



Volume 3 Issue 1 (2025) Pages 47-54

ISSN : [2987-5331](https://doi.org/10.5331/2987-5331) (Online)

JEBM JOURNAL OF ENTREPRENEUR,
BUSINESS, AND MANAGEMENT

ANALYSIS OF INTERNAL CONTROL OVER FINANCIAL REPORTING (PIPK) IN THE INSPECTORATE OF CENTRAL PAPUA PROVINCE

Muslimin[✉], Baharuddin², Mika Malissa³

^{1,2,3} Master of Management, Universitas Kristen Indonesia Paulus, Makassar, Indonesia

Email: Muslimin.001@ukip.ac.id

Abstract

This study analyzes the effectiveness of Internal Control over Financial Reporting (PIPK) in the Inspectorate of Central Papua Province. Using a qualitative approach, this study collected data through observation, interviews with 15 Inspectorate employees, and documentation. The results of the study indicate that employee capacity in implementing PIPK is influenced by system understanding, training needs, work experience, and certification in accounting and finance. The main inhibiting factors in internal control include lack of training, high employee turnover, lack of awareness of the importance of internal control, and technological limitations. To improve the accuracy and transparency of financial reporting, the Inspectorate implements various strategies, such as attending training and workshops, conducting periodic reviews, using accounting software, and involving third parties in independent audits. This study recommends increasing employee capacity through continuous training and optimizing the use of technology to strengthen the internal control system in the public sector.

Keywords: Internal Control, Financial Reporting, Inspectorate, Transparency, Accountability.

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[✉]Corresponding author : Muslimin

Email Address : muslimdeiaya78@gmail.com

INTRODUCTION

Internal Control over Financial Reporting (PIPK) is a system designed to ensure the reliability of financial reports, increase transparency, and prevent errors and fraud in public financial management (Committee of Sponsoring Organizations of the Treadway Commission [COSO], 2013). In the public sector, especially in Indonesia, the implementation of PIPK is crucial in ensuring accountability for state budget management in accordance with the principles of good governance (Ministry of Finance of the Republic of Indonesia, 2019).

The Inspectorate of Central Papua Province, as an internal government oversight institution, is responsible for ensuring the effectiveness of the internal control system for financial reporting. However, the implementation of PIPK in this institution still faces various challenges, such as low employee capacity, lack of training, limited technology, and resistance to regulatory changes (Indriyani, Syam, & Abdullah, 2018). Weaknesses in this control system have the potential to increase the risk of inaccurate financial reports, which can have an impact on budget misuse and decreased public trust in government institutions (Shintadevi, 2015).

Several previous studies have shown that weak internal control is correlated with increasing cases of financial irregularities in government agencies (Yani, Rasuli, & Hardi, 2016). In addition, a weak control system also hampers the effectiveness of internal supervision in detecting errors and irregularities in financial reporting (Putri & Irwandi, 2016). Therefore, further research is needed to evaluate employee capacity, obstacles faced, and efforts that can be made to improve the effectiveness of internal control at the Central Papua Provincial Inspectorate.

Problem Formulation

Based on the background that has been described, this study seeks to answer the following questions:

1. What is the capacity of employees in implementing Internal Control over Financial Reporting at the Central Papua Provincial Inspectorate?
2. What factors hinder the effectiveness of internal control in financial reporting at the Central Papua Provincial Inspectorate?
3. What efforts can be made to improve accuracy and transparency in financial reporting?

Research Objectives

This study aims to:

1. Analyze employee capacity in implementing PIPK at the Central Papua Provincial Inspectorate.
2. Identify inhibiting factors in internal control over financial reporting.
3. Explore strategies that can be applied to improve the accuracy and transparency of financial reports in the public sector.

Significance of the Study

This study is expected to contribute to the development of literature related to internal control in the public sector, especially in the local government environment. Practically, the results of this study can be recommendations for the Inspectorate of Central Papua Province and other government institutions in improving the effectiveness of internal control in order to create more transparent and accountable financial governance.

LITERATURE REVIEW

Internal Control Theory

Internal Control over Financial Reporting (PIPK) is an integral part of the Government Internal Control System (SIP) which aims to provide reasonable assurance of achieving operational effectiveness and efficiency, reliability of financial reporting, safeguarding state assets, and compliance with laws and regulations (Government Regulation Number 60 of 2008).

According to COSO (Committee of Sponsoring Organizations of the Treadway Commission), the internal control framework includes five main components: control environment, risk assessment, control activities, information and communication, and monitoring (COSO, 2013).

Operational Definitions of Key Concepts

- Employee Capacity, namely the level of ability and competence possessed by employees in carrying out tasks and responsibilities related to the implementation of PIPK, including understanding the system, work experience, and professional qualifications in accounting and finance.
- Inhibiting Factors, namely various obstacles that reduce the effectiveness of the implementation of PIPK, such as lack of training, high employee turnover, limited technology, and resistance to change.
- Accuracy and Transparency of Financial Reporting, namely the level of accuracy and openness of information in financial reports presented by government agencies, which reflect financial conditions correctly and can be accessed by stakeholders.

Recent and Relevant Literature

Research by Kalumata, Ilat, and Warongan (2016) indicates that human resource competence and the use of information technology have a significant effect on the quality of local government financial reports. This study emphasizes the importance of increasing employee capacity and adopting technology to strengthen internal control.

In addition, Kewo and Rufaeadah (2019) found that the implementation of good governance and the effectiveness of internal audits contributed positively to the quality of financial reports. This suggests that strong internal oversight and transparent governance practices are key factors in improving the accountability of financial reporting.

However, research by Fajrin (2013) identified that a lack of understanding of the internal control system and regional financial supervision can reduce the information value of government financial reports. This finding underscores the need for ongoing training and increasing employee awareness of the importance of internal control in financial reporting.

Conceptual Perspective of the Research

This research uses a qualitative approach with the assumption that the effectiveness of PIPK is influenced by the interaction between individual capacity, organizational systems, and the external environment. By analyzing these factors, it is expected to obtain an in-depth understanding of the obstacles and strategies needed to improve the accuracy and transparency of financial reporting in the Inspectorate of Central Papua Province.

METHODS

This study uses a qualitative approach with a descriptive design to analyze Internal Control over Financial Reporting (PIPK) at the Inspectorate of Central Papua Province. This approach was chosen because it allows for in-depth exploration of the phenomena studied, namely employee capacity, obstacles in implementing PIPK, and efforts to improve the accuracy and transparency of financial reporting. Through this method, researchers can explore the experiences, perceptions, and practices applied by employees in the internal control system.

The population in this study were all employees at the Inspectorate of Central Papua Province, who have a role in preparing and supervising financial reports. To obtain more comprehensive information, this study used a purposive sampling technique, where samples were selected based on certain criteria, such as direct involvement in the internal control process and financial reporting. The research informants numbered 15 people consisting of Inspectors, Inspectorate Secretaries, Auditors, and Supervisory Officers within the Inspectorate of Central Papua Province. The selection of informants was based on their level of understanding of the internal control system, as well as experience in handling financial reporting.

This research was conducted at the Inspectorate of Central Papua Province, which is an internal supervisory institution at the provincial level. This location was chosen because it has the main responsibility in ensuring the effectiveness of internal control over financial reporting in the local government environment. The research period took place from January to March 2025, with stages including data collection through observation, in-depth interviews, and documentation studies of policies and procedures applicable in the Inspectorate.

The data analysis technique in this study refers to the Miles and Huberman model, which consists of three main stages: data reduction, data presentation, and drawing conclusions. Data reduction is carried out by sorting relevant information from the results of interviews, observations, and documentation, in order to obtain the main findings related to the effectiveness of PIPK. Data presentation is carried out in the form of descriptive narratives to describe the patterns of findings that emerged during the study. Conclusions are drawn by identifying the main themes, patterns of relationships between research variables, and the implications of the research results for improving the internal control system in the public sector. Data validity is maintained through triangulation of sources and methods, by comparing the results of interviews, observations, and related documents to ensure the consistency of research findings.

The research method used in this study is expected to provide a deeper understanding of the factors that influence the effectiveness of internal control over financial reporting, as well as provide recommendations for the Central Papua Provincial Inspectorate in improving regional financial accountability and transparency.

RESULTS AND DISCUSSION

Respondent Characteristics

The respondents in this study were employees of the Central Papua Provincial Inspectorate who have a role in implementing Internal Control over Financial Reporting (PIPK). Based on interviews conducted with 15 employees, it was obtained that the majority of respondents have work experience of more than five years, with some of them already having certification in accounting and finance. However, there are variations in the level of

understanding of the internal control system, which is influenced by differences in educational background and work experience. From the results of interviews with the Inspectorate Inspector, it was found that although most employees understand the importance of internal control, there are still challenges in its implementation.

"Some employees already understand the concept of PIPK, but many still need further training in order to implement it properly," said the Inspector.

In addition, the Secretary of the Inspectorate added that the high rate of employee turnover is also a major obstacle, because it causes a lack of continuity in the implementation of internal control policies.

Analysis of Internal Control over Financial Reporting

Employee Capacity in the Implementation of PIPK

The results of the study indicate that the capacity of employees in implementing PIPK in the Inspectorate of Central Papua Province still varies. Most employees have a good understanding of the basic principles of internal control, but do not receive regular training.

One auditor stated, "We frequently encounter regulatory changes related to financial reporting, but there is not enough training to ensure all employees understand the latest rules."

This shows the need to improve employee competency through more intensive training. From the observation results, it was found that employees with longer experience tend to understand the internal control process better than new employees. However, the lack of internal mentoring and training systems causes a gap in understanding among employees. Therefore, this study recommends the implementation of training and mentoring programs for new employees to improve the effectiveness of internal control.

Obstacles in PIPK Implementation

There are several factors that hinder the effectiveness of PIPK in the Inspectorate of Central Papua Province. One of the main obstacles is the lack of continuous training for employees.

A middle expert auditor said, "We often have to learn about regulatory changes ourselves, because there is no structured training system in the Inspectorate."

This lack of training leads to errors in financial reporting and reduces the effectiveness of internal control. In addition, high employee turnover also impacts the instability of the internal control system.

The Head of the Personnel Sub-Division stated, "Frequent employee turnover makes it difficult to maintain consistency in the application of control procedures."

This is exacerbated by the lack of standard operating documentation that can be used as a guide for new employees. Another inhibiting factor is the limited technology used in financial data processing. Currently, most reporting processes are still done manually, which increases the risk of errors and data manipulation.

A first expert auditor asserted, "We still rely on a manual system in managing financial reports, so the possibility of errors is very high."

Therefore, the implementation of a more modern information technology system is one of the main solutions that needs to be implemented to improve accuracy and efficiency in financial reporting.

Efforts to Improve Accuracy and Transparency of Financial Reporting

To improve accuracy and transparency in financial reporting, the Inspectorate of Central Papua Province has implemented several strategies. One of the main steps taken is to increase employee participation in training and workshops related to internal control.

"We started attending more external training to improve our understanding of financial reporting regulations," said one young expert auditor.

In addition, some employees have also started implementing standard procedures in every stage of financial reporting to reduce the possibility of errors.

One employee said, *"We have created a standard checklist to ensure that all internal control procedures have been carried out before the financial statements are prepared."*

This step aims to improve consistency and accuracy in reporting. In an effort to strengthen transparency, the Inspectorate has also begun considering the use of accounting software to reduce manual errors.

A middle-level auditor stated, *"With an automated system, we can more easily ensure that the data entered is correct and in accordance with accounting standards."*

The implementation of this technology is expected to increase efficiency and minimize the risk of errors in financial reporting. In addition, the Inspectorate has also begun involving third parties in the audit process to increase the credibility of financial reports.

A senior employee said, *"We have been working with independent auditors to ensure that our financial statements are in accordance with applicable standards."*

Through this external audit, it is hoped that internal control can run more transparently and accountably.

Implications of Research Results

The results of this study provide insight into the importance of improving employee capacity and the use of technology in internal control in the public sector. The findings also confirm that the success of PIPK implementation is highly dependent on human resource factors, training systems, and technological support. Therefore, policies that focus on improving employee competency and modernizing the financial management system are needed to ensure the effectiveness of internal control in the Central Papua Provincial Inspectorate.

CONCLUSION

This study analyzes the effectiveness of Internal Control over Financial Reporting (PIPK) in the Inspectorate of Central Papua Province with a focus on employee capacity, inhibiting factors, and efforts to improve the accuracy and transparency of financial reporting. The results of the study indicate that employee understanding of PIPK still varies, with some employees having experience and certification in accounting and finance, while others still

need further training. The high rate of employee turnover and the lack of a mentoring system hinder the continuity of the implementation of internal control policies.

The main inhibiting factors in the implementation of PIPK include the lack of ongoing training, technological limitations, and resistance to regulatory changes. The use of manual systems in financial reporting is still dominant, which increases the risk of errors and data inconsistencies. In addition, the lack of standard procedure documentation makes it difficult for new employees to understand and implement the internal control system effectively.

In an effort to improve the accuracy and transparency of financial reporting, the Inspectorate has begun to implement several strategies, such as increasing employee training, using standard checklists at each stage of reporting, and adopting accounting software to reduce manual errors. The involvement of third parties in audits has also begun to be carried out to ensure that financial reports are in accordance with applicable standards. These steps are expected to improve the effectiveness of the internal control system and build a stronger culture of accountability within the Inspectorate.

This study has several limitations, including the scope of the study which was only conducted in one institution, so that the findings obtained cannot necessarily be generalized to other agencies. In addition, the qualitative research method limits quantitative measurements related to the effectiveness of internal control. Therefore, further research is advised to adopt a quantitative approach with a wider sample and consider comparisons with other government agencies to obtain more comprehensive results.

Overall, this study provides important insights for the Central Papua Provincial Inspectorate in improving the effectiveness of internal control over financial reporting. A more structured policy is needed in increasing employee capacity, modernizing the financial management system, and strengthening the culture of accountability to ensure that every financial report produced is reliable and in accordance with the principles of transparency and good governance.

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