



## An evaluation of the design of internal control over financial reporting for fiscal year 2021 in the ministry X

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### ABSTRACT

The Audit Board of The Republic of Indonesia's (BPK RI) audit of the Ministry X's 2020 Financial Statement and indicated an ICoFR weakness in the inventory account. This research intends to evaluate and analyze the ICoFR design at the Ministry X for account inventory based on the audit findings. It also assesses the Ministry X response to the auditor's recommendation of the 2020 Financial Statement audit findings. A case study methodology and qualitative technique are used in this research. Interviews, document examination, and literature reviews are the data collection methods used. According to the research's results, Ministry X neglected to identify some risk and control on the relevant accounts. As a result, improvements should be done to guarantee that similar auditor findings won't occur in the future.



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## INTRODUCTION

The duty of creating the Financial Statement, which presented in accordance with Government Accounting Standards, falls under the purview of the Minister of Finance's exercise of authority over fiscal management (Law Number 17 of 2003 concerning State Finance) (Republik Indonesia, 2003). The Financial Statement, also known as the Central Government Financial Statement, is a financial statement that the Minister of Finance compiles on behalf of all Indonesian organizations and ministries. Financial statements are one of the most important pieces of information in assessing the development of the company and can also be used to assess the achievements of the company in the past, present, and future (Maith, 2013). According to Regulation of Minister of Finance Number 17/PMK.09/2019 concerning Guidelines for Implementation, Assessment, and Review of Internal Control of Central Government Financial Reporting, it is necessary to implement Internal Control over Financial Reporting (ICoFR) in order to ensure reliable financial reports (Peraturan Menteri Keuangan, 2019). According to (Rini, 2014) Internal control over effective financial reporting is essential for the proper recording of transactions and the preparation of reliable financial reports. ICoFR is a control that is specifically designed to provide a level of assurance of proper internal control of financial reporting that is in accordance with Government Accounting Standards. Internal control is essential to easily identify and examine issues that may develop during target attainment so we can see objectives achieved. Financial reporting is very important for individuals, companies, governments, and other organizations in order to account for all business and non-business activities (Raya, 2017).

Financial reports are a medium for an entity, in this case the government, to be accountable for its financial performance to the public (Windiastuti, 2014). The Financial Statement of the Ministry X for Fiscal Year 2020 was audited by the Audit Board of the Republic of Indonesia (BPK RI, hereinafter referred to as the Audit Board). Financial statements aim to provide information concerning the financial position, employee performance, and changes in the financial position of a business organization that is useful for a large number of users in making economic decisions (Widyawati et al., 2017). ICoFR-related results from the audit included information that Ministry X has not implemented the controls that have been planned for the inventory account, including the lack of a physical inventory inventory and the absence of stipulation and application of standard operating procedures in the inventory post. There is currently no research that assesses the design of the PIPK at the

Ministry/Institutional level of government, which conducts operations based on the APBN. Internal control over financial reporting has been covered in a number of earlier studies. Similar studies were done by Kalyani, V, Murugan (2021) and Suharto et al. (2018), which looked at the choice of an acceptable internal control architecture for financial reporting for an agency. These two investigations led to the conclusion that the COSO Internal Control framework is the best option for internal control over financial reporting in businesses and government organizations. The appropriate internal control framework will be compared to the internal control framework developed in the Minister of Finance Regulation supervised by Ministry X, even if this research has not yet been completed on State Ministry agencies that are governed by the Minister of Finance Regulation.

Researchers Setyawan (2016) examined how well an entity's internal controls handled its assets. According to the research, it is known that internal asset control is required, particularly in terms of securing assets. Despite the fact that this research is unrelated to the inventory account under study which falls under the category of state property as per Minister of Finance Regulation Number 181/PMK.06/2016 concerning Administration of State Property (Peraturan Menteri Keuangan, 2016), this research can serve as a guide for enhancing internal control for assets in the form of inventories that have been applied to Ministry X. Research was done by Cao et al. (2021) and Mokoginta et al. (2017) on the effects of implementing internal control over financial reporting in an agency. Based on the findings of the study, it is clear that internal control over financial reporting and the accuracy of an agency's financial reports are strongly correlated. This study can serve as a solid foundation for the claim that additional study is required to enhance Ministry X's internal control design, as internal control over financial reporting can both enhance Ministry X's financial standing and the quality of financial reports. The BPK RI findings regarding the application of Ministry X RI's PIPK on Inventory accounts and the lack of prior research regarding PIPK evaluation at Ministries/Institutions, particularly Ministry X, prompted the author to assess the design of internal controls on financial reporting of Inventory accounts. The evaluation is carried out to offer recommendations for enhancements to the PIPK in the Inventory accounts in order to follow up on the findings of the BPK RI in the 2021 Financial Statement audit.

## **RESEARCH METHODS**

The research method used in this study is quantitative research, which, according to Sugiyono (2019), is research based on positivism philosophy and used to examine certain populations or samples. This research was initiated to evaluate Ministry X's internal controls of financial reporting and Ministry X's improvement efforts in response to the findings on the inventory accounts. The case study method with a qualitative approach will be used in the research to achieve the goal. The primary data for this study will be obtained through observation of ICoFR implementation by Ministry X staff, as well as interviews with Chancellery Administrators at the Secretary General Headquarters of the Ministry X and the Inspectorate General Auditor. Secondary data will be obtained from Ministry X policies, procedures, and written regulations, as well as organizational structure and job descriptions.

## **RESULTS AND DISCUSS**

### **Understanding Business Process**

#### **Inventory Purchase**

Inventory procurement begins with projected inventory needs from the previous fiscal year. PPK then budgets the projected needs on the business unit's work plan and budget in the KRISNA application. According to "Director General of Treasury Decree Number Kep-331/PB/2021 concerning Account Segment Codification in the Standard Chart of Accounts," inventory expenditures are budgeted in account 521811 - Consumer Goods Inventory Expenditures. After that, vendor selection process done using the direct appointment method by The Head of the Household Division.

When the ordered goods are delivered, the Warehouse officer who receives the inventory will physically inspect the goods and compare them to the orders. If the goods received are suitable, they will be stored in the inventory warehouse. The inventory of goods in the Inventory Warehouse is recorded in the Ministry of Finance's Inventory application by the Head of the Household Subdivision.

### Inventory Consumption

Consumption of inventory the Ministry of X begins with each section of the business unit making a request to the General and Household Section of the business unit. A memorandum between sections signed by the relevant Head of Section is used to make supply requests. After the General Affairs and Home Affairs Section receives a memorandum of demand for supplies, the Warehouse operator will check stock availability in the Warehouse. If the goods are available, the Warehouse operator will notify the household staff to prepare the inventory item outgoing recording. The Warehouse operator then issues the requested inventory items and requests signatures in the inventory log book from the inventory receiving section. The inventory log book is then given to the household staff for recording in the Inventory application of the Ministry of Finance.

### Inventory Recording on Financial Statement

The process of recording begins with the creation of inventory working papers. Inventory worksheets cover the movement of inventory use and inventory procurement. Inventory procurement is based on supporting documents such as BAST and invoices, and inventory movement is based on recording incoming goods in the inventory logbook. The ending balance of inventory working papers is then entered into the inventory application as a mutation of inventory items. Computer Data Archive (ADK) in the Inventory application, then uploaded to the SIMAK BMN application, so that the SIMAK BMN application records receipt of the current year's inventory. The ADK SIMAK BMN is then uploaded to the SAIBA application to record asset receipts, and the final inventory balance is uploaded to the Ministry of Finance's e-Rekon application. The final inventory balance uploaded to the Ministry of Finance's e-Rekon application is accompanied by supporting data in the form of physical inventory minutes taken from SIMAK BMN records. Ministry X no longer conducts a physical inventory of supplies; instead, movement out is tracked using the SIMAK BMN application.

### Risk Register and Interview Summary

According to the findings of an interview with the Head of the Household Section of the Ministry of Finance X of the Republic of Indonesia on October 30, 2022, the main risks and controls established in the Inventory account can be seen on Table 1:

**Table 1 Inventory Account Risk Register**

No	1
<b>Main Risk</b>	Errors in the quantity and specifications of Inventory goods received
<b>Control Description</b>	Compare the goods received to the orders placed to verify the source document of goods receipt by the Warehouse Operator.
<b>Control Assertion</b>	Accuracy, Completeness
<b>Frequency</b>	Ad Hoc
<b>Level Automation</b>	Manual
<b>IT Dependency</b>	No IT dependency
<b>Control Owner</b>	Warehouse Operators
No	2
<b>Main Risk</b>	Irregular movements of inventory goods are recorded, resulting in inaccuracies in recording inventory mutations.
<b>Control Description</b>	PPK, Chancery Management Functions, and Warehouse Operators inspect and verify bookkeeping of inventory good mutations in the Inventory application versus the Inventory Log Book.
<b>Control Assertion</b>	Accuracy, Completeness, Existence, Cut Off
<b>Frequency</b>	Monthly
<b>Level Automation</b>	IT Dependent Manual
<b>IT Dependency</b>	System Generated Report
<b>Control Owner</b>	PPK, Functional Chancery Management, and Warehouse Operator

<b>No</b>	<b>3</b>
<b>Main Risk</b>	Errors in charging inventory expenditure to non-goods expenditure and vice versa
<b>Control Description</b>	PPK verifies purchasing documents by comparing them to RKA-K/L documents.
<b>Control Assertion</b>	Accuracy, Presentation and Disclosure
<b>Frequency</b>	Ad Hoc
<b>Level Automation</b>	IT Dependent Manual
<b>IT Dependency</b>	System Generated Report
<b>Control Owner</b>	PPK
<b>No</b>	<b>4</b>
<b>Main Risk</b>	Budget expenditures that do not conform to standard costs
<b>Control Description</b>	Financial accountability document verification
<b>Control Assertion</b>	Accuracy, Right and Obligation
<b>Frequency</b>	Ad Hoc
<b>Level Automation</b>	Manual
<b>IT Dependency</b>	No IT Dependency
<b>Control Owner</b>	Financial Managers in Charge (KPA, PPK, Treasurer)
<b>No</b>	<b>5</b>
<b>Main Risk</b>	The difference between the physical amount of inventory in the warehouse and the bookkeeping records on the Inventory Application.
<b>Control Description</b>	According to the mandate of PMK No. 181/PMK.06/2016 concerning Administration of State Property, conduct a physical inspection of inventory and compare it to the recording in the Inventory application.
<b>Control Assertion</b>	Accuracy, Completeness, Existence
<b>Frequency</b>	Tahunan
<b>Level Automation</b>	IT Dependent Manual
<b>IT Dependency</b>	System Generated Report
<b>Control Owner</b>	PPK

### Inventory Control Design Analysis

According to the findings of the BPK RI, the Ministry of X did not conduct an orderly inventory of supplies. This is also supported by the absence of controls identified in the form of inventory inventory in each reporting period. According to the findings of interviews with PPK and Warehouse Operators, Ministry X still uses the inventory movement logbook as the basis for recording inventory balances in current practice.

Stock inventory must be performed at least once a year, according to "Regulation of the Minister of Finance Number 181/PMK.06/2016 concerning Administration of BMN (Peraturan Menteri Keuangan, 2016)." This is also supported by "Government Regulation Number 71 of 2010 concerning Government Accounting Standards (Peraturan Pemerintah, 2010)," which states that the ending balance of inventories in Financial Statements must be supported by Minutes of Physical Taking Inventory. Based on observations, Ministry X currently attaches records of inventory movement to the Ministry of Finance's Inventory application as Minutes of Physical Taking of Inventory in order to fulfill the obligation of the Minutes of Physical Taking of Inventory.

The result of failing to implement this control is that the inventory balance does not correspond to reality, affecting the accuracy (A), completeness (C), and existence (E) assertions. And if control is not implemented in the form of an inventory of inventories, the findings of BPK RI will be repeated, and may evolve into other findings, such as inventory theft and other actions.

## **BPK RI's Recommendation Follow-Up Actions**

BPK RI Inventory findings as a result of:

- Ministry X has not routinely conducted a physical inventory of supplies
- Ministry X has not yet created a stock card for each inventory stored in the Warehouse.
- The person in charge of the inventory is less conscientious in administering the inventory under his supervision.

Based on these findings, the Secretariat General cq. The General Bureau, as the Ministry of X's supervisor of inventory management, takes the following actions:

- Form a physical inventory inventory team in collaboration with the Inspectorate General;
- Conduct a physical inventory of inventory and update the Inventory application in the Ministry of Finance.

## **CONCLUSION**

Ministry X already has an ICoFR for inventory accounts. Internal controls are defined in the business processes of purchasing and using inventory, and are detailed in the risk register document for Inventory accounts. According to the risk register document, the Ministry of X has not yet conducted an orderly inventory of supplies. As a result, the accuracy and existence of the Inventory account cannot be trusted. Ministry X has made an effort to implement the recommendations of the BPK RI. The follow-up actions are communicated to the BPK RI on a regular basis to ensure that they are consistent with the BPK RI's recommendations. Ministry X is also open to making changes to improve the quality of follow-up recommendations based on the results of the RI BPK audit. However, based on the analysis results, it is clear that Ministry X's follow-up did not address the root of the problem in BPK RI's findings on ICoFR in inventory accounts. Follow-up actions have only improved existing conditions and are unable to predict future errors. Based on their findings, the authors make the following recommendations to address Ministry X's lack of control prepare a SOP for Inventory Physical Inventory Implementation and distribute it to all parties responsible for inventory management. Before carrying out inventory inventory, PPK and related Officials give verbal instructions to executors of physical inventory observation. To ensure the accuracy of the calculation results, there is a separation of duties between the executor of the calculation and the executor of the input in the system. Inventories in the Inventory Warehouse are organized by type and separated by hanging stock cards

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