

Internal Control Systems And Financial Accountability In Public Sector Enterprises

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Abstract

Keywords:

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Main Purpose - This study aims to evaluate the effectiveness of the Internal Control System (ICS) in improving financial accountability, transparency, and operational efficiency in regional public enterprises. Method - The methodology used is a qualitative approach, combining interviews with key stakeholders and a systematic literature review (SLR) to assess the implementation of ICS and its impact on financial management. Main Findings - The results show that well-implemented ICS significantly contributes to improving financial accountability and transparency, as well as reducing the risk of public funds being misused. However, challenges were identified in implementing ICS, including a lack of staff training, inadequate technological infrastructure, and discrepancies between the planned budget and actual expenditures. Theory and Practical Implications - This study recommends strengthening staff training, enhancing technological infrastructure, and reinforcing internal control procedures to ensure optimal implementation of ICS. These steps are expected to improve financial governance in the public sector. Novelty - The novelty of this research lies in the approach that combines interviews with stakeholders and systematic literature review (SLR) to evaluate the implementation of the Internal Control System (SPI) in regional public companies, as well as identifying the challenges faced and providing recommendations to strengthen SPI in improving accountability and financial transparency in the public sector.

INTRODUCTION

The effectiveness of the Internal Control System (ICS) in enhancing financial accountability has become a critical concern in public sector management. According to the Government Accountability Office (GAO) (2025), an effective internal control system allows organizations to adapt to a constantly changing environment, respond to evolving demands, counter shifting risks, and prioritize new initiatives. This indicates that the ICS plays a vital role in ensuring sustainable and transparent financial management within the public sector. Internal control systems significantly influence financial accountability in public sector organizations (Adeyemi & Olarewaju, 2019).

In recent years, governments and regional public enterprises have faced increasing pressure to enhance transparency, reduce fraud, and ensure the efficient use of public funds. Transparency, good governance, and financial accountability are essential pillars for managing financial reporting

in the public sector (Pratiwi et al., 2024). When implemented effectively, an ICS is often considered the foundation for financial accountability; it establishes a practical framework for monitoring financial activities and mitigating the risks associated with poor management. Effective implementation of internal controls is directly linked to value-for-money performance in local government (Jatmiko et al., 2022). According to Eton et al. (2022), internal control systems account for 55.4% of the variations in financial accountability. This suggests that strengthening internal control systems can significantly enhance accountability in public financial management. The role of the ICS in regional public enterprises provides valuable insights into how this system can be utilized to achieve greater financial integrity and operational efficiency.

The importance of implementing an effective Internal Control System (ICS) in regional enterprises, particularly in Regional Public Enterprises (BUMD), cannot be overstated. A robust internal control system ensures accountable public financial management, improves transparency, and reduces the likelihood of fraud or resource misuse. The application of ICS is crucial for ensuring that all transactions and budget management in the region adhere to principles of high accountability through a transparent system. This minimizes the risk of waste and increases public trust in regional government performance. The OECD (2023) states that the internal control process protects the government from fraud, corruption, waste, and abuse. A strong internal control system enhances the accountability of financial reporting in Regional Government Organizations (Setyowati & et al., 2023). Implementing ICS in regional enterprises, particularly in BUMD, may require the development of tailored strategies and solutions. Selecting the appropriate internal controls and ensuring their consistent application is essential to ensure that local governments utilize public assets efficiently and guard against losses, waste, and abuse (New York State Comptroller, 2024). This is particularly important because BUMD often engages in large projects involving substantial public funds. Ineffective management of the internal control system can lead to significant losses for the state and the public.

Regional enterprises face several challenges in managing ICS, such as limited resources and a lack of knowledge about proper control mechanisms. These challenges highlight the need to improve and implement ICS more effectively. However, the success of ICS implementation also relies on the full support of local leadership and the commitment of all organizational members to ensure that existing policies and procedures align with applicable regulations. Therefore, evaluating and identifying the factors that can strengthen ICS implementation and seeking solutions to overcome existing barriers is essential for creating a more accountable and transparent financial management system.

This study aims to explore the role of the Internal Control System (ICS) in regional public enterprises, specifically focusing on one BUMD in Central Java. The primary objective of this study is to evaluate the effectiveness of the ICS in enhancing financial transparency, accountability, and operational efficiency within the targeted BUMD. One of the main contributions of this study is to provide insights into the practical application of ICS in the context of regional public enterprises. The findings of this study are expected to yield valuable recommendations for improving the ICS framework, which can enhance financial accountability and transparency in similar organizations. Consequently, this research is anticipated to make a significant contribution to the development of internal control systems in the public sector, particularly within regional enterprises that manage public funds.

RESULTS AND DISCUSSION

Describe the results and discussion according to the analysis using the method claimed in This study aims to evaluate the effectiveness of the Internal Control System (ICS) in enhancing financial accountability, transparency, and operational efficiency within a regional public enterprise (BUMD) in Central Java. A qualitative approach was employed, which included in-depth interviews with key stakeholders such as management staff, financial officers, and internal auditors to gain insights into the implementation of the ICS. Additionally, a document analysis, including financial reports and audit results, was conducted to further explore the effectiveness of financial management and the challenges it faces.

The interview results revealed several key issues that hinder the effective implementation of the ICS, despite the existence of written internal control policies. A significant finding is the lack of training for staff involved in financial management and internal oversight. Although the company has internal control systems and procedures, the limited knowledge and skills of the staff serve as primary barriers to effective implementation. Staff members who are inadequately trained in identifying potential financial risks and managing financial processes create obstacles to the successful implementation of economic processes. Sari & Huda (2021) noted that insufficient training often undermines the optimal execution of the ICS, even when internal control policies are established. Adequate training is crucial to ensure that staff fully understand the ICS procedures they need to follow and can effectively carry out their oversight duties.

Another finding in financial management is the reliance on manual systems for many internal control processes. While some manual systems may suffice for managing smaller transactions, in a regional public enterprise with more complex transactions, this reliance causes challenges in real-time monitoring and reporting. Simamora & Dewi (2022) also point out that dependence on manual systems impedes the effectiveness of internal controls and affects financial transparency. Manual systems are prone to human error, making accurate transaction monitoring difficult. Thus, regional enterprises should invest in better technological infrastructure to enable more efficient and effective internal controls. Employing integrated information technology systems can allow companies to manage and monitor financial transactions more accurately and transparently.

In addition to training and technological upgrades, a lack of leadership support is another critical issue affecting the implementation of the ICS. Interviews with various stakeholders

revealed that, although ICS policies are established, leadership commitment to supporting and monitoring the implementation of this system is limited. Sutrisno & Rahardjo (2021) emphasize that without strong support from top leadership, the implementation of the ICS will struggle to achieve the desired effectiveness. Leaders actively involved in the oversight and establishment of ICS policies can provide the necessary drive to ensure that all organizational components support the implementation of the system.

Another crucial finding is the discrepancy between the planned budget and actual expenditures, which indicates weak internal control procedures for monitoring expenditures that deviate from the approved budget. Tumbuan & Kurniawan (2020) emphasize the importance of strict control procedures to ensure that expenditures align with the planned budget. Without tighter oversight, discrepancies between budgeted and actual spending will increase, potentially leading to waste and misuse of public funds. This can diminish financial accountability and reduce transparency in budget management.

In conclusion, the ICS implemented in this regional public enterprise requires improvement in several areas. First, staff training must be prioritized to enhance their understanding of the applicable internal control system and to improve their ability to identify and manage financial risks. Simamora & Dewi (2022) suggest that ongoing training can help mitigate the risks of errors in implementing the ICS. This training will ensure that staff have the necessary knowledge to operate the ICS effectively and efficiently.

Second, the regional enterprise should transition from manual systems to more advanced technology, such as Enterprise Resource Planning (ERP), to facilitate more efficient financial management. Utilizing an integrated ERP system can simplify reporting and enable real-time monitoring of financial transactions, reduce human error, and enhance transparency in economic processes. Simamora & Dewi (2022) stress that implementing technology can significantly improve the effectiveness and efficiency of the ICS, particularly in transaction monitoring and timely reporting. Finally, there should be an improvement in the oversight of internal control procedures to ensure that planned budgets and actual expenditures can be closely monitored and managed. Tumbuan & Kurniawan (2020) emphasize that proper control procedures are crucial to ensure expenditures align with the approved budget.

Table 1. SLR Analysis on Internal Control in Regional Public Enterprises

No.	Author	Year	Method Used	Key Findings	Impact on ICS Implementation
1	Sari & Huda (2021)	2021	Interviews & Case Study	Inadequate staff training hinders the effective implementation of ICS in the public sector.	Better training improves understanding and implementation of ICS.
2	Simamora & Dewi (2022)	2022	Qualitative Analysis & Case Study	Weak technological infrastructure hinders the effectiveness of ICS in regional enterprises.	Improving technological infrastructure will support the efficiency and transparency of ICS.
3	Adeyemi & Olarewaju (2019)	2019	Quantitative & Survey	A well-implemented ICS can improve financial accountability by reducing fraud.	An effective ICS results in more transparent and accurate financial reporting.
4	Eton et al. (2022)	2022	Survey & Secondary Data Analysis	ICS helps meet external audit requirements and improves financial transparency.	It strengthens the audit process and increases public trust in financial management.
5	Thornhill et al. (2022)	2022	Case Study & Qualitative Analysis	ICS enhances operational efficiency by optimizing resource allocation and reducing waste.	ICS improves decision-making and more efficient cost management.

No.	Author	Year	Method Used	Key Findings	Impact on ICS Implementation
6	Chan & Chong (2020)	2020	Literature Review & Interviews	ICS enhances operational efficiency by ensuring the accuracy and reliability of financial data.	ICS improves operational efficiency and better resource allocation.
7	Sulaiman & Zubair (2021)	2021	Quantitative & Survey	ICS helps companies manage budgets more efficiently and minimize waste.	It improves operational performance and financial accountability.
8	Tumbuan & Kurniawan (2020)	2020	Interviews & Case Study	Discrepancies between the planned budget and actual expenditures are due to weak controls.	Tighter procedures reduce discrepancies between the budget and actual expenditures.
9	Aditya & Lestari (2020)	2020	Survey & Quantitative Analysis	Effective ICS contributes to improving budget transparency and public financial management.	It enhances transparency and accountability in the use of public funds.
10	Yusuf & Fitriani (2022)	2022	Survey with Linear Regression Analysis	ICS can improve financial management efficiency and reduce waste in regional enterprises.	Better operational efficiency with the optimal implementation of ICS.

Source: Processed data, 2025.

Table 1 presents the results of a Systematic Literature Review (SLR) regarding the implementation of Internal Control Systems (ICS) in regional public enterprises. The key findings indicate that the effective implementation of ICS is crucial for enhancing financial accountability, transparency, and operational efficiency. However, the potential of ICS to improve public financial management is often undermined by several significant challenges.

One major challenge is the lack of staff training, which limits their understanding of and ability to effectively implement internal control procedures. Without adequate training, employees struggle to identify risks and manage financial processes properly, ultimately reducing the effectiveness of the ICS. Additionally, regional public enterprises continue to rely on manual systems for financial management. This reliance slows down transaction monitoring and financial reporting, making them susceptible to human error. A weak technological infrastructure further hinders transparency and accountability, delaying the monitoring processes necessary to detect discrepancies in financial management. The adoption of advanced technology can accelerate these processes and enhance operational efficiency, facilitating improved budget management and financial reporting.

Another issue identified is the discrepancy between the planned budget and actual expenditures, reflecting weaknesses in internal control procedures and financial oversight. Without stringent oversight, expenditures may deviate from the approved budget, ultimately undermining transparency and accountability in the management of public funds. Therefore, it is crucial to strengthen internal control procedures and enhance oversight to ensure that budget management aligns with the approved plan and to minimize the waste of funds. Optimally implementing ICS can improve both transparency and efficiency, but only if existing challenges—such as lack of training, inadequate technological infrastructure, and budget discrepancies—are addressed. Improving staff training, investing in technology, and strengthening internal control procedures are essential steps to ensure that ICS functions effectively and enhances financial governance in the public sector.

CONCLUSION

Based on the findings from the Systematic Literature Review (SLR), it is evident that the Internal Control System (ICS) plays a vital role in enhancing financial accountability, transparency, and operational efficiency in the public sector, particularly in regional public enterprises. The practical implementation of ICS ensures the proper use of public funds, reduces the risk of fraud, and improves the accuracy of financial reporting. However, several significant challenges hinder optimal implementation of ICS, including a lack of staff training, limited technological infrastructure, and discrepancies between the planned budget and actual expenditures. These challenges lead to inefficiencies in financial management and reduced transparency. Consequently, strengthening the implementation of ICS is critical for improving financial governance in public sector organizations. Several recommendations from this study include:

1. Improving Staff Training

Continuous training for staff involved in financial management is essential. This training should provide a comprehensive understanding of ICS procedures, including how to identify risks and manage financial processes effectively. Without adequate training, staff may struggle to implement internal control procedures and identify potential issues that could harm financial management. Regional public enterprises should develop comprehensive training programs to ensure that all staff receive training appropriate to their roles.

2. Enhancing Technological Infrastructure

Regional public enterprises need to adopt more advanced technology, such as Enterprise Resource Planning (ERP) systems, integrated with Internal Control Systems, to improve efficiency and transparency in financial management. Relying on manual systems hinders real-time transaction monitoring and increases the risk of errors. With improved technological infrastructure, regional public enterprises can more accurately monitor financial transactions, accelerate reporting, and enhance transparency in the use of public funds.

3. Strengthening Oversight and Internal Control Procedure.

It is crucial to improve internal control procedures to effectively monitor budgets and expenditures. Tight oversight is necessary to ensure that the planned budget aligns with actual expenses and that there is no wastage. Additionally, a robust internal control system will minimize the misuse of funds and enhance financial accountability. More systematic oversight can also help identify discrepancies between the budget and actual expenditures, allowing for quicker corrective actions.

4. Strengthening Leadership Support

The success of ICS implementation relies heavily on the full support of top leadership. Leaders of regional public enterprises must be actively involved in setting and overseeing the implementation

of ICS policies. A strong commitment from leadership will motivate all organizational elements to support the implementation of ICS and ensure that financial management objectives are met. Active leadership in overseeing ICS will provide clear direction and encourage the entire organization to take responsibility for executing this system.

5. Continuous Evaluation and Improvement

The implementation of ICS should be evaluated periodically to ensure the system is functioning as intended. This evaluation can help identify weaknesses in existing internal control procedures and provide a foundation for further improvements. Additionally, it is essential to conduct regular revisions of ICS to ensure alignment with changes in regulations, organizational needs, and technological advancements. These revisions will ensure that ICS remains relevant and effective in supporting transparent and accountable financial management.

We hope that public sector enterprises, particularly BUMD, can enhance the effectiveness of their internal control systems, ultimately improving financial management, increasing accountability, and ensuring a more transparent use of public funds.

This study acknowledges several limitations that may have affected the research process. First, the scope of the research was limited to one regional public enterprise, which may not fully represent all regional public enterprises across the sector. While this focused approach provided in-depth insights into the case study, the findings may not be generalizable to other regions or sectors. Secondly, the study relied heavily on interviews with key stakeholders and document analysis, which are subject to biases, especially if the participants were inclined to present only favorable views of the system. Additionally, the implementation of the Internal Control System (ICS) could not be observed in real-time, limiting the analysis of its day-to-day effectiveness. Lastly, the research was constrained by time and resources, which made it challenging to engage a broader range of respondents or perform longitudinal studies to assess the long-term impact of ICS implementation. Based on the limitations mentioned above, several recommendations are proposed for future research. It is suggested that future studies expand their scope to include multiple regional public enterprises from different sectors, providing a broader and more representative view of ICS implementation across Indonesia. Additionally, further research could explore the impact of real-time monitoring through technology, which could enhance the effectiveness of ICS. Future research should also consider a longitudinal study to assess the sustainability and long-term benefits of ICS in regional public enterprises. Furthermore, incorporating quantitative analysis alongside qualitative data could provide a more comprehensive evaluation of ICS effectiveness, offering insights into measurable outcomes such as financial

performance improvements. Lastly, examining external factors, such as government regulations and external audits, may provide additional insights into the challenges and successes of ICS implementation in the public sector.

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