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LEGAL GOVERNANCE OF ABANDONED CONSTRUCTION-IN-PROGRESS PUBLIC ASSETS

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Abstract:

Construction in Progress (Konstruksi Dalam Pengerjaan/KDP) is a significant issue in regional asset governance. From the perspective of governmental accounting, KDP should not be understood as a failed asset, but rather as a temporary status assigned to fixed assets that are still under construction or acquisition and are not yet ready for use. Legal and administrative issues arise when construction work remains unfinished, the contractor fails to perform its contractual obligations, or the contract is terminated, while the building or facility is urgently needed for public services and local government administration. In such circumstances, local governments face a dilemma: on the one hand, they cannot immediately reclassify KDP as fixed assets; on the other hand, they must not allow public assets to remain abandoned and unproductive.

This article examines the legal position of KDP, contractual issues in government construction projects, and legal strategies that may be pursued by local governments to safeguard public assets still recorded as KDP. The author argues that the resolution of problematic KDP must clearly distinguish between accounting issues, asset management issues, and contractual issues. Local governments should not use KDP status as a reason for inaction, but they must also avoid violating asset governance principles by changing asset status without a proper legal and administrative basis. The appropriate approach includes conducting an object audit, securing the asset administratively, physically, and legally, determining the contractual status, pursuing contractor liability where necessary, and reclassifying the asset only after the construction has been completed and is ready for use.

Keywords: *Construction in Progress, regional assets, local government asset management, construction contract, default, public services.*

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A. Introduction

In local government practice, Construction in Progress or KDP is often treated merely as a technical accounting term. In reality, however, KDP often contains complex legal, administrative, financial, and public service issues. An unfinished public health center, an abandoned service building, an unusable public market, or a local government office that cannot yet function may ultimately appear only as a figure in the local government balance sheet under the status of KDP.

Conceptually, KDP is not a failed asset. It is a temporary status assigned to fixed assets that are still under construction or acquisition and are not yet ready for use. Therefore, once the construction is completed and the asset is ready for use, the KDP status should be ended through reclassification into the appropriate fixed asset category. Government Regulation Number 71 of 2010 concerning Government Accounting Standards is the primary basis for the implementation of SAP in Indonesia, including the treatment of construction in progress under the relevant PSAP.

Problems arise when such temporary status continues for years because the work remains unfinished, the contractor fails to fulfill its obligations, or the contract is terminated before the building can be utilized. In this context, KDP can no longer be viewed solely as an accounting issue. It becomes a problem of regional asset governance.

Local governments cannot simply hide behind the argument that the asset is still recorded as KDP. Conversely, they also must not force an unfinished asset to become a fixed asset merely because public service needs are urgent. What is required is a balance between accounting discipline, contractual discipline, asset governance, and public service interests.

B. Research Questions

Based on the background above, this article formulates the following research questions:

1. What is the legal position of Construction in Progress in regional asset governance?
2. What legal steps may local governments take when KDP becomes problematic due to unfinished work, contractor default, or contract termination?
3. What is the ideal strategy to resolve problematic KDP while remaining consistent with Government Accounting Standards, regional asset management rules, and public service needs?

C. Method

This article uses a normative juridical approach by examining laws and regulations related to Government Accounting Standards, regional asset management, bookkeeping and inventory of regional assets, and government procurement of goods and services. It also applies a conceptual and practical approach based on the author's reading of local government problems, construction contracts, and public asset rescue.

The primary legal materials used include Government Regulation Number 71 of 2010 concerning Government Accounting Standards, Minister of Home Affairs Regulation Number 19 of 2016 concerning Guidelines for Regional Asset Management as amended by Minister of Home Affairs Regulation Number 7 of 2024, Minister of Home Affairs Regulation Number 47 of 2021 concerning Procedures for Bookkeeping, Inventory, and Reporting of Regional Assets, and Presidential Regulation Number 16 of 2018 concerning Government Procurement of Goods and Services as amended by Presidential Regulation Number 12 of 2021 and subsequent amendments.

D. Discussion

1. The Legal Position of KDP in Regional Asset Governance

KDP is essentially an accounting status assigned to assets that have not yet been completed and are not ready for use. Therefore, KDP should not be understood as a final asset category. It is a bridge between the construction process and the recognition of fixed assets. As long as the building is not completed and not ready to be utilized, its status remains KDP. Once completed, the asset must be reclassified into the appropriate fixed asset group.

From the perspective of regional asset management, KDP status does not mean that local governments lose the authority to secure and control the asset. On the contrary, because KDP remains an asset financed by regional finances, local governments are obliged to conduct bookkeeping, inventory, reporting, document security, and physical security. Minister of Home Affairs Regulation Number 47 of 2021 specifically governs procedures for bookkeeping, inventory, and reporting of regional assets.

Thus, KDP must not be reclassified arbitrarily, but it must also not be left unmanaged. This is where a common misunderstanding arises. Some may assume that KDP status prevents local governments from taking any action. This view is incorrect. What is prohibited is arbitrary reclassification, not asset rescue or protection measures.

2. Problematic KDP and Contractual Issues

KDP often becomes problematic when construction work remains unfinished. The causes vary: delays, contractor incapacity, contract termination, incomplete work volume, technical issues on site, payment disputes, or weak supervision from the beginning.

In such circumstances, it is essential to distinguish between accounting issues and contractual issues. From an accounting perspective, the question is whether the building has been completed and is ready for use. If not, it remains KDP. From a contractual perspective, the question is whether the contractor has defaulted, whether the contract must be terminated, whether guarantees may be enforced, and whether the local government should pursue litigation or other dispute resolution mechanisms.

This distinction is crucial. A lawsuit against the contractor does not automatically change the status of KDP. A lawsuit functions only to enforce contractor liability, whether in the form of performance, penalties, damages, or other legal consequences arising from default. KDP status changes only when the work is factually and administratively completed and ready for use.

3. Object Audit as the First Step

The first step local governments must take in resolving problematic KDP is to conduct a comprehensive audit of the object. This audit should cover the physical condition of the building, work progress, payments made, actual work volume, contract documents, addenda, minutes of meetings or handover records, performance guarantees, and legal or technical obstacles that caused the work to remain unfinished.

Without an object audit, local governments will find it difficult to make decisions. Continuing the work without knowing the remaining work value may create new risks. Suing the contractor without a clear calculation of losses may weaken the local government's position. Reclassifying the asset without sufficient physical and administrative basis may create accounting and legal problems.

An audit of KDP is not merely a technical activity; it is an important administrative legal action. Through this audit, the local government can determine whether the KDP remains feasible for continuation, must be secured, should be completed through a new contract, or should become the subject of claims against the contractor.

4. Administrative, Physical, and Legal Security

Unfinished KDP is highly vulnerable to becoming a new source of loss. The building may deteriorate before use, materials may be lost, the location may be occupied by other parties, or project documents may be scattered. Therefore, local governments must secure KDP in three layers.

First, administrative security, namely controlling and organizing all project documents, contracts, minutes, progress reports, payment evidence, and technical documents.

Second, physical security, namely securing the location, installing ownership signs, guarding the object, and preventing unauthorized use.

Third, legal security, namely ensuring the status of the contract, land status, the rights and obligations of the parties, and the legal steps that may be taken against the contractor or other parties.

Minister of Home Affairs Regulation Number 7 of 2024, as an amendment to Minister of Home Affairs Regulation Number 19 of 2016, updates several aspects of regional asset management, including proof of ownership documents, document maintenance and security, physical security of buildings, valuation, transfer, deletion, and performance indicators for regional asset management.

Such security measures are not the same as reclassification. Local governments may secure the KDP object without reclassifying it as a fixed asset. In fact, securing the object is necessary to prevent further deterioration before its final status is resolved.

5. Determining the Contractual Status and Contractor Liability

If KDP becomes problematic because the contractor fails to complete the work, the local government must determine the status of the contract. Should the contractor still be given an opportunity to complete the work? Should the contract be terminated? Should guarantees be enforced? Should delay penalties be calculated? Should a lawsuit be filed?

Failure to make a decision will only prolong the KDP status. In practice, many abandoned projects persist not because there are no legal rules, but because local governments hesitate to take a firm stance. Government contracts must be enforced. If the contractor defaults, the local government has a basis to demand performance, penalties, damages, or other legal consequences in accordance with the contract and procurement regulations.

Presidential Regulation Number 12 of 2021 amended Presidential Regulation Number 16 of 2018 concerning Government Procurement of Goods and Services and is still recorded as in force, with the note that it has been further amended by Presidential Regulation Number 46 of 2025. This is important because government construction disputes must be placed within an evolving procurement framework.

Nevertheless, litigation is not the only path. If the main objective is asset rescue and continuation of public service, the local government's strategy must proceed in parallel. On the one hand, the contractor is disciplined through contractual mechanisms or litigation. On the other hand, the KDP object must still be audited, secured, and prepared for completion.

6. KDP, Public Service, and Administrative Courage

In the context of public service, problematic KDP must not be allowed to become a reason for the suspension of services. A public service building, health center, school, market, or other public facility that remains abandoned means there is a delayed social benefit. Local governments must view KDP not merely as an account in the balance sheet, but as an asset constructed for the public interest.

However, public service needs must not be used as a reason to violate accounting standards. An unfinished building must not be forced into a final fixed asset status. What is needed is orderly administrative courage: audit, security, contractual determination, loss calculation, and completion of remaining work.

In the author's view, local governments must not use KDP as a reason for inaction. At the same time, they must not use public service needs as a reason to violate governance principles. The middle path is to rescue the asset legally, administratively, and accountably.

E. Legal Strategy for Resolving Problematic KDP

Based on the discussion above, the legal strategies that may be pursued by local governments include:

First, classifying KDP into active KDP, delayed KDP, postponed KDP, terminated-contract KDP, abandoned KDP, or completed-but-not-yet-reclassified KDP.

Second, conducting physical, financial, and document audits to determine the actual value of the work, field progress, and the legal basis for further action.

Third, securing the KDP object administratively, physically, and legally to prevent further losses.

Fourth, determining the contractual status with the contractor, including warnings, contract termination, enforcement of guarantees, or dispute resolution mechanisms where necessary.

Fifth, preparing a continuation scheme if the asset remains necessary for public service.

Sixth, reclassifying the asset only when the work has been completed and is ready for use.

Seventh, where necessary, filing a lawsuit against the contractor to seek contractual liability, damages, or other legal consequences.

F. Conclusion

Problematic KDP is not merely an accounting issue, but a problem of government governance. KDP is only a symptom visible in financial statements. The root problem often lies in unenforced contracts, weak supervision, disorderly documentation, and indecision in taking administrative steps.

Local governments must not remain passive merely because the asset is still recorded as KDP. However, they must also avoid arbitrarily changing the status of an unfinished asset. The correct path is to conduct an object audit, secure the asset, determine the contractual status, pursue contractor liability where necessary, and reclassify the asset only when the work has been completed and is ready for use.

Therefore, resolving problematic KDP must be understood as part of improving regional asset governance. This is where accounting discipline, contractual discipline, asset discipline, and public service interests must meet.

References

1. *Government Regulation Number 71 of 2010 concerning Government Accounting Standards.*
2. *Government Accounting Standard Statement Number 08 concerning Accounting for Construction in Progress.*
3. *Minister of Home Affairs Regulation Number 19 of 2016 concerning Guidelines for Regional Asset Management.*
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5. *Minister of Home Affairs Regulation Number 47 of 2021 concerning Procedures for Bookkeeping, Inventory, and Reporting of Regional Assets.*
6. *Presidential Regulation Number 16 of 2018 concerning Government Procurement of Goods and Services as amended by Presidential Regulation Number 12 of 2021.*