calculating the Rupiah to US Dollar is wrong! If the calculation is based on the actual exchange rate at the end of 2015 of Rp 13,795 will result in an increase of Equity of Rp 84,047,803. None of these calculations are convincing as a result of incorrect logging! The truth of this amount can only be known when the recording is made in Rupiah which is the basis of the listing. The discussion in this paper questioned the reasonableness of the increase.

Errors in this listing open opportunities for financial irregularities that could harm Pertamina for the benefit of certain parties.

The role of a Certified Public Accountant[5]

The Public Accountant is required to conduct an audit in accordance with the requirements of conducting an inspection in accordance with official public guidelines. All registered Public Accountants are considered eligible for financial audits, but not all have the same capabilities. A Public Accountant auditing Pertamina's financial statements affiliated with the International Accounting Firm, and therefore considered eligible to audit an enterprise such as Pertamina. In general, local Accounting Firm which is affiliated with Foreign Accounting Firm is considered to have better qualification from other Accounting Firm. Therefore, Pertamina reason enough to appoint the chosen Accounting Firm. In fact how? This paper gives a different impression!

Having read the audit report 2011 to 2015 raises the question of whether the accounting firm qualifies as a Public Accountant and has conducted an audit in accordance with the prevailing general guidelines. Indications indicate that it is doubtful whether the Accounting Firm conducts an audit based on existing official guidelines. To get certainty can be done re-audit by other Accounting Firm more qualified!

Final note

One of the functions of financial statements is as financial accountability submitted by managers such as the Board of Directors of the company to the owner or representative[6]. In the case of Pertamina financial report submitted by the Board of Directors to the Board of Commissioners representing the owner of the Minister of SOEs. As Pertamina's financial accountability as a State-

Owned Enterprise, since 2012 to make financial statements in US Dollar; which were previously made in Rupiah. For reasons that are difficult to accept the change of financial statements to US Dollar. Transactions are made in Rupiah but generate financial statements in US \$ currency. Apart from that conversion from Rupiah to US Dollar is questionable as described previously. If certain parties want to get more detailed information and complete it should be asked directly to Pertamina; and not by making financial statements in US Dollars. It is not known whether there is another purpose for making changes in the reporting currency. Other than that it is questionable whether there is any particular intent or pure mistake!

In general, Pertamina's financial transactions are conducted in Rupiah currency. Therefore, if any transaction in foreign currency should be converted directly into Rupiah. Where desired to become foreign currency in the prevailing manner; not by way of all financial statements converted into foreign currency. All or most of the financial transactions conducted by Pertamina are made in Rupiah, therefore there is no reason to change the financial statements from Rupiah to foreign currency.

The financial statements of the purpose are not for the interest of a particular group, but as accountable as those referred to in various regulations. For specific purposes Pertamina may be requested to inform any interested parties, and not to change the generally accepted financial statements. Changing the Rupiah currency as a financial transaction to US Dollar poses a risk of error in the financial statements as evidenced in Pertamina's current financial statements. Creating financial statements for particular users' particular interests is wrong. However, anyone with an interest may request additional information, rather than modify the financial statements for the interest of a particular party. Therefore Pertamina's financial report as a financial account in US Dollar currency without a report in Rupiah is incorrect.

Practices undertaken by Pertamina where most of the financial transactions are made in Rupiah, but the financial statements made in foreign currency are a false practice and provide misleading information. Wrong practice paves the way for corruption. However, the Public Accounting Firm that conducts the audit justifies this method, which means it must also be responsible. Until where the authorized business is to deal with this problem, let's wait!

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