



Government Internal Control System, Role and Comparison of the Committee of Sponsoring Organizations (COSO) Revised Internal Control Framework

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Abstract

This study investigates the role of the Government Internal Control System and its points of difference with the revised version of the COSO internal control framework. The Government's Internal Control System is regulated in Government Regulation No. 60 of 2008 concerning the Government's Internal Control System. The Government's Internal Control System aims to provide adequate assurance for the achievement of effectiveness and efficiency in achieving the objectives of implementing State government, reliability of financial reporting, safeguarding State assets, and compliance with laws and regulations. Government Regulation No. 60 of 2008 is an adaptation of the internal control recommended by The Committee of Sponsoring Organizations (COSO) in 1992. In its development, COSO has updated the integrated framework of internal control in 2013. Seventeen principles of internal control were explicitly introduced that should be considered by the government to formulate new regulations related to the Government's Internal Control System. This study highlights the important role of internal control in the management of organizations both in the private sector and in government.

1. INTRODUCTION

Many countries have reformed their public sectors to meet public demands for more transparent and accountable government. The focus is on reforming and transforming the public sector to become more efficient and effective in delivering services that remains strong. In addition, the evolution of new technology has placed the government to design public sector integrity values with a strong command in leadership to drive efficiency without leaving the value of good governance. (Aziz et al., 2015)

The implementation of the Internal Control System in the government sector was marked by the issuance of Law Number 17 of 2003 concerning state finances. Where stated in the consideration of the birth of the law is that the administration of state government to realize the goals of the state gives rise to rights and obligations of the state which can be valued in money. It is also stated in Article 3 paragraph 1 of the law that State Finance is managed in an orderly manner, in compliance

with laws and regulations, efficiently, economically, effectively, transparently and responsibly with due regard to a sense of justice and propriety.

The essence of supervision is the ability of an organization to prevent irregularities. To prevent such deviations from occurring, there are provisions as contained in Article 35 paragraphs 2 and 3 that every treasurer, namely a person who is assigned the task of receiving, storing, paying, and/or handing over money or securities or goods to the State, is personally responsible for losses. country under its control.

A year after the enactment of law number 17 of 2003, Law 15 of 2004 was issued concerning Audit of State Financial Management and Responsibility. In this law, article 12 explains that the Supreme Audit Agency (BPK) in the context of financial/performance audits, BPK conducts tests and assessments of the implementation of the government's internal control system (Medina 2021). In the same year law number 1



of 2004 concerning the state treasury was born. In article 58 of the law it is explained that in order to improve the performance, transparency and accountability of state financial management, the president as the head of government regulates and organizes the internal control system within the government as a whole. (Medina. 2021)

For four years the government has been looking for patterns and compiling internal controls to be implemented starting from the definition to the person in charge of implementing control at Government Institutions, finally in 2008 the government issued a government regulation (PP) concerning the government's internal control system, namely PP 60 of 2008. Finance and Development (BPKP) issued regulation Perka BPKP Number 4 of 2016 concerning Guidelines for Assessment and Strategy for Increasing the Maturity of the Government's Internal Control System to measure the maturity level of the SPIP after it is considered sufficient time, namely for 8 (eight) years for each agency to implement the SPIP in accordance with mandate of PP 60 of 2008. (Medina 2021)

In its preparation, PP No. 60 of 2008 of 2008 was actually the resultant of an adaptation of the concept of internal control which had been recommended by The Committee of Sponsoring Organizations (COSO) in 1992 (Pitaloka et al. 2020). COSO's original framework published in 1992 was seen as no longer truly reflecting most of the changes in IT and business systems, as well as the increasingly collaborative and international nature of business and the growing concern for better corporate governance processes. So that COSO revised its internal control framework in May 2013. (Moeller.2014)

This Paper use qualitative descriptive methodology with do review literature related tree discussion . Furthermore done analysis comparative to framework system government internal control according to PP 60 of 2008 and framework COSO's latest internal control issue year 2013.

2. LITERATURE REVIEW

In PP 60 of 2008 concerning the Government Internal Control System (SPIP). The Internal Control System is defined as an integral process of actions and activities carried out continuously by leaders and all employees to provide adequate assurance of achieving organizational goals through effective and efficient activities, reliability of financial reporting, safeguarding state assets, and compliance with laws and regulations - invitation. The SPIP is an Internal Control System that is carried out thoroughly within the central government and regional governments.

SPIP aims to provide adequate assurance for the achievement of effectiveness and efficiency in achieving the objectives of administering state governance, reliability of financial reporting, safeguarding state assets, and compliance with laws and regulations. To achieve effective, efficient, transparent and accountable state financial management, ministers/heads of institutions, governors and regents/mayors are required to exercise control over the administration of government activities. SPIP consists of elements of: a. control environment; b. risk assessment; c. control activities; d. information and communication; and e. internal control monitoring.

In PP 60 of 2008 it is stated that Government Agency Leaders are required to create and maintain a control environment that creates positive behavior and is conducive to the implementation of the Internal Control System in their work environment, through: a. upholding integrity and ethical values; b. commitment to competence; c. conducive leadership; d. formation of an organizational structure that suits the needs; e. appropriate delegation of authority and responsibility; f. preparation and implementation of sound policies regarding the development of human resources; g. embodiment of the effective role of government internal control apparatus; and h. good working relationship with related Government Agencies.



In Article 13 PP 60 of 2008 it is stated that the Leaders of Government Agencies are required to carry out risk assessments through risk identification and risk analysis. In the context of risk assessment, the leadership of Government Agencies determines: a. purpose of Government Agencies; and b. objectives at the activity level. Government Agency Goals contain specific, measurable, achievable, realistic, and time-bound statements and directions. To achieve the goals of Government Agencies Government Agencies establish consistent operational strategies and integrated management strategies and risk assessment plans.

Setting goals at the level of activity is at least carried out with due observance of the following provisions: a. based on the objectives and strategic plans of Government Agencies; b. complementary, supporting each other, and not contradicting one another; c. relevant to all main activities of Government Agencies; d. contains elements of measurement criteria; e. supported by adequate government agency resources; and f. involve all levels of officials in the determination process.

PP 60 mandates the Leaders of Government Agencies to carry out control activities in accordance with the size, complexity, and nature of the tasks and functions of the Government Agencies concerned. The implementation of control activities as referred to in paragraph (1) shall at least have the following characteristics: a. control activities are prioritized on the main activities of Government Agencies; b. control activities must be linked to the risk assessment process; c. the selected control activities are adjusted to the special characteristics of Government Agencies; d. policies and procedures must be established in writing; e. procedures that have been determined must be carried out according to what is determined in writing; and f. Control activities are evaluated regularly to ensure that they are still appropriate and functioning as expected. Control activities as referred to in paragraph (1) consist of: a. review of the performance of

the Government Agency concerned; b. human resource development; c. control over the management of information systems; d. physical control over assets; e. establishment and review of performance indicators and measures; f. separation of functions; g. authorization of important transactions and events; h. accurate and timely recording of transactions and events; i. restrictions on access to resources and records; j. accountability for resources and records; and K. good documentation of the Internal Control System as well as important transactions and events.

In PP 60 it is stated that the Leaders of Government Agencies are required to identify, record, and communicate information in the right form and time. In order to carry out effective communication as referred to in paragraph (1), the leadership of a Government Agency must at least: a. providing and utilizing various forms and means of communication; and b. manage, develop, and update information systems on an ongoing basis.

Leaders of Government Agencies are also required to monitor the Internal Control System. Monitoring of the Internal Control System is carried out through continuous monitoring, separate evaluations, and follow-up on recommendations from audit results and other reviews.

3. RESEARCH METHODS

This research uses the literature review method as a popular and effective research approach to understand the problem to be studied. We collected and evaluated literature related to the topic, analyzed various types of literature and then synthesized the literature to develop arguments and understand the issues related to the Government Internal Control System and the Development of the Committee of Sponsoring Organizations (COSO) Internal Control Framework.



4. RESULTS AND DISCUSSION

4.1 Integrated Framework Coso Internal Control

In the most recent COSO integrated framework, internal control is defined as a process, involving the board of commissioners, management, and other personnel, designed to provide reasonable assurance about the achievement of the three objectives of operations, reporting, and compliance. Internal control helps entities to achieve important goals, maintain and improve performance. COSO's Integrated Internal Control framework enables organizations to develop effective and efficient internal control systems that adapt to changing business and operating environments. (COSO. 2013). The 2013 COSO framework revised the previous framework (COSO 1992) in three categories: 1. Board-base change approach 2. *Layout changes* of the overall framework. 3. Changes to components of internal control that are adapted to current organizational conditions based on the existing seventeen principles. In the COSO 2013 concept, internal control consists of five interrelated elements, namely: control environment, risk assessment, control activities, information and communication, and monitoring. (Nurhayati. 2015)

The control environment is the set of standards, processes and structures that provide the basis for implementing internal control within an organization. (COSO. 2013). The concept of internal control The control environment must begin with the board of directors and senior management, who set what has come to be known as the "tone at the top" of management for an enterprise; this is the level of formal senior management internal communication regarding the importance of internal control, including expected standards of conduct. Management must emphasize and reinforce these expectations at various levels of the company. The control environment consists of: the overall integrity and ethical values of the company; parameters that enable the directors to carry out their supervisory responsibilities; organizational structure and

assignment of authority and responsibility; processes for attracting, developing, and retaining competent individuals; and rigor around performance measures, incentives, and rewards to promote performance accountability. This resulting control environment has a far-reaching impact on the entire internal control system. (Moeller. 2014)

Risk is defined in COSO's internal control framework as the possibility that an event may occur that will affect the achievement of some company objectives. As part of the process of identifying and assessing risk, companies can also identify opportunities when the occurrence of risk-related events can positively affect the achievement of company objectives. These opportunities are important to capture and funnel back into the company's strategy and/or goal-setting process. However, the identification and assessment of potential risk-related opportunities is often not directly part of a company's internal control but sometimes depends on external factors. There is no practical way to reduce risk to zero, because all business activities involve some risk. Management, however, must determine how much risk to accept with prudence and must strive to maintain risk within these limits, understanding how much tolerance it has to exceed its target risk level. (Moeller. 2014)

Control activities are actions—defined through company policies and procedures—that help ensure that management directives to reduce risks to the achievement of objectives are carried out. Control activities are carried out at all levels within the company, at various stages in business units and processes, including the technological environment. the basis or fundamental of internal control, segregation of duties, is usually built into the selection and development of COSO control activities. Where internal control is not effective or even practical for segregation of duties, management must select and develop alternative control activities. Control activity is an area in which, on the one hand, the basic concepts of internal control activity have not changed much from the original COSO internal



control framework. Segregation of duties is a basic internal control concept that really hasn't changed much. The person or automated function that initiates a financial transaction cannot be the same person or process that authorized it. (Moeller. 2014)

The COSO control activity component is built around three principles to define how key controls are to be identified and documented: first, the Organization selects and develops control activities that contribute to the migration of risk towards achieving its objectives at an acceptable level; second, the Organization selects and develops general control activities over technology to support the achievement of objectives; third, companies deploy control activities through policies that define what is expected and in procedures that put policies into action. (Moeller. 2014)

Information is needed for a company to carry out its internal control responsibilities so that it can support the achievement of its goals. Management obtains or generates and then uses relevant and quality information from both internal and external sources to support the functioning of all components of its internal control. (Moeller. 2014)

Communication, as defined here by COSO, is an ongoing and iterative process of providing, sharing, and obtaining necessary information. Internal communication is the means by which information is disseminated throughout the enterprise, flowing up, down, and across entities. This allows personnel to receive clear messages from senior management which control responsibilities must be taken seriously. External communications also enable incoming communications of relevant external information and providing this information to external parties in response to requirements and expectations. . (Moeller. 2014)

COSO's revised information and communication internal control objectives are supported by three principles that call on companies to emphasize and use relevant information and to use internal and effective

communications: first, companies obtain or produce and use relevant quality information to support the internal control function; second, the company internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal controls; third, the company communicates with external parties regarding matters that affect the functioning of internal control.

Management must monitor the activities of these controls and also consider the information and communication procedures necessary to make the internal controls operate effectively. Well-planned and well-designed internal control systems and processes can work as planned, but people may forget or bypass these well-established internal control systems, and if so, they need to be monitored with corrective actions implemented to adjust exceptions as needed. . Monitoring is a key objective in COSO's revised framework and internal controls. (Moeller. 2014)

Monitoring is element key in framework Work COSO internal control , and senior management is necessary realize that control that is not monitored tend worsened from time to time . Monitoring , as defined in framework COSO work , implemented For help ensure that the internal control process continues operate in a manner effective . When monitoring designed And implemented with right , one company will get benefit from the monitoring process This Because more big possibility For identify And repair problem internal control _ appropriate time , produce more information _ accurate And reliable For used in taking decision , prepare Report Accurate finance _ And appropriate time , and is at in position For give certification or statement periodically about effectiveness internal control.

4.2 Coso Principles Of Internal Control 2013

Framework revised COSO work codify supporting principles _ fifth component control internal. Temporary 1992 version separately implicit reflect a number of core principle



internal control, version revision in a manner explicit define seven mercy principles representative internal control concepts related basis _ with five component internal control. COSO has decide For make principles This explicit For increase understanding management about What only which is effective internal control . There is seven mercy principle internal control within The 2013 COSO framework includes : first , commitment to integrity And values ethics, second supervision board directors independent; third, structure, line reporting, authority, and not quite enough answer; fourth, interesting, develop, and retain competent people; Fifth, the person asked accountability on internal control; sixth, clear goals; _ seventh, identified risks_For achievement purpose; eighth, the potential for fraud is considered; Ninth, change significant identified And assessed; tenth, control enable chosen And developed; eleventh, general IT control chosen And developed; second fifteen, developed controls_through policy And procedure; thirteenth, information quality obtained, produced, and_used; fourth fifteen, information communicated internal control internally ; fifth fifteen, internal information is communicated in a manner external; sixth fifteen, the evaluation is being going on and / or separated done; seventh fifteen, lack internal control is evaluated And communicated (Moeller. 2014)

4.3 The Role Of Internal Control

Several studies in Indonesia show the important role of the Internal Control System both in the private sector and in the public sector. The Internal Control System has a significant effect on the performance of micro, small and medium enterprises (Herdianto et al. 2022). The Government Internal Control System (SPIP) has a significant positive effect on preventing fraud (Yuniarti et al. 2022). Research also shows that the control environment, control activities, information and communication, control monitoring improve financial performance in public sector organizations (Kawedar. 2019).

5 CLOSING

The Internal Control System has a significant role both in the private sector and in government. PP 60 of 2008 concerning Government Internal Control Systems is an adaptation of The Committee of Sponsoring Organizations (COSO) Internal Control Framework which was made in 1992. The original COSO control framework has been revised with the birth of the new COSO Control Framework issued in 2013, five years after the birth of PP 60 of 2008. Some of the COSO Framework have not changed such as the definition of internal control and the five elements of internal control (COSO.2013). However, the most recent COSO explicitly introduced seventeen principles by which an entity can achieve effective internal control by applying these principles. The government needs to consider the presence of these principles and consider making new regulations that adopt the presence of these internal control principles in the revised COSO framework.

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