

# Analysis of the Effectiveness of Internal Control on the Local Government's Financial Reports in the East Lampung Regency

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**Abstract-** This research aims to assess the effectiveness and evaluate the Internal Control System the East Lampung Regency Government as well as identify the causes of the findings of the Internal Control System in Financial Report of the East Lampung Regency Regional Government for Fiscal Year 2022. This research uses a qualitative descriptive method using primary and secondary data. Primary data was obtained from the Internal Control System questionnaire filled out by authorized officials and interviews. Secondary data was obtained from the Audit Report on Local Government's Financial Reports for Fiscal Year 2022. The results of this research are that the implementation of Internal Control System in the East Lampung Regency Government as a whole has been effective. The four control components, namely control environment, control activities, information and technology, and monitoring, received effectiveness scores between 2.34 – 3.00, thus indicating that these four components are effective. However, the score on the risk assessment component is 2.10, which means the component is not fully effective. The results of identifying types of Internal Control System findings in the Audit Report on Local Government's Financial Reports of East Lampung Regency show that there are still weaknesses in the components of risk assessment, control activities, and information and communication, so there is a need to strengthen and implement the Internal Control System in these three components.

**Index Terms-** Government's Internal Control System, Local Government's Financial Reports, Internal Control System findings

## I. INTRODUCTION

Indonesia has embraced a system of fiscal decentralization for more than twenty years. Fiscal decentralization requires local governments to be independent in raising revenue and implementing development according to the activities and programs planned by the Head of the Region [18]. Not only that, fiscal decentralization also gives regional governments the right to receive financial transfers from the central government and determine investments [13]. In support of the fiscal decentralization system, Local Governments need to prepare financial reports to be accountable to the public in managing state finances in one fiscal year. The preparation of Local Government's Financial Reports must be adjusted to Government Accounting Standards. The compiler of this standard is the Government Accounting Standards Committee, whose practice adopts the International Public Sector Accounting Standards on an accrual basis [17].

The function of the external auditor to provide an opinion on the Local Government's Financial Reports so that financial information is presented relatively is the duty of the Audit Board of Indonesia. The Summary of Semester Audit Results I year 2021 revealed that the Unqualified Opinion was achieved by 500 Regional Governments, the Qualified Opinion was completed by 38 Regional Governments, and 3 Regional Governments achieved Disclaimer of Opinion. During 2017-2021, the opinion on Local Government's Financial Reports has improved. The Unqualified opinion has increased by 16.4%, from 76% in the 2017 Local Government's Financial Reports to 92.4% in the Local Government's Financial Reports. Meanwhile, the Qualified opinion has decreased by 14%, whereas in 2017, the Qualified opinion reached 21% and in 2021 only 7% [3].

Apart from providing opinions, the leading role and responsibility of Audit Board of Indonesia is to detect fraud that can potentially have a material adverse impact on government financial statements [8]. The Summary of Semester Audit Results I year 2021 also revealed 6,965 findings from 541 Local Government's Financial Reports. The findings contain 11,910 problems, which include 5,366 results of internal control system weaknesses and 6,544 findings of non-compliance, amounting to IDR 2.35 trillion. Based on these findings, Audit Board of Indonesia has recommended that the Local Government carry out corrective actions for the next period. Based on this data, 45.05% of the problems in the Local Government's Financial Reports for Fiscal Year (FY) 2022 are Internal Control Systems. The first prevention that can be done to minimize findings is a good Internal Control System. The existence of an effective Internal Control

System implementation from the Regional Government should be able to detect errors and fraud that occur in the entity. In addition, a good Internal Control System can support the creation of a forum for collecting and compiling effective and efficient information on entity

business transactions. Weak internal control will affect the non-compliance of an entity [15]. The better the internal control, the higher the level of compliance with applicable regulations, affecting the audit opinion obtained by the entity. These results are by [2], which reveals that internal solid control will improve the statement on Local Government's Financial Reports. [21] also showed the same thing when the research took a sample of Public Accounting Firms in East Jakarta.

Internal control is a process to determine the right degree of confidence that risk management objectives can be achieved [23]. In view of the functions carried out, internal controls are very important as they comprise preventive checks: preventing problems before they arise, detective checks: identifying problems and corrective checks: correcting errors [14]. The Indonesian government has issued Government Regulation Number 60 of 2008 concerning Government's Internal Control System as a basis that requires all Central and Regional Government environments to implement it. Internal Control System in Indonesian Government is an adoption of The Committee of Sponsoring Organizations of the Treadway Commission (COSO), which contains five control components [6]: the control environment, risk assessment, control activities, information and communication, and monitoring. The five components are interconnected with each other. The purpose of implementing an Internal Control System for the government is to provide adequate assurance that the objectives of state governance are achieved effectively and efficiently, reliable central and regional financial reporting, safeguarding state assets, and compliance with laws and regulations.

Various studies related to the implementation of COSO-based Internal Control Systems have been carried out. In the private sector, the COSO Internal Control System is used to evaluate the Internal Control System that runs in the company. The study conducted at PT Brantas Abipraya by [20] revealed that internal control has been implemented by the five Internal Control System components in COSO. However, the company needs to take corrective steps to implement the control system as expected. Meanwhile, the results of research conducted by [19] at PT Moy Veronika revealed that implementing the COSO Framework at PT Moy Veronika still needs to be fully implemented. Some components have not been implemented and are not by the COSO Framework.

Furthermore, research conducted by [7] at Bank BRI revealed that the company's internal control had applied the COSO control concept. However, principles must be carried out consistently in its implementation, especially in the control environment and monitoring components. Fraud cases involving internal company parties still occur. This means that the control environment component needs to be adequately implemented. In addition, many external auditor findings still need to be resolved, indicating that the monitoring component must run effectively. [4] conducted research by comparing each control component in the COSO Framework with the performance of manufacturing companies located in Erbil, Kurdistan. The results of the study revealed that the four components of the COSO Framework, namely the integrated control environment, risk assessment, control activities, and monitoring, had a significant effect on the performance of manufacturing companies compared to the information and communication component. Similar evidence was found in Jordan by [11], which proves that internal control, as measured by the COSO Framework, has a significant effect on the effectiveness of an organization's performance. In line with this research, [5] proves that each component of internal control in the COSO Framework can increase innovation by companies.

Not only the private sector companies but research related to Internal Control Systems has also been conducted in the public sector. [12] researched the implementation of the Internal Control System in the Central Java Provincial Government. This study shows two obstacles to implementing the Internal Control System in Central Java Province. These factors come from internal and external to the Central Java Provincial Government. The internal factors include an imperfect Standard Operating Procedure (SOP) and ineffective monitoring from the apparatus, recommendations for findings that need to be followed up, late financial reports, and problems related to Human Resources.

Meanwhile, the external factor is the absence of Regional Regulations governing the implementation of the Internal Control System. [1] research on the Cimahi Regional Government shows that the Internal Control System still needs to be fully implemented. Only two Internal Control System elements are carried out by the Cimahi City Government, namely information and communication and monitoring.

Audit Board of Indonesia examiners also assess the effectiveness of the Internal Control System in conducting examinations of the Local Government's Financial Reports. Based on Audit Board of Indonesia Decree No. 1/K/I-XII.2/1/2021 on Technical Audit Guidelines and No. 2/K/I-XII.2/7/2012 on Technical Guidelines for Understanding and Testing Internal Control System, Audit Board of Indonesia in the audit planning stage must assess the effectiveness of Internal Control System as a whole, including entity-level Internal Control System and Internal Control System of the Financial Reporting Business Process Information System. This is done to assess the effectiveness of internal control of the audited entity. Furthermore, the conclusion of the overall Internal Control System effectiveness will determine the risk value used as the basis for the Overall Materiality rate assessment.

One of the entities of Audit Board of Indonesia is East Lampung Regency, located in Lampung Province, which has obtained an Unqualified opinion five times in a row since 2018. This opinion shows that the entity has committed to presenting the Local Government's Financial Reports fairly by implementing a robust Internal Control System to be free from material misstatement due to fraud and error.

## II. THEORETICAL BASIS

Based on Indonesian Government Regulation Number 60 of 2008, the government's Internal Control System must be organized thoroughly within the central and regional governments. The regulation defines *Internal Control System* as a process that is integral to the actions and activities carried out continuously by the leadership and all employees to provide adequate confidence in the achievement of organizational goals through effective and efficient activities, reliability of financial reporting, safeguarding state assets, and compliance with laws and regulations [16]. The internal Control System itself is an adoption of COSO, which consists of five control elements, namely control

environment, risk assessment, control activities, information and communication, and monitoring. Government Regulation Number 60 of 2008 defines these components as follows:

a. Control environment;

The Head of Government Agencies carries out the obligation to create and maintain a control environment that creates positive behavior and is conducive to implementing the Internal Control System in the work environment. Efforts that can be made to achieve this are

- 1) Enforcement of integrity and ethical values within the Government, including establishing rules of enforcement of integrity and ethical values within the Government, including establishing rules of conduct;
- 2) Commitment to competence so that each employee can carry out their duties and functions at work;
- 3) Conducive leadership that includes the application of performance-based management and positive responses given to reporting related to finance, budgeting, programs, and activities of the Government;
- 4) The establishment of an organizational structure that is appropriate to the needs. The organizational structure will provide clarity of authority and responsibility;
- 5) Appropriate delegation of authority and responsibility;
- 6) Preparation and implementation of sound policies on human resource development, including recruitment policies up to the dismissal of employees;
- 7) Realization of the role of an effective internal government supervisory apparatus in order to provide adequate assurance of obedience, economy, efficiency, and effectiveness in achieving the objectives of the implementation of the duties and functions of Government Agencies; and
- 8) Good working relationships with relevant Government Agencies, which the existence of mutual testing mechanisms between relevant Government Agencies can realize.

b. Risk assessment

Leaders of Government Agencies must conduct a risk assessment consisting of risk identification and risk analysis. At this stage, the leadership first determines the objectives of government agencies and objectives at the activity level guided by laws and regulations. Risk identification must be carried out using a methodology appropriate for the objectives of the Government Agency and objectives at the activity level comprehensively, using adequate mechanisms to recognize risks from external factors and internal factors and assessing other factors that can increase risk. Meanwhile, risk analysis is carried out to determine the impact of risks that have been identified on the achievement of Government Agency objectives. Leaders of Government Agencies must apply the precautionary principle in determining the acceptable risk level.

c. Control activities

Leaders are required to organize control activities by the size, complexity, and nature of the duties and functions of the Government Agencies concerned. The implementation of control activities has at least the following characteristics:

- 1) prioritized in the main activities of Government Agencies;
- 2) associated with the risk assessment process;
- 3) adapted to the specific nature of the Government Agency;
- 4) policies and procedures must be established in writing;
- 5) procedures that have been established must be implemented by what is stipulated in writing; and
- 6) evaluated regularly to ensure the activity is still appropriate and functioning as expected.

d. Information and communication

The leadership must carry out the identification, recording, and communication of information in the proper form and at the right time. Communication of information must be organized effectively. This can be done by providing and utilizing various forms and means of communication as well as managing, developing, and updating information systems continuously.

e. Monitoring

The Internal Control System is monitored through continuous monitoring, separate evaluation, and follow-up on recommendations from audits and other reviews. Continuous monitoring is carried out through routine management activities, supervision, benchmarking, reconciliation, and other related actions in carrying out tasks. A separate evaluation is organized through self-assessment, review, and testing of the effectiveness of the Internal Control System. Separate evaluations can be done by the government's internal control apparatus or external parties. Follow-up on recommendations from audits and other reviews must be completed immediately and carried out by the established mechanism for resolving recommendations from audits and other reviews.

### III. RESEARCH METHODOLOGY

This research is qualitative-descriptive to see the problems and evaluate the implementation of the Internal Control System in the East Lampung Regency Government. This research does not use statistical numbers but uses descriptive explanations to explain a symptom, event, and event that occurs and becomes a focus of attention to be described as it is by the state of reality [22].

The data sources used are primary data and secondary data. Primary data in the form of Internal Control System questionnaires by Audit Board of Indonesia Decree Number 1/K/I-XII.2/1/2021 concerning Technical Guidelines for Examination and Number 2/K/I-

XII. 2/7/2012 concerning Technical Guidelines for Understanding and Testing Internal Control System filled out by Regional Head, Deputy Regional Head, Regional Secretary, Head of the Regional Financial and Asset Management Agency, Head of the Regional Revenue Agency, Head of the Regional Development Agency, and Inspector. Interviews are used to confirm the correctness of the questionnaires filled out.

The results of the interview were also used to correct the answers given by the respondents. Furthermore, the answers were converted into numbers with the following conditions: Disagree = 1, Average = 2, and Agree = 3. The conversion score is then averaged to see whether the Internal Control System implemented is effective. Secondary data was obtained from the Audit Report on Local Government's Financial Reports of East Lampung Regency Government FY 2022, regulations issued by government agencies, scientific articles or journals, and The Summary of Semester Audit Results published by Audit Board of Indonesia. The data is then analyzed to see the weaknesses of the Internal Control System in the East Lampung Regency Government.

#### IV. RESULT AND DISCUSSION

##### 4.1 Results

Tabulation of the questionnaires completed by the authorized officials and interviews to ascertain the validity of the questionnaire entries yielded the following results:

**Table 1. Internal Control Assessment Score Tabulation Results**

No.	Components	Questionnaire Score	Corrected Score
1	Control Environment	2,89	2,58
2	Risk Assessment	2,45	2,10
3	Control Activities	2,77	2,46
4	Information and Communication	2,97	2,54
5	Monitoring	2,80	2,60
	<b>Average Score</b>	<b>2,78</b>	<b>2,46</b>

*Source: Data Processed, 2023*

Based on the tabulation results of the Internal Control System questionnaire filled out by authorized officials, the East Lampung Regency Government obtained an average score of 2.78. However, it was corrected to 2.46 after the interview. Based on the provisions in Audit Board of Indonesia Decree Number 1/K/I-XII.2/1/2021 on Technical Audit Guidelines and Number 2/K/I-XII.2/7/2012 on Technical Guidelines for Understanding and Testing Internal Control System, the score of 2.46 indicates that Internal Control System in the East Lampung Regency Government is effective. However, the Audit Board of Indonesia audit report on the Local Government's Financial Reports of East Lampung Regency FY 2022 shows 18 Internal Control System problems with the following details.

**Table 2. Details of Internal Control Findings Categories in East Lampung Regency**

No	Problem Categories	Total
1	Recording is not/not yet done or inaccurate	2
2	The report preparation process is not in accordance with the provisions	2
3	Inadequate Accounting and Reporting Information System	1
4	Inadequate activity planning	3
5	Deviations from the laws and regulations of certain technical fields or internal provisions of the examined organization regarding income and expenditure	4
6	Determination / implementation of policies is not appropriate or has not been carried out resulting in loss of potential revenue / income	2
7	Policy determination/implementation is not appropriate or has not been carried out resulting in increased costs/expenditures	1
8	The entity does not have a formal SOP for a procedure or all procedures	2
9	SOPs that exist in the entity do not run optimally or are not adhered	1
	<b>Total Problems</b>	<b>18</b>

*Source: Data Processed, 2023*

##### 4.2 Discussion

###### Control Environment

Table 1 shows that the control environment component has a score of 2.89, and after the interview, it was corrected to 2.58. This score is between 2.34 - 3.00, so the control environment has been carried out effectively. The East Lampung Regency Government already has rules for sanctioning employees who commit fraud and dishonesty. In addition, all employees have signed an Integrity Pact related to the code of ethics that must be carried out. However, based on the interview results, these policies and rules have yet to be thoroughly

socialized to all employees. It is necessary to mix the consequences received by employees who commit violations. Furthermore, it is known that the East Lampung Regency Government still needs an official procedure for establishing, changing, and eliminating controls. This procedure is essential in preventive, detective, and corrective controls.

The East Lampung Regency Government continues to organize existing personnel to occupy positions by paying attention to the qualifications and skills required in a post. However, there are still limited human resources in specific technical fields, so employees do not meet the qualifications and are not by their educational background. Training provided to employees is not tailored to the abilities of employees but is adjusted to the financial capacity of the region, thus limiting employees to get the training needed.

The East Lampung Regency Government proposes new position formations based on the workload of each position in the regional apparatus organizations, which has been compiled and determined in the projected employee needs inputted in the e-formation Ministry of Administrative Reform and Bureaucratic Reform. Position formations are adjusted to the educational background of each position. However, there are still weaknesses related to policies and practices related to human resources, including:

- a. Not all employee placements are by educational background and technical competence; for example, the head of accounting at the regional financial and asset management agency does not come from a relevant department;
- b. Not all employee promotions are based on merit and seniority considerations, and
- c. The application of rewards and punishments still needs to be comprehensive.

### **Risk Assessment**

Table 1 shows that the risk assessment component scored 2.45 after the interview, which was corrected to 2.10. This score is between 1.67 - 2.33, so the risk assessment could not have been more practical. Various types of risks that can hinder the preparation of Local Government's Financial Reports have been identified by the Regional Government. The chances that have been placed include a) ineffective coordination between regional apparatus organizations, b) limited competence of human resources, c) collusion between employees, and d) changes in regulations relating to financial reporting. Risk mitigation measures have been taken for these risks so that there is no delay in financial reporting.

However, based on the results of questionnaires and interviews, it is known that there are still risks that have not been identified, such as weaknesses in the use of information technology, the risk of changes in personnel from outside the financial sector, and risks that cause misstatements in the financial statements. The risk of weaknesses in the use of information technology includes data loss, program congestion, and human error. Furthermore, the employee transfer policy in the finance section is prioritized by regional financial and asset management agency employees themselves, limiting employees from other regional apparatus organizations from entering. This condition shows that the Local Government has yet to anticipate the risk of personnel changes coming from outside regional financial and asset management agencies. Regarding financial reporting, Local Governments can face the risk of misstatement caused by limited human resource competence and the lack of preventive measures taken by internal auditors. For example, human error in the operation of financial information technology causes recording errors; internal auditors do not carry out cash-taking at the end of the year for each regional apparatus organization, which can increase the risk of misstatement in the Cash account, inadequate work planning, loss of revenue, increased provincial spending, and deviations from laws and regulations.

### **Control Activities**

The control activity component in Table 1 has a score of 2.77, and after the interview, it was corrected to 2.46. This score is between 2.34 - 3.00, so control activities have been carried out effectively.

Control activities to ensure the accuracy and completeness of information have been carried out through procedures for processing financial information in each regional apparatus organization. However, the existing systems have yet to be fully implemented because supervision from the regional apparatus organization has not been optimal. This condition will have an impact on the process of preparing financial reports. In terms of completeness of information, verification activities and signing of documents for the release of money from the bank have been carried out by personnel appointed in accordance with the Regent's Decree. Reconciliation of regional cash accounts with bank accounts and ledgers with auxiliary books has been carried out regularly. However, control activities have yet to be thoroughly carried out in accuracy. The expenditure document has no prenumbered sequence number, so the records are not connected. This condition can affect the accuracy of transactions inputted into the financial reporting system. In addition, some employees, especially in finance, need to fully understand accounting policies, which can affect the recording of transactions, thus affecting the accuracy of the data presented in the financial statements.

Access restrictions to secure assets, data, and documents have been carried out. Access is only given to certain people who are authorized and responsible for storing documents, processing data in applications, and securing assets. For example, access is given to the key for the inventory warehouse holder and password for the data processor in the application. However, data, document, and application security must be fully implemented. Data and document storage areas are not equipped with combination locks, so data theft by unauthorized parties can occur and increase the risk of data loss. In addition, passwords on applications are not updated periodically, allowing the chance of illegal access by irresponsible parties.

Performance review compares performance with benchmarks set and disclosed in the financial statements. In this case, what is reached is the budget and realization of income and expenditure in one period. However, adequate disclosure regarding the cause of the difference between budget and realization must be sufficient in practice. In addition, budget and realization comparison analysis has yet to

reveal the obstacles/barriers to achieving performance targets. Performance reviews are expected to provide evaluations to local governments to optimize revenue and spend budgets effectively and efficiently.

### Information and Communication

The information and communication component score in Table 1 was 2.97, and after the interview, it was corrected to 2.54. This score is between 2.34 - and 3.00, so information and communication have been carried out effectively. Local governments have used integrated applications to prepare their financial reports. The recording of transactions in the application has included the rights and obligations of the entity, measured by the value of the rupiah. It has been allocated according to the items of each account. However, in preparing the financial statements, there are still control weaknesses as follows:

- a. Validation and verification of transaction evidence still do not cover the validity/truth of the invoice as the basis for the transaction;
- b. Transaction evidence is not recorded promptly by transaction accruals;
- c. Approval of authorized officials as the basis for journal paragraphs on supporting documents is incomplete;
- d. Many employees and work units related to financial management do not understand accounting policies;
- e. Not all regional apparatus organizations' reports are promptly distributed to regional financial and asset management agencies.

These weaknesses are caused by inadequate accounting information systems that pose a risk of delays in financial reporting by the Regional Government and misstatements on financial reports.

### Monitoring

Based on Table 1, it is known that the monitoring component has a score of 2.80 and, after the interview, was corrected to 2.60. This score is between 2.34 - 3.00, so monitoring has been carried out effectively. The monitoring function by the Inspectorate as an internal auditor has been carried out, including following up on public complaints or issues in the mass media. The Inspectorate has regularly submitted reports on the completion status of recommendations arising from the findings of the Inspectorate and Audit Board of Indonesia to the Regional Head, including Internal Control System and compliance findings. However, not all recommendations of the conclusions have been followed up effectively. Recurring results still occur, and offers in the form of returns to the regional treasury still need to be revised. As of December 31, 2022, the East Lampung Regency Government has carried out follow-up according to 804 recommendations (81.46% of the total recommendations of 987 submissions); the follow-up has not been completed or not according to the recommendations, as many as 167 requests, the status has not been followed up as many as 13 submissions, and 3 recommendations cannot be followed up with valid reasons.

### Audit Board of Indonesia's Internal Control Findings and Their Causes

Table 2 shows 18 Internal Control System problems from East Lampung Regency Financial Reports. The Audit Report on East Lampung's financial reports for FY 2022 disclosed nine categories of Internal Control System problems caused by weaknesses in control components. The results of identifying the causes of Internal Control System findings based on the results of the Internal Control System evaluation are as follows

**Table 3. Results of Identification of Causes of Internal Control Findings**

No	Problem Categories	Internal Control Components
1	Recording is not/not yet done or inaccurate	Risk Assessment, Control Activities, Information and Communication
2	The report preparation process is not in accordance with the provisions	Risk Assessment, Control Activities, Information and Communication
3	Inadequate Accounting and Reporting Information System	Risk Assessment, Information and Communication
4	Inadequate activity planning	Risk Assessment, Control Activities
5	Deviations from the laws and regulations of certain technical fields or internal provisions of the examined organization regarding income and expenditure	Risk Assessment, Control Activities
6	Determination / implementation of policies is not appropriate or has not been carried out resulting in loss of potential revenue / income	Risk Assessment, Control Activities
7	Policy determination/implementation is not appropriate or has not been carried out resulting in increased costs/expenditures	Risk Assessment, Control Activities
8	The entity does not have a formal SOP for a procedure or all procedures	Control Activities
9	SOPs that exist in the entity do not run optimally or are not adhered	Control Activities, Information and Communication

*Source: Data Processed, 2023*

The identification results show that the Internal Control System weaknesses that are the source of the findings are the components of risk assessment, control activities and information and communication. The East Lampung Regency Government has carried out both control

components, but not optimally. These results are in line with research conducted by [12] on the Central Java Provincial Government, where there are SOPs that are not perfect so that there are gaps that become weaknesses in the implementation of Internal Control System.

## V. CONCLUSION

The East Lampung Regency Government has implemented the Internal Control System, consisting of five components: the control environment, risk assessment, control activities, technology and information, and monitoring. The five components received an effectiveness score of 2.46, which means that overall control is effective. The four control components, namely the control environment, control activities, technology and information, and monitoring, have a score range of 2.34 - 3.00, indicating that these components have been carried out effectively. However, the score on the risk assessment component is 2.10, which means that the component needs to be fully implemented effectively. Nevertheless, implementing the Internal Control System in the East Lampung Regency Government is inseparable from the weaknesses in each component. There are weaknesses in the control environment component, such as employees getting much work and no compensation, the application of rewards and punishments still not comprehensive, and not all employee placements being based on educational backgrounds and technical competencies. The East Lampung Regency Government has also been unable to identify risks thoroughly, so implementing risk mitigation could have gone better. Weaknesses in the control activity component include supervision from the head of the regional apparatus organizations, which could be more optimal and impact the process of preparing financial reports, and limited human resources to carry out these control activities.

Furthermore, the technology and information component found weaknesses in inadequate accounting information systems that risk delays in financial reporting and misstatements in Local Government's Financial Reports. The monitoring component carried out by the Inspectorate shows that there are still repeated findings, and the return of Cash to the Regional Treasury is still far from expectations. The results of identifying Internal Control System findings in the audit report on the Local Government's Financial Reports of East Lampung Regency show that three of the five Internal Control System components are the source of the problem. Risk assessment, control activities, and technology and information are the three components.

Based on the research results, researchers provide suggestions for the Regional Government of East Lampung Regency to strengthen each Internal Control System component. Although the Internal Control System scores on the four components, show effective results, evaluating and identifying the types of Internal Control System findings in the audit report issued by Audit Board of Indonesia is necessary. This identification is expected that the Regional Government can increase the effectiveness of the Internal Control System, improve the weaknesses of the Internal Control System implemented, and minimize the findings of the Internal Control System that are repeated every year. The government needs to update the Internal Control System regulations because the fraud mode caused by internal control weaknesses is increasingly diverse with the times. Suggestions for future research are expected to include data on the types of Internal Control System findings that become recurring findings from year to year and analyze them. In addition, future research is expected to conduct a walkthrough of the Internal Control System to ensure the suitability of the completed questionnaires and interviews.

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