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Evaluation of the Implementation of Internal Control of Financial Reporting (ICOFR) on Maintenance Expenditure: Case Study of State Institution "X"

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ABSTRACT

This study evaluates the implementation of Internal Control over Financial Reporting (ICoFR) in maintenance expenditures at Government Institution X in Indonesia from 2019 to 2023. The objective is to assess the effectiveness of ICoFR, identify weaknesses in financial control, and propose improvements. This research employs a case study strategy with a qualitative descriptive approach. Data collection methods include semi-structured interviews, document analysis, and a review of audit reports from the Indonesian Supreme Audit Board (BPK). The research framework is based on the Minister of Finance Regulation No. 17/PMK.09/2019, which incorporates the COSO Internal Control Framework as its core reference. The findings indicate that ICoFR implementation in Government Institution X is not yet fully effective, as recurring audit findings highlight overpayments, contract discrepancies, and weak monitoring mechanisms. This study contributes to the literature by evaluating ICoFR implementation in a central government institution—an area that remains underexplored in academic research compared to corporate or local government financial reporting. The study also emphasizes the complex interplay of political and bureaucratic factors affecting financial control practices. Strengthening risk assessment, control activities, and compliance monitoring is crucial to improving transparency and accountability in maintenance expenditure management.

KEYWORDS *Internal Control over Financial Reporting (ICoFR), Government Financial Internal Control; Maintenance Expenditure; Public Sector Accountability*

INTRODUCTION

To build effective, transparent, and accountable governance, the Indonesian government continues to encourage improvements in the quality of state financial management (Adiputra et al., 2018; Masdar et al., 2021a, 2021b). One of these efforts is the formulation and implementation of the Government Internal Control System (SPIP). In the context of state financial reporting, the implementation of SPIP is realized through Internal Control over Financial Reporting (PIPK). PIPK is part of an internal control system specifically designed to control the financial reporting process, ensuring the reliability of financial statements as stated in PMK Number 17 of 2019.

Sebagai pengguna dan pengelola Anggaran Pendapatan dan Belanja Negara (APBN), Lembaga Negara "X" tidak dapat dipisahkan dari tanggung jawab untuk menyusun laporan keuangan yang transparan dan dapat diandalkan. Kewajiban ini sejalan dengan amanat Undang-Undang Nomor 17 Tahun 2003 tentang Keuangan Negara, yang mengharuskan seluruh entitas penerima dana APBN untuk menyusun laporan keuangan sebagai bentuk pertanggungjawaban atas penggunaan alokasi anggaran (Amin & Fauzi, 2013). Lebih lanjut, laporan keuangan tersebut harus menerapkan Sistem Pengendalian Intern Pemerintah (SPIP) yang komprehensif dan memadai, sesuai dengan ketentuan Peraturan Pemerintah Nomor 60

Tahun 2008 tentang Sistem Pengendalian Intern Pemerintah (SPIP) (Rizaldi, 2015). Seiring berjalannya waktu, implementasi SPIP dalam pelaporan keuangan berkembang menjadi Pengendalian Intern atas Laporan Keuangan (PIPK), sebagaimana diatur dalam Peraturan Menteri Keuangan Nomor 17/PMK.09/2019 (Sunarsih & Nur, 2023). Dalam peraturan ini, setiap entitas pelapor diwajibkan melampirkan Pernyataan Tanggung Jawab (PTD) yang menegaskan bahwa laporan keuangan telah melalui proses pengawasan yang memadai (Paranata, 2022). Penerapan PIPK ini diharapkan dapat meningkatkan akuntabilitas dan transparansi dalam pengelolaan keuangan negara yang lebih baik (Yanuardi & Yulianto, 2021). Oleh karena itu, implementasi yang efektif dari SPIP dan PIPK sangat penting untuk menjamin keandalan laporan keuangan, mengingat dampak positif yang ditimbulkan terhadap kualitas pengelolaan anggaran (Adhitya & Jalaluddin, 2020). Sebagai tambahan, teknologi informasi juga memainkan peran penting dalam mendukung sistem pengendalian internal yang lebih efisien dan efektif dalam proses pelaporan keuangan (Djamil & Yudianto, 2019).

Sebagai salah satu lembaga negara terkemuka, Lembaga Negara "X" memikul tanggung jawab dalam pengelolaan dan pelaporan keuangan (Kaldera et al., 2020). Oleh karena itu, selama lima tahun terakhir, Lembaga Negara "X" secara konsisten menerapkan PIPK untuk meningkatkan transparansi dan akuntabilitas pelaporan keuangan, sebagaimana diamanatkan dalam Peraturan Menteri Keuangan Nomor 17/PMK.09/2019. Melalui penerapan PIPK, Lembaga Negara "X" tidak hanya berupaya memperkuat akuntabilitas dalam pengelolaan keuangan tetapi juga memperkuat integritas dalam melaksanakan tugas dan fungsinya sebagai komitmen terhadap prinsip-prinsip tata kelola keuangan yang transparan dan efisien (Djamil & Yudianto, 2019; Yanuardi & Yulianto, 2021; Rizaldi, 2015; Sunarsih & Nur, 2023; Amin & Fauzi, 2013).

Although implemented since 2019, the Audit Report of the Financial Audit Agency (LHP BPK) revealed that the implementation of PIPK in State Institution "X" still exhibits weaknesses. Based on internal data from the BPK Findings Matrix of State Institution "X," by the end of 2023, BPK recorded 198 findings that resulted in 457 recommendations, with 24 recommendations not yet followed up and 10 findings deemed impossible to follow up. From these findings, several recurring issues persist, such as suboptimal management of Non-Tax State Revenue (PNBP), errors in expenditure account classification, non-conformity in product and service specifications and volumes, and activities that deviate from established regulations. These findings indicate that the internal control mechanisms applied have not been fully effective in addressing recurring problems.

Given the broad scope of PIPK implementation in State Institution "X," the evaluation focuses on maintenance expenditures. Maintenance expenditure (Nordiawan et al., 2007) refers to budget allocations intended to preserve the condition of fixed or other assets, ensuring their proper functioning without extending their economic useful life. This expenditure aims to keep assets in optimal condition, so they continue to support the entity's operations effectively.

Table 1. Summary of Maintenance Expenditure Findings for 2019 to 2023

LHP Year	SPI Problems related to Financial Reporting on Maintenance Expenditure
2019	Overpayment due to lack of work volume in Building and Other Building Maintenance Expenditure in the Meeting Room and Office House of Members of State Institutions "X"
2020	Overpayment due to lack of work volume in Building and Other Building Maintenance Expenditure at the Office of Members of State Institutions "X"
2021	Overpayment on maintenance expenditure work at Wisma Lembaga Negara "X" due to incompatibility with the contract
2022	Overpayment for deer maintenance within State Institution "X" due to non-conformity with the contract
2023	Overpayment on thermal helmet maintenance and repair work, as well as non-conformity of work specifications with the contract

Source: BPK LHP on the Financial Statements of State Institutions "X" for 2023 (has been reprocessed)

If internal control is effectively implemented, based on COSO theory (COSO, 2017), an institution or organization will be able to achieve operational success and efficiency, reliable recordkeeping, and compliance with applicable regulations. However, repeated findings related to non-conformity of specifications with contracts or overpayments due to insufficient work volume in maintenance expenditures indicate that internal control over financial reporting in State Institution "X," particularly in maintenance expenditure, still requires improvement.

Based on literature reviews, various previous studies have utilized the COSO Framework as a basis for evaluating the effectiveness of internal controls over financial reporting. Virginia & Hermawan (2023) evaluated the effectiveness of *Pengendalian Intern atas Pelaporan Keuangan* (PIPK) at PT Garuda Indonesia using the COSO Framework, which is applied in the corporate sector to identify weaknesses in the financial reporting process. Farradhi & Hartanti (2023) examined the success of *Internal Control over Financial Reporting* (ICoFR) in state-owned consulting firm projects, also using the COSO Framework to measure the effectiveness of internal control related to financial reporting. Both studies demonstrate that the COSO Framework has become a widely adopted tool for evaluating internal controls. However, these studies have not considered the integration of the COSO Framework within the context of specific regulations such as PMK No. 17 of 2019, which governs internal control over financial reporting in the government sector.

Most studies related to PIPK (*ICoFR*) or *Sistem Pengendalian Intern* (SPI) focus on private companies or state-owned enterprises (SOEs), such as PT Garuda Indonesia, construction projects of *BUMN Karya*, or government sector entities in general, such as local governments. Meanwhile, studies that specifically examine the implementation of PIPK in state institutions—particularly in State Institution "X"—are still very limited. Furthermore, there has been no in-depth study examining the application of PIPK specifically in maintenance spending. In fact, this type of expenditure has unique risk characteristics, requiring a more tailored and specific approach to internal control.

Therefore, the author is motivated to fill this research gap by conducting a study entitled *"Evaluation of the Implementation of PIPK in Maintenance Expenditure in State Institution 'X'"* and developing practical recommendations based on data. The evaluation of the implementation of internal control over financial reporting in maintenance expenditure at State Institution "X" will cover the period from its initial implementation year, 2019, to 2023. Through this evaluation, the author aims to identify the factors causing repeated findings and to uncover weaknesses in the existing internal control system over financial reporting, thereby determining areas that require improvement.

This evaluation includes an analysis of the internal control procedures implemented in the maintenance spending process and assesses the extent to which these controls contribute to achieving internal control objectives. It is expected that the results of this evaluation will support the achievement of PIPK objectives in alignment with PMK No. 17/PMK.09/2019—namely ensuring the reliability of financial statements, compliance with legal regulations, and safeguarding financial resources from material losses. Furthermore, the results are anticipated to help State Institution "X" achieve more efficient, targeted budget management in accordance with the principles of good governance in maintenance spending, thereby strengthening the institution's credibility and increasing public trust in State Institution "X."

One of the novelties of this research lies in evaluating the application of PIPK in maintenance expenditure within State Institution "X." This institution has unique characteristics, particularly due to the strong influence of political dynamics. Such aspects add to the complexity of budget management, including maintenance spending, making it crucial to assess the extent to which PIPK can maintain accountability and transparency amid political pressures that may affect decision-making and budget allocation. This research differs from

previous studies that focused primarily on the private sector or local government entities because it targets state institutions with distinct characteristics.

Another novelty of this study is its focus on maintenance spending, which often carries a high risk of audit findings, such as mismatches in work specifications or cost inefficiencies. Thus, this study not only evaluates the technical implementation of PIPK but also identifies specific risks in the management of maintenance expenditures.

Based on the research background, the objectives of this study are to: (1) evaluate the conformity of the implementation of *Internal Control over Financial Reporting* (PIPK) in maintenance expenditure at State Institution "X" during the 2019–2023 period with the provisions of PMK No. 17 of 2019; and (2) identify key weaknesses in the implementation of PIPK and provide data-driven recommendations to bridge the gap between current conditions (*As-Is*) and ideal conditions (*To-Be*) in the implementation of PIPK in maintenance expenditures, considering regulations such as PMK No. 17 of 2019, best practices, and the internal context of State Institution "X."

It is expected that this research will enrich scientific literature on the application of internal control over financial reporting in the government sector and provide insights into best practices for implementing PIPK, particularly in maintenance spending within State Institution "X." In addition, this study can serve as a reference for future research with similar themes.

RESEARCH METHOD

This study used a case study method to evaluate the implementation of *Internal Control over Financial Reporting* (PIPK) on maintenance expenditure in State Institution "X." The case study approach allowed the researcher to examine the phenomenon comprehensively and in detail based on actual conditions using various data sources (Gunawan, 2013). The case of State Institution "X," as the object of this research, was expected to provide practical insights into the application of PIPK in maintenance expenditure.

This method was considered relevant because State Institution "X" had complex organizational characteristics and significant budget management, requiring in-depth analysis to produce appropriate recommendations. The study focused on understanding how PIPK was implemented, the extent to which it reduced findings by the Audit Board (BPK), and the obstacles encountered during implementation. The unit of analysis was the application of PIPK in the maintenance expenditure of State Institution "X" during the 2018–2023 period.

The selection of this object was since maintenance expenditure had frequently been highlighted in BPK audit reports due to findings related to non-conformity of work specifications and overpayments. Data were obtained through collaboration with State Institution "X," particularly the Financial Administration Work Unit, the Inspectorate of State Institution "X," and external auditors from BPK RI. The researcher obtained official permission to access internal documents such as financial statements, BPK audit results, and relevant regulations. Interviews were also conducted with parties directly involved in managing maintenance expenditure and implementing PIPK. These steps ensured that the data collected were valid, relevant, and supportive of the research objectives.

RESULTS AND DISCUSSION

The evaluation of the implementation of Internal Control over Financial Reporting (*PIPK*) on maintenance expenditure at State Institutions "X" was carried out based on the Minister of Finance Regulation Number 17/PMK.09/2019. In accordance with these provisions, the implementation of PIPK includes three main stages, namely implementation by the Implementation Team, assessment by the Assessment Team, and review by APIP. These three stages are part of a risk-based internal control system to provide adequate confidence in the reliability of financial statements.

In its implementation, each work unit within the State Institution "X" fills in Tables A to Table F to identify key risks and establish control over significant accounts, including maintenance expenditures. However, in this study, the authors limited the evaluation to Tables A, B.1, and B.2. This restriction is carried out because the three tables directly represent the main aspects of the implementation of internal controls, namely the identification of risks, the formulation of key controls, and the assessment of the effectiveness of controls over significant accounts.

To support this analysis, this study used primary data in the form of in-depth interviews with five resource persons from the Assessment Team, the Implementation Team (*PPK* and work unit staff), and the Review Team (Data collection was carried out between March 19 and April 20, 2025 with a total interview duration of 3 hours and 20 minutes (see Table 2), and reinforced with supporting documents such as Table A, Table B.1, Table B.2, internal SOPs, and review notes from the Inspectorate.

All interviews conducted in this study were recorded in digital format with the consent of each respondent. The transcription process is done using the help of the Web Transcribe application, then the transcript results are manually verified through matching with the original recording to ensure the accuracy of the data.

Table 2. Respondent code, job title, and duration of interview

No.	Code Responders	Position	Interview Duration
1.	Answer A	Financial Statement Assessor/Analyst Team	27 minutes
2.	Answer B	Tim reviewed	1 hour 10 minutes
3.	Answer C	Maintenance Expenditure Management Staff	23 minutes
4.	Answer D	Commitment Making Officials	40 minutes
5.	Answer E	Inspectorate General of the Ministry of Finance	40 minutes
Total Interviews			**3 hours 20 minutes**

Source: Self-processed data

Using the NVivo 14 application, especially through the word frequency feature, it can bring up the words that are most often spoken during the interview so that the main focus of the respondents can be known related to the implementation of Internal Control over Financial Reporting (*PIPK*) in State Institutions "X".

Figure 1. Results of Interview Analysis using Word Frequency
Source: Self-processed data

Based on word frequency with the limitation of the minimum four-letter word length analysis criteria and displaying the top hundred words, several words that have the highest frequency of occurrence during the interview are as follows:

1. "Maintenance" ranks first with a frequency of 104 times, indicating that the maintenance aspect is a major concern in the implementation of the PIPK, especially in the context of the management of confiscated goods.
2. "Shopping" appears 102 times, confirming the importance of the shopping process as part of an accounting cycle that requires adequate internal controls.
3. "PIPK" was mentioned 60 times, indicating respondents' understanding of the importance of an internal control system in supporting the reliability of financial reporting.
4. "Work" and "finance" are mentioned 59 times each, reflecting attention to the effectiveness of operational processes as well as the reliable presentation of financial information.
5. "Control" appeared 56 times, confirming that the topic of strengthening internal control was a central part of the respondents' discussion.

The results of the word frequency analysis showed that maintenance and spending aspects were the main concerns of the respondents in the context of the implementation of *PIPK*. This is in line with the focus of research that evaluates maintenance expenditure accounts as part of a financial reporting cycle that is prone to misclassification and non-conformance of job specifications. In addition, the emergence of words such as "work", "finance", and "control" consistently reflects an awareness of the importance of operational process effectiveness and internal control governance.

These findings also show that the implementation of PIPK has not been fully optimal between defense lines, as shown by the appearance of words such as "lack", "incompatibility", and "problem" in word frequency. Thus, this word frequency map provides an initial overview of priority areas, dominant issues, and potential root problems in the internal control system over financial reporting in State Institution "X".

Furthermore, the discussion in the following subchapters will elaborate on the evaluative findings in depth based on the structure of the PIPK stages and the content of each table analyzed. In addition, the discussion will critically show how the integration of roles between defense lines—especially in the aspects of communication, separation of roles, and strengthening control documentation—has an overall impact on the effectiveness of PIPK in ensuring the reliability of financial statements.

Evaluation of Current Conditions based on the Stages of Assessment, Implementation, and Review of Internal Control over Financial Reporting (PIPK) in State Institutions "X"

The evaluation of the current condition of the implementation of *PIPK* in State Institution "X" is carried out by dissecting the main stages regulated in *PMK* Number 17/PMK.09/2019, namely the implementation stage by the Implementation Team (first line), the assessment stage by the Assessment Team (second line), and the review stage by *APIP* (third line). These stages will be analyzed based on the main documents used in the *PIPK* process, namely Table A, Table B.1, and Table B.2, and associated with the context of implementation in State Institution "X", especially in the maintenance expenditure account that is the focus of this research. The analysis will describe whether each stage has been carried out adequately and in accordance with applicable regulations, as well as assess the integration between lines within the framework of the Three Lines Model.

Implementation of Internal Control over Financial Reporting (*PIPK*) in State Institutions "X"

The initial stage in the implementation of PIPK began with the implementation by the Implementation Team, which in the context of this study was represented by Respondent C (Maintenance Expenditure Management Staff) and Respondent D (Commitment Making Official). Both are implementers of maintenance spending activities that are functionally included in the first line in the Three Lines Model. In this framework, the first line is not only the administrative implementer, but also the risk owner who is responsible for the design and implementation of internal controls in the operational process.

The first line has a key role in internal control because they are the ones who design, implement, and improve controls, as well as identify and analyze risks including fraud risks, and pour them into documents such as Table A. Therefore, the quality of the implementation of internal control on the first line is highly determined by the accuracy of the initial data, the clarity of business processes, *and* the accuracy of the documentation produced.

The first stage in the PIPK process begins with the completion of Table A, which contains a risk-control matrix for significant accounts that are vulnerable to misrepresentations or inaccuracies in presentation. In this study, the maintenance expenditure account was determined as one of the significant accounts based on the results of management identification and previous audit findings. Filling in Table A is not only procedural, but is the foundation of internal control, because the results of risk identification and control design outlined in this table will be the basis for the implementation and evaluation of control effectiveness at the next stage.

The urgency of the importance of this stage was also affirmed by Respondent E from the Inspectorate General of the Ministry of Finance, who stated:

"If the foundation, namely the risk table or Table A, is lacking, then the future will also be affected. So, if the risk is not well identified, then the control will not be sharp, and the effect on the *PIPK* results will not be strong." (Interview: Respondent E, Auditor General of the Ministry of Finance)

Thus, the success of the implementation of PIPK is highly determined by the seriousness of the first line in filling out and documenting Table A accurately and based on a sharp understanding of risks. This stage is the starting point for internal control which functions not only as a safeguard, but also as an accountability instrument in government financial reporting.

The following are the results of the evaluation of Table A which serves as a tool to identify key risks and design controls on significant accounts. The analyzed Table A is a document for 2024, because in that year the maintenance expenditure account has been officially designated as a significant account in the PIPK assessment process at State Institution "X". This determination is based on the consideration that the account has a high potential for material misstatements and is relevant to the focus of control over financial reporting.

Risk Identification

Table 3. Table A Identification of State Institutions "X"

Main Process / Transaction	Main Risk	Main Control Name	Supporting Application	Control Executor	Supporting Documents	Control Type (Manual/Application)	Assertion	Adequate (Yes/No)
Procurement / Maintenance	Account Error	Verification of SAKTI application, coordination with BMN Administration	SAKTI	Subdivision and PPK	1. BAST and/or BAPP 2. Receipt 3. Invoice 4. SPP/SPBy	Application	- Classification - Evaluation/Allocation	Yes
Procurement / Maintenance	Discrepancy in Volume and Procurement Specifications	Inspection of technical team in accordance with field conditions	Control Card Manual	Subdivision and PPK	1. BAST and/or BAPP 2. Receipt 3. Invoice 4. SPP/SPBy	Manual	- Classification - Evaluation/Allocation	Yes

Main Process / Transaction	Main Risk	Main Control Name	Supporting Application	Control Executor	Supporting Documents	Control Type (Manual/Application)	Assertion	Adequate (Yes/No)
Procurement / Maintenance	Delay in Completing Maintenance Activities	Supervision of Activity Progress	Control Card Manual	Technical Team and Subdivision	1. Completion Report 2. Work Order	Manual	- Occurrence - Disclosure	Yes
Procurement / Maintenance	Existence of Assets Demolished Due to Maintenance	Coordination with the BMN Asset Disposal Division	Control Card Manual	Technical Team and Subdivision	1. Memo for Asset Demolition Notification 2. Approval Letter from BMN Administration	Manual	- Occurrence - Disclosure	Yes

Source: PIPK Document of State Institution "X"

Based on Table A for 2024 with a significant account of maintenance expenditure (523) (Table 3), it is known that the work unit has adequately identified the main risks. Risks such as account errors, volume and specification mismatches, delays in job completion, as well as the risk of asset deletion due to unloading, have been included in the table. This reflects an awareness of several important aspects of operational risks inherent in maintenance spending activities. However, risk identification is still limited to the technical-administrative aspect and does not yet cover broader strategic risks, such as potential fraud or budget ineffectiveness.

"... But if it is not, even though I appointed, it is still direct procurement. Now from there, the potential for fraud can actually arise, but we rarely write it in Table A" (Interview: Respondent D, Commitment Making Official)

From the risks that have been identified, several key controls are then applied as listed in the "Control Implementer" and "Name of the Primary Control" columns (see Table 5.2). Procedures such as physical field checks, coordination with BMN, and supervision of work progress are carried out before and after work. However, all forms of control are still carried out manually, as illustrated in the "Control Type" column, which is entirely filled in "Manual", except for the verification of the SAKTI application. This is in line with Respondent C's statement:

"... The control is carried out, it's just that it's still physical, we have documents, official memoranda, BAST... and there is still no measure of effectiveness" (Interview: Respondent C, Maintenance Expenditure Management Staff)

Furthermore, supporting documents for complete recorded control, such as receipts, minutes of events, and work orders, show good documentation efforts. However, Table A does not include an indicator of control effectiveness. No information was found on whether the designed controls actually prevented or detected the risk. Further evaluation showed that the assessment only stated "yes" in adequate columns, without performance-evidence-based arguments.

This weakness became even more evident when it was said in the interview that the perception of risk and accounts still varies between units. This can of course be the cause of repeated findings of errors/inconsistencies in the charging of shopping accounts:

".. If a small part of the panel is included, we include maintenance, but from the reporting it says it is capital. Now there is no perception yet, even though it can be a risk." (Interview: Respondent D, Commitment Making Officer)

In terms of processes, the filling of Table A is still carried out by the work unit without the involvement of information systems that support automation or integration with reporting applications such as SAKTI. In fact, ideally the filling of Table A is done by paying attention to the previous year's transaction track record and audit report. This is acknowledged by respondent D:

"... If we are going to be busy, we are going to be busy. Asked about a long-standing report... Yes, it must take a long time to answer. If you are in SAKTI you can connect immediately, it is better. We should have integrated with the SAKTI Application." (Interview: Respondent D, Commitment Making Officer)

Taking into account the above findings, it can be concluded that the completion of Table A has reflected most of the relevant technical risks, but has not been accompanied by a comprehensive risk management approach as required in PMK 17/PMK.09/2019. The absence of indicators of control effectiveness, the absence of fraud risks, and the limitation of digital documentation are important notes in the evaluation of this stage of implementation.

Assessment of Internal Control over Financial Reporting (PIPK) in State Institutions "X"

The next stage in the implementation of *PIPK* is the assessment of the effectiveness of internal control by the Assessment Team. Within the framework of PIPK as stipulated in PMK Number 17/PMK.09/2019, an assessment is carried out to assess whether the internal control plan prepared by the Implementation Team has been implemented adequately and effectively in overcoming the risks that have been identified. These assessments are documented in Table B.1 (Entity-Level Internal Controls) and Table B.2 (General Control of Information Technology), both of which are the primary sources of evaluation in this section.

Functionally, the Assessment Team performs the role of the second line in the Three Lines Model, which is a unit that provides support and monitoring for the implementation of internal controls, without directly carrying out operational processes. The second line plays a role in ensuring that the design and implementation of controls by the first line is in accordance with the principles of good governance, as well as adequate in detecting and mitigating risks. In this section, we will focus on the content of Tables B.1 and B.2 to assess the suitability of the implementation of the internal control assessment with the COSO principles and provisions in PMK 17/2019, and the extent to which the role of the second line has been carried out optimally in the context of *PIPK*.

Entity-Level Internal Controls

In this study, the analysis of Entity Level Internal Control *(PITE*) was carried out based on the 2023 Table B.1 document. The selection of the year is based on the fact that the PITE assessment is not carried out routinely every year at State Institution "X", but is carried out selectively in a certain period. 2023 is the last year that the PITE assessment will be conducted until the time of this study, so it is used as the most representative and relevant reference data to be analyzed in the context of evaluating the effectiveness of internal control over financial reporting.

Based on the results of the 2023 *PITE* document assessment, State Institution "X" obtained a score of 96, which means that it is quantitatively close to the maximum. This assessment was carried out by the Assessment Team with reference to the evaluation instruments in *PMK* No. 17/PMK.09/2019, covering five components of internal control according to the COSO framework: control environment, risk assessment, control activities, information and communication, and monitoring. However, when the results were reviewed using the triangulation method, namely by comparing the results of documents, in-depth interviews, and implementation observations, it was found that there was a discrepancy between formal values and substantive conditions as follows:

Control Environment

Table B.1 document for 2023 shows that there has been an institutional commitment to accountability and transparency, but its implementation at the work unit level has not been evenly distributed. Changes in the review team and the absence of a fixed team structure lead to inconsistencies in the evaluation of controls. The control environment is not yet fully strong, because the commitment of the work unit leadership to internal control is still formalistic and

has not yet become an organizational culture. This is reinforced by the statement of Respondent B, the Assessment Team:

"... The problem is not in the format, but in the awareness. We can make a system as good as it is, if the work unit doesn't realize that this is important, it's useless." (Interview: Respondent A, Assessment Team)

Unstable team structures that are often changed without adequate information transfer lead to a discontinuity of understanding of the context and history of internal control processes. Respondent B, the Auditor from the State Institution Inspectorate "X" said:

"What I see is, for example, the person who reviewed it is not the one last year. Now this sometimes becomes a miscommunication because last year already had a record, while the current one starts from the beginning." (Interview: Respondent B, Review Team)

"Sometimes the review team does not know the context because the assessment team makes the document, but the reviewer is not the one who accompanies it from the beginning. Finally, yes... The review is sometimes disconnected or late." (Interview: Respondent B, Review Team)

This suggests that the commitment to the sustainability of internal controls has not yet become an institutional priority, and that the arrangement of team structures and information flows has not fully supported the effectiveness of evaluations. In principle, this is contrary to the COSO element which requires a clear, stable, and supported organizational structure by competent and sustainable human resources. In addition to being a weakness in the Control Environment, the impact of this condition is also felt in the Information & Communication aspect, because miscommunication between lines hinders the optimal follow-up of control results.

Risk Assessment

The risk assessment in the document was stated to have been carried out, but filling out the risk register was still considered to be of low quality. Fraud risk and budget effectiveness are not explicitly listed, and risk evaluations are not conducted periodically. As a result, the same risks often arise repeatedly in external audit reports such as the CPC. Respondents from the work unit stated:

"The risk register that is filled in, it is sometimes copy-pasted last year. There has been no study that has really been seen from the current conditions." (Interview: Respondent C, Maintenance Expenditure Management Staff)

In addition, Respondent D from PPK added that differences in perception between work units and reporting often lead to risks not being systematically identified:

"If it's our version, it's maintenance. But from the report, it should be 53. Well, this difference is not reflected in Table A or the risk register." (Interview: Respondent D, Commitment Making Officer)

Thus, although the PITE value for the formal risk assessment aspect is high, substantively the assessment process has not met the principle of evidence-based risk assessment as stipulated in PMK 17/PMK.09/2019.

Control Activities

The results of the document show that the control procedures in the work unit are still carried out manually. There is no dashboard or integrated system that monitors the implementation of control in real-time. In addition, account errors and repeated overpayments were found, reflecting weak validation of specifications and volumes.

Respondent D from the PPK Installation Building gave an example of one of the cases:

"At that time we changed the MCB, but it turned out that two days later it caught fire again. It turned out that it was not because of the MCB, but because the cable was wound and

the load was not suitable. This means that the control is late." (Interview: Respondent D, Commitment Making Official).

This condition shows that control is not fully preventive, and there is no early detection system for potential technical risks in the field. PMK 17/2019 demands control that is designed to be risk-based and supported by information technology, but implementation in the unit is still reactive and manual.

Information & Communication

The findings show that coordination between units such as finance, reporting, and the inspectorate is still weak. Information is not conveyed thoroughly between related parties, and an integrated reporting system is not available. Control documents and reports are still physical-based, which makes it difficult to track and respond quickly to control weaknesses. In the interview, the Respondent from the Work Unit said:

"Sometimes we also have different perceptions. For example, let's assume that the replacement of the panel is 52, the reporting says 53. Well, something like this didn't connect at the beginning, eventually it became a finding." (Interview: Respondent C, Maintenance Expenditure Management Staff).

"Sakti is not fully connected to the PIPK system. So it's still hard to get a report on last year's activities." (Interview: Respondent C, Maintenance Expenditure Management Staff).

This shows that the principles of open, directed, and documented communication as stipulated in COSO and PMK 17/2019 have not been fully implemented, resulting in frequent miscommunication and delays in follow-up.

Monitoring Activities

The document shows that control evaluations are conducted on an annual basis, but do not have periodic mechanisms and performance indicators (KPIs) used to assess the effectiveness of controls. Follow-up on the recommendations of the review results is also often delayed or even not followed up. Respondents from the Inspectorate stated:

"Our review is sampling. But what we find is repetitive. It seems that because the follow-up is not systematic, or no one monitors per unit." (Interview: Respondent B, Review Team)

In addition, the monitoring process is more administrative, not based on an early warning system or dynamic risk assessment. This causes a weak organizational response to the weakness of control that has actually been detected.

Based on the triangulate analysis between the PITE 2023 document and the interview results, it can be concluded that the high scores in the document do not fully reflect the effectiveness of the implementation of internal controls in State Institution "X". Many elements are considered "adequate" administratively, but there are still gaps in substantive implementation, digital documentation, and ongoing monitoring cycles. Thus, the assessment needs to be complemented by evidence-based evaluation and field observation so that the results better reflect real conditions.

Table 4. Summary of Evaluation Table B.1 Entity-Level Internal Controls

COSO Components	Findings from Documents & Interviews	Descriptive Analysis
1. Control Environment	- Institutional commitment to accountability and transparency is already in place. - However, the commitment of the work unit is uneven. - Changes to the review team cause inconsistencies.	The control environment is not yet fully robust due to the lack of uniform leadership and no fixed team structure in the evaluation of controls.
2. Risk Assessment	- Filling out the risk register is still low.	The risk assessment is not comprehensive and does not cover all

COSO Components	Findings from Documents & Interviews	Descriptive Analysis
	- It does not include fraud risks and budget effectiveness. - Risk evaluations are not carried out periodically.	important aspects. This leads to repeated findings and weak mitigation.
3. Control Activities	- Control procedures are carried out manually. - There is no PIPK supervision dashboard yet - Account errors and overpayments due to mismatch specifications and volumes	Control activities have not utilized technology optimally, so it is prone to errors and inefficient.
4. Information & Communication	- Communication between units (finance, review, inspectorate) is weak. - There is no integrated reporting system. - Documents are still physical-based.	The information system has not supported openness and coordination across units. As a result, recommendations are often not followed up optimally.
5. Monitoring Activities	- Evaluations are carried out annually, there is no periodic mechanism yet. - There are no KPIs to measure the effectiveness of controls. - Follow-up on recommendations is often delayed.	Monitoring is less continuous and not yet based on performance indicators. The control system loses the opportunity to proactively make improvements.

Source: Self-processed data

MUD

Descriptive analysis was carried out by sampling Table B.2 which contains PUTIK Testing of Internal Application "X" in 2024. The filling of Table B.2 will be carried out in 2024 based on PMK No.17 of 2019 and in its filling involves the Information Technology Center of State Institutions "X". In PUTIK, there are several main control areas that can be tested, including the risk management area, change management area, logical access area, as well as the ICT operational area and service continuity. However, in the PUTIK Test Area, Internal Application "X" only includes ICT Risk Management and Logical Access Area.

Implementation of ICT Risk Management

ICT risk management already has written policies and procedures, including mitigation plan documents and internal communication media such as WhatsApp blast. However, periodic evaluation reports are not available to assess the effectiveness of risk mitigation. This was acknowledged by respondents:

"We have already had training and socialization about risks, but the evaluation after that has not been there. Usually, it just stops at socialization." (Interview: Respondent C, Maintenance Expenditure Management Staff)

PMK 17/2019 emphasizes the importance of documentation of mitigation plans, periodic evaluations, and updates of ICT risk registers as evidence that risks have been actively and carefully managed.

Security Awareness and Logical Access Program

The security awareness program has been socialized to users, including temporary users. There is an information security policy, access rights management, and a well-documented user list.

User Access Rights Monitoring

Monitoring of access rights is carried out by one Work Unit, with restrictions on access to interested users. Each account has a unique ID and is not shared with groups.

Account Management and Documentation

User accounts have been individually defined and have a well-documented user list, and account naming standards have been implemented using the "X" State Institution email.

Review of Internal Control over Financial Reporting (PIPK) in State Institutions "X"

The review is the last stage in the cycle of Implementing Internal Control over Financial Reporting (PIPK) after the implementation stage by the Implementation Team (first line) and assessment by the Assessment Team (second line). The review was conducted to provide limited confidence that internal controls have been adequately implemented and assessed, as well as to assess the consistency of implementation and effectiveness of controls on significant accounts. In the context of State Institution "X", the functions of the Review Team are carried out by the Inspectorate, which is the third line within the framework of the Three Lines Model.

The results of this review process are outlined in an official document in the form of a Review Result Record (CHR), which is a form of conclusion on the implementation of PIPK in one reporting period. In accordance with PMK Number 17/PMK.09/2019, the CHR is prepared based on the results of the sampling test, document review, interview, and/or direct observation, and must be signed by the head of the APIP unit that carries out the review. CHR not only serves as an archive of review results, but also serves as a basis for improving internal control and the preparation of follow-up plans by management. The CHR should contain conclusions that are objective, evidence-based, and recommend corrective measures if weaknesses are found in the implementation of control.

Based on the Record of Review (CHR) document on the internal control of the 2024 Financial Statements prepared by the Inspectorate of State Institutions "X" as the Review Team, it is known that the review process is carried out using documentation, interview, and sampling techniques, especially for significant accounts such as employee expenditure and maintenance expenditure.

CHR Year 2024 State Institution "X" states that the main risks have been identified and most of them have been addressed with key controls. However, there are still some drawbacks, such as account errors and mismatches in the volume of maintenance procurement. The results of the review were concluded to be "reasonable and adequate", accompanied by the signatures of Inspector I and the PIPK Team Leader on January 23, 2025.

However, if further examined using the triangulation approach, the results of the interviews show that the implementation of the review still faces several implementation challenges. One of the challenges faced is the inconsistency of the review team, namely the change of personnel from year to year without adequate documentation or information transfer. This causes disruption in the continuity of understanding of the assessment context and affects the quality of reviews.

This problem is exacerbated by the lack of communication and consolidation between the Appraisal Team and the Review Team. In practice, the Assessment Team has conducted an entry meeting with the review team from the previous year, not with the review team that is currently active. This shows the dislocation of information between years and the absence of a collaborative documentation system between teams.

This issue highlights the importance of the formation of a sustainable team structure, documentation of responsibility transition, and communication protocols between lines, as emphasized in the principles of the Three Lines Model and PMK 17/PMK.09/2019. The absence of these elements can reduce the objectivity and accuracy of the review results, as well as have an impact on the non-optimal improvement recommendations submitted through the CHR.

Evaluation of PIPK Implementation on Maintenance Expenditure in State Institutions "X"

A thorough evaluation of the implementation of Internal Control over Financial Reporting (PIPK) on maintenance expenditure accounts in State Institutions "X" was carried out with reference to the COSO 2013 framework, which was officially used in PMK No.

17/PMK.09/2019 as the basis for the implementation of PIPK within ministries/institutions. The five components of internal control in COSO—namely Control Environment, Risk Assessment, Control Activities, Information & Communication, and Monitoring Activities—are used to holistically assess how each stage of PIPK (implementation, assessment, and review) has been implemented, with reference to the documents Tables A, B.1, B.2, and the Review Results Notes (CHR).

Control Environment

In general, the PITE and CHR documents illustrate that there is an institutional commitment to the implementation of internal control. However, the results of the evaluation show that the structure of the control team is still inconsistent. Personnel changes in the Assessment Team and Review Team without adequate information transfer cause discontinuity in the understanding and implementation of control. This results in the conclusion of assessment and review not always harmonizing in substance.

Risk Assessment

The results of the evaluation of Tables A and B.1 show that key risks such as account errors, delays, and volume mismatches have been identified. However, the approach is still administrative and does not include strategic risks such as fraud and budget inefficiencies. Risk evaluations are also not carried out regularly and often only copy from the previous year.

Control Activities

The control designs in Tables A and B.1 have included physical verification, technical supervision, and administrative reporting. However, most of the control is done manually and is not yet information system-based. In ICT testing (Table B.2), controls such as monitoring of access rights and account documentation are available, but are not yet complemented by periodic evaluations of the effectiveness of controls.

Information and Communication

Communication between lines (Applicators–Assessors–Reviews) has not been effective. There is no integrated control or reporting system that supports continuous change tracking and follow-up. Miscommunication arises due to differences in understanding account classification and control recommendations.

Monitoring Activities

Monitoring is carried out through a review by the Inspectorate and concluded in the CHR. However, CHR only uses a sampling and documentation approach, not substantive testing of control effectiveness. Follow-up on findings is often delayed, and no performance indicators (KPIs) are found to assess the success of control implementation.

Based on the results of the analysis of the five components of internal control in the COSO framework, it can be concluded that the implementation of PIPK on maintenance expenditure in State Institution "X" has fulfilled most of the procedural aspects as stipulated in PMK No. 17/PMK.09/2019, which is reflected in the preparation of Table A, Table B.1, Table B.2, and the Review Result Record (CHR) document. However, in substance, the effectiveness of the implementation of internal control still faces various fundamental weaknesses. This condition causes repeated findings such as incorrect use of shopping accounts and mismatches in the volume of work often occur, as reflected in the BPK Audit Results Report (LHP) for 2019–2023.

Although administratively the PITE score reached a high number (96), the results of triangulation with field data and interviews showed that internal control was not fully effective in ensuring the reliability of financial statements, especially in the context of managing maintenance expenditure accounts. For this reason, systemic strengthening is needed through process improvement, increased understanding of work units, and the development of information systems that support continuous monitoring.

Recommendations for Improvement and Best Practice for PIPK Implementation

Based on the results of the evaluation and triangulative findings from documents and interviews, the increase in the implementation of PIPK in maintenance expenditure in State Institutions "X" needs to be directed at the overall strengthening of the five components of internal control as stated in the COSO framework and explicitly regulated in PMK Number 17/PMK.09/2019.

Strengthening the Control Environment

Efforts to strengthen the control environment must start from increasing the commitment of the leadership and establishing a stable organizational structure. The inconsistency of the membership of the Assessment Team and the Review Team has so far caused a disruption of knowledge and communication between control lines. Therefore, the team membership structure needs to be officially established through an annual Decree (SK) to ensure the continuity of competence and responsibility. More than just administrative appointments, the head of the work unit must be actively involved in monitoring the implementation of internal control and providing policy direction that reflects the principle of tone at the top. This approach is in line with the COSO principle which places integrity and commitment of leadership as the main pillars of the control environment. This support was also affirmed by the Auditor of the Ministry of Finance who stated:

"We still encourage our friends to continue to convey the results as they are... But in the end it comes back to the leadership's commitment not to intervene." (Interview: Respondent E, Inspectorate General of the Ministry of Finance)

Enhanced Risk Assessment

To improve the quality of risk management in PIPK, it is necessary to improve the risk identification and mapping process, especially in Table A documents and risk registers. The risks identified today are still limited to the administrative aspect, while strategic risks such as fraud, spending inefficiencies, and deviations in technical specifications have not been explicitly reflected. Risk assessments should also not be conducted only once a year, but are reviewed periodically to remain relevant to changes in the operating environment. In addition, it is important to involve business process owners (probis) in the preparation of RCMs and risk identification, rather than just leaving them to the implementing staff. The importance of strengthening the risk identification stage as the main foundation of the PIPK system was emphatically emphasized by the Inspectorate General of the Ministry of Finance. In his interview, Respondent E stated:

"RCM is the responsibility of the owner of the probis... Not only technical staff. So, the compiler must be the one who understands the business process as a whole." (Interview: Respondent E, Inspectorate General of the Ministry of Finance)

The risk identification process is not just the initial stage, but the core that determines the accuracy of the control design and the validity of the assessment conclusions and reviews in the later stages. By treating risk identification as the foundation of internal control as emphasized by regulators, it is expected that the PIPK system in State Institution "X" is not only administratively compliant, but also substantively robust in preventing repeated findings and ensuring the reliability of government financial reporting.

Modernization of Control Activities

Modernization of internal control is an urgent need so that the supervision and risk mitigation process runs more effectively. Controls that are still manual and documented need to be transformed into an integrated digital form. This includes digitizing documentation, developing an internal cloud-based control repository, as well as implementing a control dashboard that allows real-time monitoring of proof of control, risk status, and follow-up. This recommendation is also in line with the direction of the Ministry of Finance's Inspector General which encourages the digitization of internal control outside the SAKTI system:

"Now all financial controls have used the application. We encourage KL to digitize controls that are outside of SAKTI as well." (Interview: Respondent E, Inspectorate General of the Ministry of Finance)

Strengthening Information and Communication Systems

The communication and information system aspects in the implementation of PIPK are still a challenge, especially in terms of coordination between work units and the exchange of control data. For this reason, State Institution "X" is advised to develop an integrated PIPK platform that can be used by the Implementing, Assessing, and Review Teams to access, fill, and monitor the development of internal control across units. In addition, ongoing training also needs to be carried out to equalize understanding of account classification, SOP updates, and risk-based control policies. Effective communication not only smooths the process, but also prevents miscommunication as occurred in the previous year's entry meetings and reviews.

Improved Monitoring and Evaluation

Monitoring and evaluation of internal control so far has been reactive and on an annual scale. In order for the internal control system to be adaptive and sustainable, it is necessary to set specific Key Performance Indicators (KPIs) for internal control in each work unit. Evaluation of these KPIs can be carried out quarterly and becomes the basis for awarding or coaching work units. Thus, control is not only an administrative responsibility, but also part of a measurable performance system. Effective monitoring should include updating risk registers, monitoring the implementation of CHR recommendations, and integration into internal reporting systems.

Best Practice Benchmark for the Implementation of Internal Control over Financial Reporting (PIPK)

In an effort to strengthen the effectiveness of the implementation of Internal Control over Financial Reporting (PIPK), State Institution "X" needs to adopt best practices that have been progressively implemented in several other government agencies. The adoption of these best practices not only aims to improve regulatory compliance, but also to develop an adaptive, collaborative, and technology-based internal control system.

One of the recommended practices is the development of an application-based digital dashboard, which allows integration between risk reporting, control status, and real-time follow-up of recommendations. This system can replace manual reporting that has been used so far and allows management and internal supervisors to get a comprehensive picture of PIPK achievements at all times. It has also been the focus of the development of several Ministries/Institutions as encouraged by the Ministry of Finance:

In addition, the establishment of a PIPK coordination center across work units can be a solution to the fragmentation of functions between control lines (implementers, assessors, reviews) which have been running separately and out of sync. This coordinating unit will ensure the continuity of the PIPK cycle, consistency of assessments between years, and maintain the continuity of personnel which has been one of the main challenges in the implementation of PIPK.

In practice, continuous monitoring and real-time data-driven reporting are also highly recommended to replace reactive annual monitoring patterns. By utilizing technology, organizations can supervise the implementation of controls in a more responsive manner, and thus accelerate the corrective decision-making process if weaknesses or violations are detected.

One of the strategic inputs from the Ministry of Finance that is also relevant is related to regulatory simplification. In an interview, the Inspector General of the Ministry of Finance suggested that the PIPK regulations, especially PMK No. 17/PMK.09/2019, be lowered into the form of technical guidelines or operational guidelines that are more detailed and contextual.

The goal is for technical work units in the field to implement PIPK more easily and consistently, without causing multiple interpretations of abstract general provisions:

"PMK 17 is too general. Many KLs have been lowered into ministerial technical regulations. It can be imitated so that the implementation of PIPK is more operational in the field." (Interview: Respondent E, Inspectorate General of the Ministry of Finance)

The reduction in regulations also supports the need for work units to have practical, standardized, and adjusted SOPs to significant account characteristics, such as maintenance spending. Thus, control can be carried out efficiently, documented, and easily supervised.

Overall, the implementation of this best practice approach is believed to substantially strengthen the internal control system in State Institution "X", encourage collaboration between lines of control, and reduce the risk of repeated findings in financial statements. More than that, this practice is also in line with the spirit of bureaucratic reform and modernization of state financial management based on the principles of accountability, transparency, and reliability of government financial information.

CONCLUSION

The research on the implementation of Internal Control over Financial Reporting (PIPK) for maintenance expenditure in State Institution "X" during 2019–2023 revealed systemic weaknesses across all COSO components, with ineffective control environments, weak documentation, and inconsistent monitoring practices. Despite maintenance expenditure comprising only 4.2% of the total budget, it carried a disproportionately high risk due to recurring audit findings such as overpayments and contract non-conformities. The Three Lines of Defense model functioned suboptimally, with the first line failing to detect errors, the second line offering limited analysis, and the third line lacking adaptive oversight. The absence of an effective Risk Control Matrix (RCM) further weakened the integration of risk and control activities, leaving critical risks unaddressed. Overall, the study identified a significant gap between existing (As-Is) practices and the desired (To-Be) standards under PMK No. 17 of 2019, driven by weak control culture and non-standardized procedures. Future research should focus on designing an integrated PIPK model tailored for maintenance expenditure to strengthen control coordination and enhance governance across state institutions.

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