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***Correspondence:**
anas.isnaeni@ui.ac.id

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Office:
Department of Accounting
University of
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EVALUATING INTERNAL CONTROL OVER FINANCIAL REPORTING CAPACITY IN GOVERNMENT MINISTRIES AND AGENCIES

Anas Isnaeni^{1*} dan Viska Anggraita²

Affiliation:

^{1,2}Master of Accounting Program, Faculty of Economic and
Business, University of Indonesia, Jakarta, Indonesia

ABSTRACT

Purpose: This research evaluates Internal Control over Financial Reporting capacity development in selected central government ministries/agencies, responding to the Supreme Audit Agency (Badan Pemeriksa Keuangan, BPK) and the Financial and Development Supervisory Agency (Badan Pengawasan Keuangan dan Pembangunan, BPKP) recommendations to improve its quality and effectiveness.

Methodology/approach: Using a qualitative case study and the UNDP Capacity Assessment Framework, the study analyzes four dimensions: institutional arrangements, leadership, knowledge, and accountability. Data were gathered through interviews, questionnaires, and document analysis.

Findings: Findings reveal varied capacity gaps, with leadership showing the largest and accountability the smallest. Key issues include limited skilled personnel, inconsistent knowledge management, and weak institutional documentation.

Practical implications: The study offers practical insights for enhancing leadership, strengthening systems, and improving PIPK effectiveness.

Originality/value: This research contributes to a deeper understanding of institutional capacity gaps and offers practical recommendations to enhance the reliability and accountability of public sector financial reporting.

Keywords: Capacity Assessment Framework; Internal Control; Internal Control over Financial Reporting; Government Financial Reporting.



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ABSTRAK

Tujuan penelitian: Penelitian ini bertujuan untuk mengevaluasi pengembangan kapasitas Pengendalian Intern atas Pelaporan Keuangan (PIPK) pada Kementerian/Lembaga (K/L) pemerintah pusat. Evaluasi ini merespons rekomendasi dari Badan Pemeriksa Keuangan (BPK) dan hasil revidi Badan Pengawasan Keuangan dan Pembangunan (BPKP) yang menunjukkan perlunya penguatan kualitas dan efektivitas implementasi PIPK.

Metode/pendekatan: Dengan menggunakan pendekatan studi kasus kualitatif dan kerangka UNDP Capacity Assessment Framework, analisis difokuskan pada empat dimensi: pengaturan institusional, kepemimpinan, pengetahuan, dan akuntabilitas. Data dikumpulkan melalui wawancara, kuesioner, dan analisis dokumen.

Hasil: Hasil menunjukkan adanya kesenjangan kapasitas yang bervariasi, di mana dimensi kepemimpinan memiliki kesenjangan terbesar dan akuntabilitas yang terkecil. Tantangan utama meliputi keterbatasan SDM yang kompeten, manajemen pengetahuan yang belum merata, dan lemahnya dokumentasi institusional.

Implikasi praktik: Temuan ini memberikan masukan praktis untuk memperkuat kepemimpinan, sistem kelembagaan, dan efektivitas pelaksanaan PIPK.

Orisinalitas/kebaharuan: Penelitian ini memberikan pemahaman yang lebih dalam mengenai kesenjangan kapasitas dan menyajikan rekomendasi praktis untuk meningkatkan keandalan pelaporan keuangan sektor publik.

Kata kunci: Capacity Assessment Framework; Pelaporan Keuangan Pemerintah; Pengendalian Intern; Pengendalian Intern atas Pelaporan Keuangan.

INTRODUCTION

To uphold transparency and accountability, the Central Government is mandated under Law Number 17 of 2003 to prepare financial reports as a form of accountability for State Budget (APBN) implementation. In 2023, the Central Government Financial Report (LKPP) received an Unqualified Opinion (WTP) from the Audit Board of Indonesia (BPK), although weaknesses in the Internal Control System (SPI) continued to contribute to budget management discrepancies ([Badan Pemeriksa Keuangan, 2024](#)).

To address these issues, the government has sought to strengthen Internal Control over Financial Reporting (PIPK), regulated under Minister of Finance Regulation (PMK) Number 17/PMK.09/2019. PIPK aims to ensure effective internal controls in the financial reporting of Ministries/Agencies (K/L) through structured application, assessment, and review processes that enhance report reliability.

The implementation of PIPK followed BPK's 2015 recommendation to evaluate the effectiveness of the Government's Internal Control over Financial Reporting (ICoFR). In

response, the government developed policies for Control Self- Assessment (CSA) and adopted the Three Lines of Defense model ([Direktorat Jenderal Perbendaharaan, 2018](#))

Each K/L is required to conduct staged PIPK assessments and submit the results to the Central Government Accounting Unit (UAPP), with reviews conducted by the Financial and Development Supervisory Agency (BPKP). However, BPKP's 2023 review found the implementation remains suboptimal due to limited understanding of PIPK's purpose and benefits. As a result, many K/Ls approach PIPK as a mere compliance exercise, leading to conclusions that do not accurately reflect financial conditions and failing to reduce recurring audit findings ([Badan Pengawasan Keuangan dan Pembangunan, 2024](#)).

According to the [Direktorat Jenderal Perbendaharaan \(2022\)](#), which serves as the PIPK UAPP assessor, the initial implementation of PIPK faced challenges, particularly a low compliance rate in submitting assessment reports by K/L. This non-compliance was attributed to limited employee understanding of the PIPK assessment process, insufficient human resources, and the concurrent timing of PIPK implementation with the preparation of Unaudited Ministry/Agency Financial Reports (LKKL). However, reporting trends from 2021 to 2023 indicate a steady increase in the number of K/Ls concluding that their internal controls are effective ([Direktorat Jenderal Perbendaharaan, 2022, 2023, 2024](#)). Despite this positive trend, the Directorate noted areas for improvement in internal control implementation across several K/Ls. The development of PIPK UAPP reporting over this period is illustrated in Figure 1.

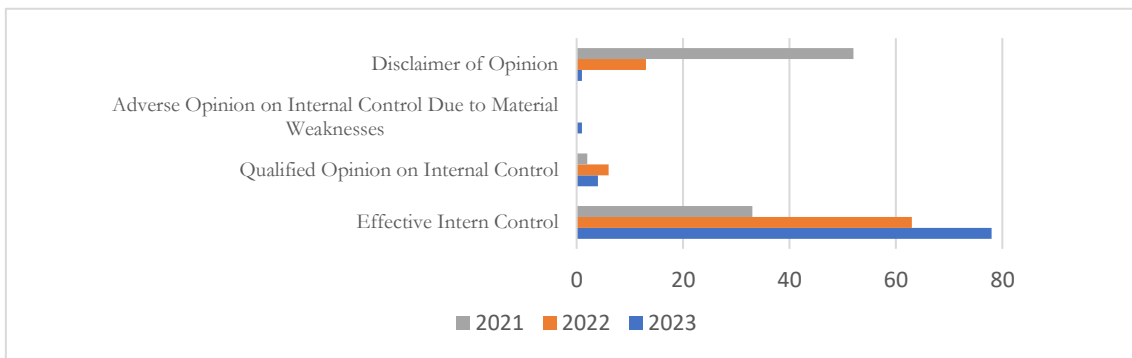


Figure 1.
PIPK
Assessment at
K/L Level
2021 to 2023

Source: [Direktorat Jenderal Perbendaharaan \(2022\); \(2023, 2024\)](#)

The effectiveness of the Internal Control System (SPI) is required, thus the implementation of PIPK is directly linked to the quality of financial reporting. Over the past five years, not all Ministries/Agencies have received an Unqualified Opinion (WTP) from BPK following audits. Several still receive qualified or other types of opinions, indicating persistent weaknesses in financial management. Data on these developments, based on BPK's Audit Reports (LHP) on the Central Government Financial Reports (LKPP) for the 2019–2023 period, are presented in the following Table 1.

When examining the relationship between LKKL opinions and PIPK assessment conclusions, four distinct patterns emerge that warrant further investigation. This research selects one Ministry/Agency (K/L) from each pattern, resulting in four case samples, to facilitate a comparative analysis of PIPK implementation. By contrasting the desired capacity level with the existing conditions using the UNDP Capacity Assessment Framework, this research aims to identify capacity gaps in the implementation of PIPK across these institutions.

No	LKPP Period	Types of Financial Statement Opinions			
		Unqualified Opinion (WTP)	Qualified Opinion (WDP)	Disclaimer of Opinion (TMP)	Adverse Opinion (TW)
1	2023	80	4	-	-
2	2022	81	1	-	-
3	2021	83	4	-	-
4	2020	84	2	-	-
5	2019	84	2	1	-

Source: analyzed data from *LHP BPK* for *LKPP* of 2019-2023 ([Badan Pemeriksa Keuangan, 2020, 2021, 2022, 2023, 2024](#))

Identifying the constraints faced by *K/Ls* in implementing *PIPK* is crucial to enhancing its effectiveness in improving the quality of financial reports. The UNDP Capacity Assessment Framework has been employed in previous studies to evaluate institutional capacity in policy and governance contexts ([Lin et al., 2021](#); [Shams & Hasan, 2020](#)). Applying this framework to *PIPK* provides a structured approach to assessing capacity development, particularly in promoting transparency and accountability in government financial reporting.

This research evaluates the implementation of *PIPK* in accordance with *PMK* Number 17/PMK.09/2019, issued in 2019 by analyzing four core institutional elements: institutional arrangements, leadership, knowledge, and accountability in financial reporting. Through case studies of four selected *K/Ls*, the research seeks to generate comprehensive insights and recommendations on capacity development challenges and opportunities in *PIPK* implementation.

[Deegan \(2022\)](#) stated that in the institutional theory, organizations are shaped by widely accepted social structures, resulting in uniformity in organizational practices and forms. This theory is built upon three core pillars: regulative, normative, and cultural-cognitive elements, which collectively provide legitimacy and stability to institutions. [Scott \(2013\)](#) emphasizes the regulative dimension, referring to formal rules that shape organizational behavior—such as the Sarbanes-Oxley Act (SOX) of 2002, which mandates internal controls over financial reporting for publicly listed companies.

In the context of *PIPK*, its implementation is influenced not only by regulatory mandates but also by normative expectations and cultural-cognitive beliefs. These pressures drive Ministries/Agencies to align with professional standards and reinforce the value of integrity in financial reporting as a key element of public accountability ([Scott, 2013](#)).

Capacity Development Theory focuses on strengthening individual competencies, organizational structures, and systemic processes to support sustainable institutional performance ([United Nations Development Programme, 2009](#)). UNDP's Capacity Assessment Framework ([2008](#)) provides a structured methodology for assessing organizational capacity, identifying gaps, and formulating development strategies. In the context of *PIPK*, this framework is essential to ensure that internal control systems are not only implemented to meet formal requirements but are continuously improved through capacity development, thereby contributing to effective and accountable state financial management. The UNDP framework is illustrated in Figure 2.

The UNDP Capacity Assessment Framework comprises three primary dimensions: entry points, core issues, and functional and technical capacities ([United Nations Development Programme, 2015](#)). Entry points refer to the levels at which capacity development occurs: the enabling environment, the organizational level, and the individual level. The enabling environment encompasses policies, social norms, and power dynamics; the organizational level involves internal structures and processes; and the individual level pertains to skills and competencies developed through education and experience.

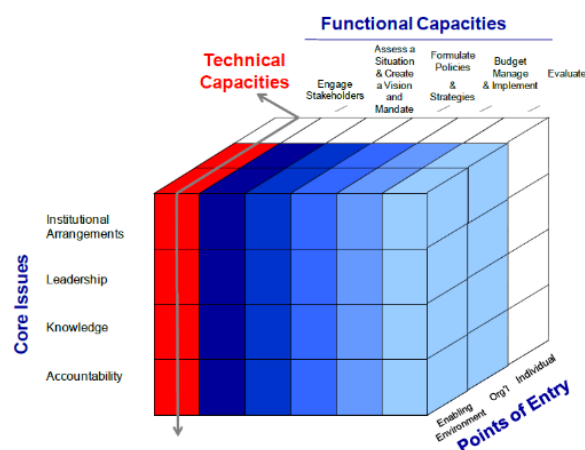


Figure 2. Capacity Assessment Framework

Source: UNDP (2008)

The Capacity Assessment Framework (2008) is presented as a key methodological tool in the study for evaluating institutional capacity, identifying strengths and weaknesses, and informing capacity development strategies. It views capacity development as a continuous process occurring at individual, organizational, and societal levels, organised around three key dimensions: points of entry, core issues, and functional/technical capacities. Central to this study's evaluation of PIPK implementation capacity within ministries/agencies are the four core issues: institutional arrangements, leadership, knowledge, and accountability.

Every issue contains certain aspects to be analyzed in the organizational capacity evaluation as follows.

1. Institutional arrangements refer to policies and practices that enable an organization to function effectively, supported by robust financial and human resource management.
2. Leadership is the capacity to inspire and guide individuals toward organizational goals, both formally and informally.
3. Knowledge serves as the foundation for capacity development, acquired through formal education or work experience.
4. Accountability emphasizes community involvement in the oversight of public services, focusing on inclusion, participation, and access to information.

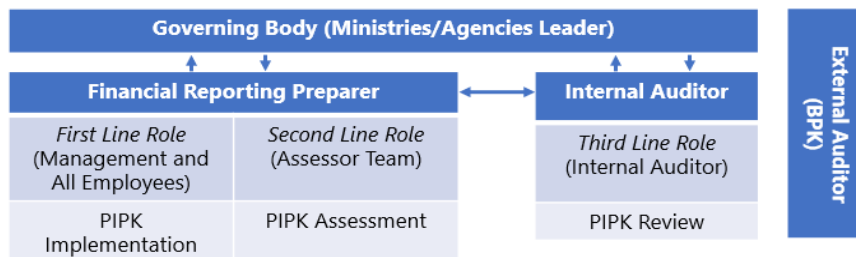
By addressing these elements, the Capacity Assessment Framework assists organizations in identifying strengths and weaknesses, thereby informing the design of effective capacity development strategies ([United Nations Development Programme, 2015](#)).

ICoFR originated from Section 404 of the Sarbanes-Oxley Act (2002), which required U.S. companies to include an internal control report in their annual filings. The purpose of ICoFR is to ensure that financial statements are prepared in compliance with applicable accounting standards, while also establishing mechanisms to prevent and detect asset misappropriation and maintain the accuracy of transaction records. According to [KPMG \(2023\)](#), a well-designed ICoFR enhances accountability, protects assets, and upholds the integrity of

financial data and transactions. The effective implementation of ICoFR relies on the integration of the five components of the COSO Internal Control Integrated Framework (2013) to ensure efficient SPI and bolster public and investor confidence.

To clarify the roles and relationships in public sector governance, the Institute of Internal Auditors (IIA) and the International Organization of Supreme Audit Institutions (INTOSAI) published *Applying the Three Lines Model in the Public Sector* (2022), focusing on internal audit, the state audit agency, and external audit providers. This model emphasizes the importance of good governance, collaboration between internal and external audits, and the independence of internal audit in providing objective assurance and guidance to management and the supervisory body. The Three Lines Model, as outlined by the IIA (2022), is also applied to the PIPK of Central Government entities, as depicted in Figure 3 below.

Figure 3.
Application of the Three Lines Model for the Public Sector in PIPK K/L



Source: data processed from [Inspektorat Jenderal Kementerian Keuangan \(2024\)](#).

PMK Number 17 provides guidelines for the implementation, assessment, and review of PIPK to ensure the effectiveness and reliability of the Central Government's financial reports. The description of each process is as follows.

1. PIPK Implementation ensures compliance and prevents misstatements by applying the COSO framework, PUTIK, and application controls, documented through SOPs and risk-based guidelines.
2. PIPK Assessment tests control effectiveness at both entity and transaction levels using COSO criteria, categorizing weaknesses and summarizing findings in a report with recommendations.
3. PIPK Review by APIP independently evaluates internal controls through sampling and analysis to verify assessments and suggest improvements for reliability in financial reporting.

Previous studies have shown that implementing ICoFR positively impacts the reliability of financial statements ([Bimo et al., 2019](#); [Radu & Segalin Zanella, 2023](#)), and that internal control contributes to quality management when integrated with broader policy frameworks ([Sofyani et al., 2023](#)). Building on these insights, this study adopts the UNDP Capacity Assessment Framework to examine institutional capacity for PIPK implementation in Indonesian government institutions.

The UNDP framework identifies four key dimensions that shape public sector capacity. Although several prior studies have explored these dimensions individually in relation to financial reporting ([Gasela, 2021](#); [Gürlek & Çemberci, 2020](#); [Qaiser & Hassan, 2024](#); [Santoro et al., 2018](#)), no existing research has integrated all four dimensions into a single, comprehensive analysis. These components are widely recognized as influencing internal control systems and policy implementation across various institutional settings ([Henn, 2023](#); [Hinings et al., 2018](#); [Sager & Gofen, 2022](#)).

Leadership plays a central role in reinforcing internal controls, enabling strategic execution, and promoting accountability (Gasela, 2021; Qaiser & Hassan, 2024). It also links closely with knowledge management and innovation, where knowledge-based leadership supports institutional learning (Gürlek & Çemberci, 2020), and accountability-oriented leadership enhances transparency (Qaiser & Hassan, 2024). In parallel, knowledge management contributes to performance and innovation (Santoro et al., 2018), with Knowledge Management Capacity (KMC) regarded as a key source of competitive advantage (Gürlek & Çemberci, 2020).

Support for this framework also comes from studies in other sectors. Shams and Hasan (2020) highlighted the role of organizational learning and stakeholder engagement in strengthening knowledge systems, while Lin et al. (2021) emphasized that structural arrangements and accountability mechanisms are critical, even in institutions with strong leadership and technical capacity. These insights affirm the relevance of a multidimensional capacity framework in assessing internal control practices.

This research addresses a gap in the literature by qualitatively examining PIPK implementation across K/L using an integrated UNDP framework—offering a comprehensive perspective that remains underexplored in contrast to previous studies that have treated these dimensions in isolation.

METHOD

Merriam (2009) asserts that qualitative research explores how individuals interpret their experiences and derive meaning from their environment. This research adopts a qualitative approach with a case research method, focusing on selected K/L institutions based on the PIPK assessment and BPK financial report opinion. This study employs a multiple-case study approach, examining four K/L that represent diverse patterns in PIPK implementation and audit results, to allow comparative analysis. Case studies provide an opportunity for observational reflection, enhancing research findings and emphasizing the importance of strategic planning and preventive measures (Cresswell, 2007). The evaluation within the case research will examine the strengths and weaknesses of the subjects, employing a criteria-based approach framed by questions to assess the effectiveness of PIPK at K/L (Ellet, 2018).

Qualitative data for this research were collected from primary and secondary sources, including interviews, documents, and questionnaires, and were analyzed to ensure the validity of the conclusions (Sekaran & Bougie, 2016). The unit of analysis is the selected K/L institutions, chosen through purposive sampling based on distinct patterns in audit opinions and PIPK evaluation results. This approach enables exploration of varied institutional conditions, in line with Yin (2017) emphasis on the importance of selecting the appropriate unit of analysis to ensure valid findings. To link the implementation of PIPK with the quality of financial reports, particularly BPK opinions, several phenomena were grouped to facilitate the research. A case research approach was employed, selecting four K/L institutions, as shown in Figure 4 below.



Figure 4. Sampling of 4 K/L

Source: data processed

The selection of the four K/L as units of analysis in this study employed a purposive sampling strategy, a non-probability technique commonly used in qualitative case study research (Yin, 2017). Each K/L was selected to represent a unique pattern of PIPK implementation outcomes based on two criteria: (1) the level of PIPK implementation as reflected in the self-assessment results submitted to the Central Government Accounting Unit (UAPP), and (2) the audit opinion issued by BPK for their financial statements (LKKL). The intention was to capture diverse institutional experiences and challenges in implementing PIPK. This method allows for theoretical replication by enabling the researcher to observe contrasting conditions and draw cross-case insights (Cresswell, 2007; Yin, 2017).

This research on PIPK utilizes various documents in the analysis process, in accordance with the provisions of PMK No. 17, covering each stage of PIPK implementation, assessment, and review in K/L. In addition to documents, the research employs a semi-structured interview method. Cresswell (2007) explains that interviews are a data collection technique that uses flexible question guides to explore information in greater depth based on respondents' answers. Twelve informants were selected for interviews based on their roles and responsibilities in the implementation, evaluation, and review of PIPK within their respective institutions, including regulators and internal auditors (APIP) at the central government level, such as BPKP. The list of informants and their institutional affiliations is presented in the following:

No	Respondent	Home Institution	Code
1	Ministry of Finance as Regulator	Inspectorate General of the Ministry of Finance	R1
2	Ministry of Finance as Regulator	Directorate General of Treasury, Ministry of Finance	R2
3	PIPK UAPP Review Team	Financial and Development Supervisory Agency (BPKP)	R3
4	PIPK K/L Implementation Team	K/L A	A0
5	PIPK K/L Assessment Team	K/L A	A1
6	PIPK Implementation and Assessment Team	K/L B	B1
7	Assessment Team K/L	K/L C	C1
8		K/L D	D1
9	PIPK Review Team K/L	K/L A	A2
10		K/L B	B2
11		K/L C	C2
12		K/L D	D2

Table 2.
List of
Interview
Respondents

Source: data processed

In this research, semi-structured interviews were conducted using a pre-prepared questionnaire framework, developed from a review of relevant literature, including previous studies. The Capacity Assessment Framework, encompassing four core elements—institutional arrangements, leadership, knowledge, and accountability—served as the primary reference for constructing the questionnaire. The framework is summarized in Table 3.

No.	Statement Aspect	Respondent	Reference
1	Institutional Arrangements <ul style="list-style-type: none"> • Enabling Environment • Organizational Level • Financial Management • Human Resource Management 	Sample K/L, Ministry of Finance	United Nations Development Programme (2008) , Lin et al. (2021) , and Shams and Hasan (2020)
2	Leadership <ul style="list-style-type: none"> • Enabling Environment • Organizational Level 	Sample K/L, Ministry of Finance	United Nations Development Programme (2008) , Lin et al. (2021) , and Shams and Hasan (2020)
3	Knowledge <ul style="list-style-type: none"> • Enabling Environment • Organizational Level 	Sample K/L, Ministry of Finance	United Nations Development Programme (2008) , Lin et al. (2021) , and Shams and Hasan (2020)
4	Accountability <ul style="list-style-type: none"> • Enabling Environment • Organizational Level • Inclusion, Participation, Equity and Empowerment • Access to Information 	Samples of K/L, Ministry of Finance, BPKP	United Nations Development Programme (2008) , Lin et al. (2021) , and Shams and Hasan (2020)

Table 3. Interview Framework

Source: data analyzed

During the interviews, informants were asked to evaluate the implementation of *PIPK* in *K/L* using a closed-question questionnaire designed to measure the capacity gap between the desired and existing levels. According to [United Nations Development Programme \(2008\)](#), these two levels are defined as follows:

1. Desired Level: The ideal or expected capacity needed to achieve the organization's strategic goals, based on the best standards, policies, or targets established.
2. Existing Level: The actual capacity currently possessed by the organization, measured through performance data, internal evaluations, or stakeholder assessments.

The comparison of these two levels helps identify areas for development and inform the design of effective capacity improvement strategies. In this research, informants were asked to rate both the desired and existing levels on six available scales. These scales were developed to minimize bias toward neutral assessments and to clarify the informants' attitudes or opinions as shown in Table 4.

Level Scale	Description	Level Scale	Description
1	Very low capacity	4	Somewhat high capacity
2	Low capacity	5	High capacity
3	Medium capacity	6	Very high capacity

Table 4. Capacity Level Scale

Source: data analyzed

[Sekaran and Bougie \(2016\)](#) outline three key interrelated steps in qualitative data analysis: data reduction, data presentation, and drawing conclusions. This research utilizes evidence from interviews and documentation gathered from various sources. The data analysis process involves triangulation, a method of using multiple sources of evidence in case research research to enhance the validity and accuracy of findings [Yin \(2017\)](#).

To identify obstacles to capacity development in the implementation of PIPK, the results from the interview-based questionnaire are analyzed through the following stages:

1. Data Reduction: Data from questionnaires and interviews are organized by key aspects.
2. Data Presentation: Data are analyzed descriptively and thematically using four capacity aspects.
3. Conclusion Drawing: Results are compared to identify gaps and develop improvement recommendations.

The stages and the framework of this research are presented in Figure 5.

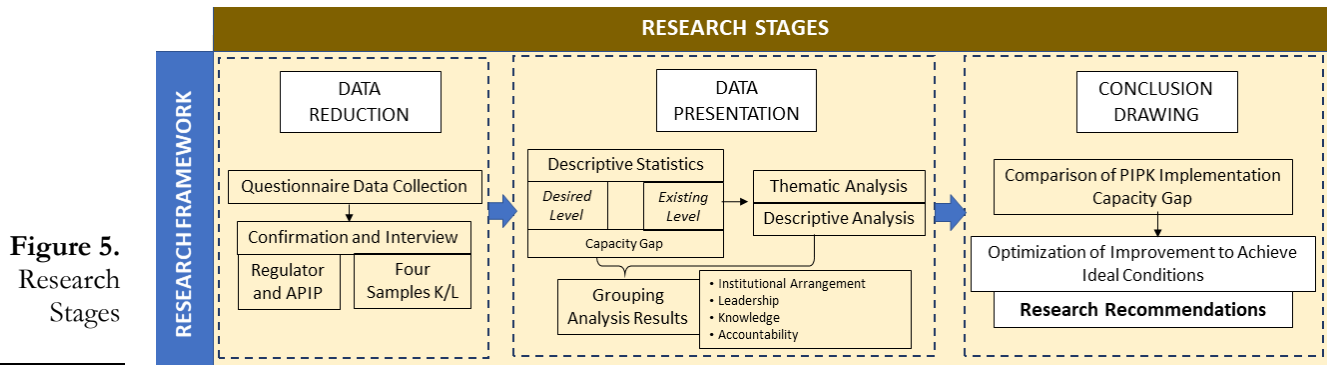


Figure 5. Research Stages

Source: data analyzed

RESULTS AND DISCUSSION

The UNDP Capacity Assessment Framework is a flexible tool for assessing current and needed capacities to achieve organizational goals, applicable at individual, organizational, and environmental levels (United Nations Development Programme, 2008). In the context of PIPK implementation, it helps identify capacity gaps causing inconsistencies. The framework involves collecting data through questionnaires or similar tools from stakeholders across organizational levels to capture diverse views and both qualitative and quantitative inputs (United Nations Development Programme, 2008). These data form the basis for analyzing gaps and designing targeted capacity-building strategies (Lin et al., 2021).

In this research on PIPK implementation, questionnaires were distributed to relevant agencies, including BPKP, the Ministry of Finance as the regulator, and the four sample ministries/agencies under research. The number of completed questionnaires is presented in Table 5 below.

No	Institutions	Number of Questionnaire Completed
1	Regulator and BPKP	2
2	K/L A	10
3	K/L B	3
4	K/L C	5
5	K/L D	9
	Total	29

Table 5. Number of Research Questionnaire Completions

Source: data analyzed

The completed questionnaires were processed using descriptive statistics to analyze the results. The presentation of findings for each core element in the UNDP framework is based on overall average figures, which encompass the opinions of respondents from regulators, BPKP, and the four sampled K/Ls as summarized in Figure 6 and 7.

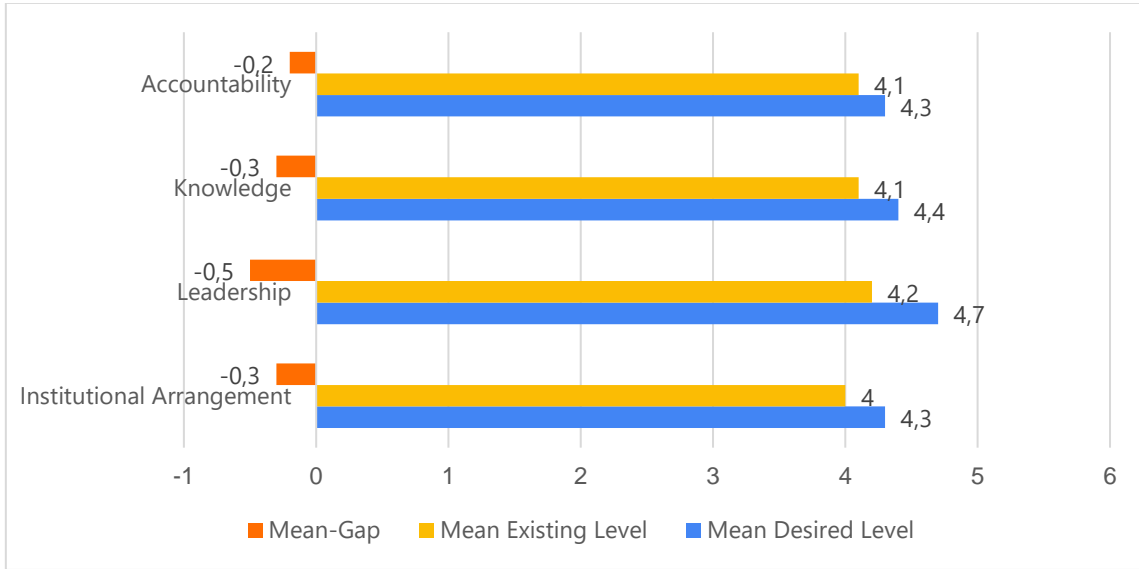


Figure 6. Results of the Average Capacity Level Assessment of K/Ls

Source: data analyzed

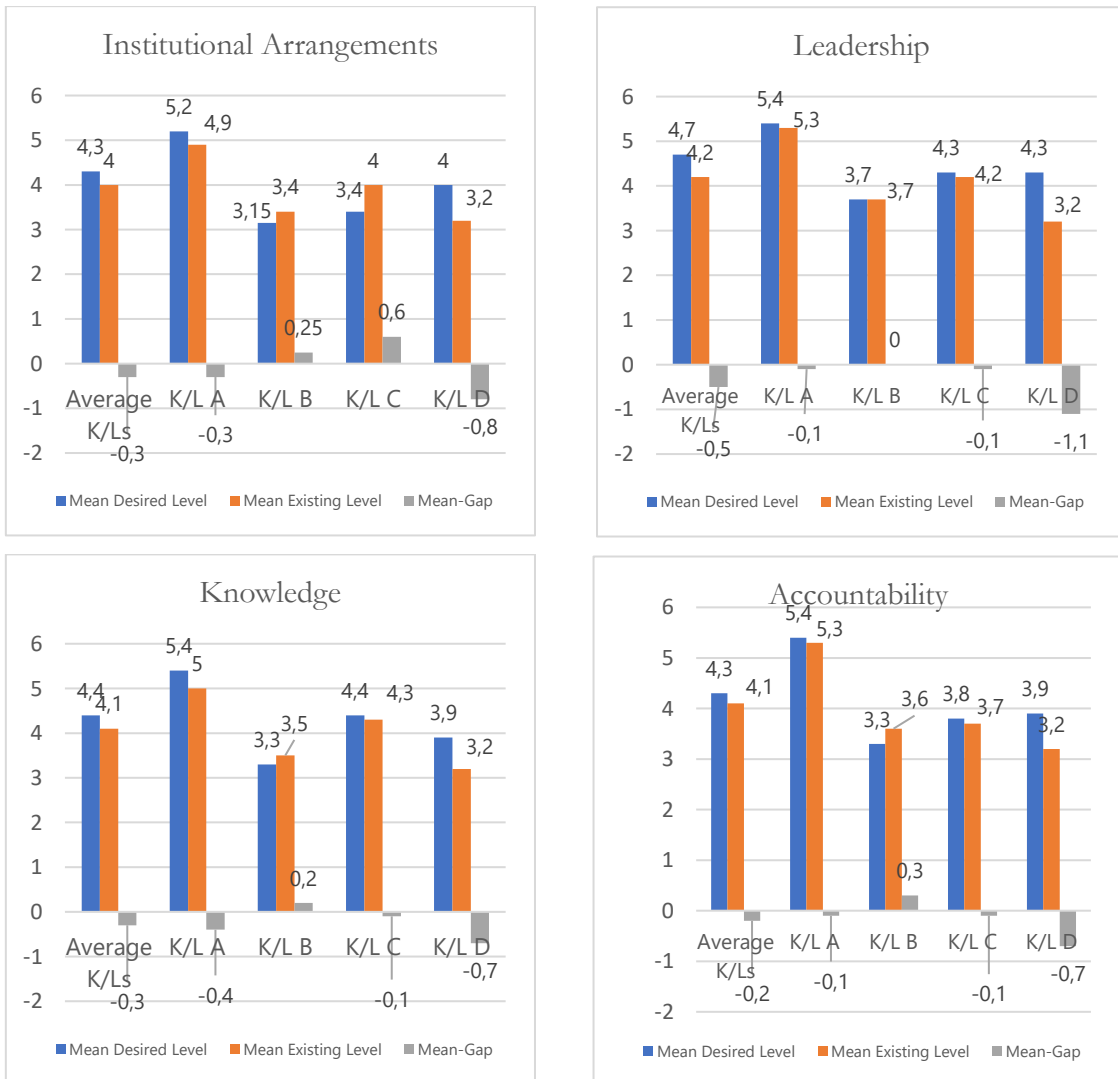


Figure 7. Capacity Development Level Assessment Results on each core issues and K/L

Source: data analyzed

Figure 6 presents the average results of the capacity development assessment for K/Ls across all aspects, both at the Desired and Existing Levels, with all values at level 4 or above. This indicates that, on average, K/Ls are considered to have a relatively high capacity in implementing PIPK as a regulation used in the financial report preparation process. Generally, the Desired Level is higher than the Existing Level, suggesting a capacity gap that still needs to be addressed. The gap is small across all aspects, with the largest gap observed in the Leadership aspect (-0.5) and the smallest in Accountability (-0.2). This indicates that the Leadership capacity gap requires particular attention, especially given that the Desired Level for Leadership is the highest among all aspects.

Based on Figure 7, K/Ls consistently show high values for both the Desired Level (DL) and Existing Level (EL), with small differences across all aspects, suggesting that implementation is nearly aligned with expectations regarding capacity development. K/L B demonstrates positive differences in aspects such as Institutional Arrangements and Accountability, indicating that its Existing Level slightly exceeds the Desired Level. K/L C shows relatively stable performance, with small positive and negative differences. In contrast, K/L D exhibits the largest negative differences across all aspects, particularly in the Leadership aspect (-1.1), highlighting the need for significant improvements to reach the desired level. Overall, the small differences observed in K/L A, B, and C reflect good progress, while K/L D requires special attention and improvement across all aspects.

To provide a structured overview of the implementation differences across the four case K/Ls, Table 6 presents a comparative summary of PIPK capacity based on the UNDP framework. This table captures key variations in institutional arrangements, leadership, knowledge, and accountability, highlighting the distinctive strengths and challenges faced by each K/L. The tabulated insights serve as the basis for the subsequent cross-case synthesis and elaboration of findings for each dimension.

No.	Core Issues	K/L A	K/L B	K/L C	K/L D
1	Institutional Arrangements	Applies Three Lines Model, strong coordination and layered evaluation; sufficient budget and HR, though challenged by staff rotation.	Limited coverage (only one unit); no APIP review; lacks specific PIPK budget; weak HR policies on sanctions.	Involves multiple stakeholders; updates RCM annually; good budget support; technical terms still a challenge.	Limited forums, activities concentrated on a few staff; HR shortages and weak PIPK understanding.
2	Leadership	Strong commitment from top leadership; PIPK and BPK follow-up embedded in KPIs.	Focus on formal compliance; no performance evaluation mechanism related to PIPK.	Leadership actively involved in significant account identification; PIPK part of KPI.	Commitment exists but not institutionalized in KPIs; lack of awareness across units.

Table 6. Comparison of PIPK Implementation Capacity in Four K/Ls

No.	Core Issues	K/L A	K/L B	K/L C	K/L D
3	Knowledge	Adequate training and knowledge-sharing platforms; affected by employee transfers.	Basic knowledge with uneven distribution; relies on external training from KPPN.	Sets minimum training hours; personnel well-trained; effective review quality.	High capacity gap; lacks certified auditors; mostly self-taught knowledge-sharing.
4	Accountability	Structured multi-level reporting and archiving; access for internal use well managed.	SAKTI system limitations; PIPK documents not separated; lack of SOP and firm sanctions.	Detailed internal documentation; good communication with BPK; integrated monitoring system.	Poor documentation in regional units; some archives stored in personal spaces; access issues.

Source: data analyzed

Building upon the comparative overview in Table 6, the following section identifies common threads across the four K/Ls for each dimension, highlighting shared challenges and patterns that influence the effectiveness of PIPK implementation.

1. Institutional Arrangement

Institutional arrangements across the four K/Ls show varying levels of maturity in supporting PIPK implementation, particularly in the consistency of formal structures, stakeholder engagement, and resource allocation. K/L A and K/L C demonstrate clearer frameworks, stronger stakeholder involvement, and dedicated resources, although K/L A still faces challenges from frequent staff transfers requiring ongoing standardization. In contrast, K/L B and K/L D struggle with weak formal policies, limited evaluation mechanisms, fragmented coordination, and insufficient financial and human resources. A common challenge across all K/Ls is the lack of consistent institutional frameworks and limited HR capacity—such as dual roles, frequent rotations, and the need for continuous knowledge alignment—hindering the sustainability of PIPK.

In the US, SOX Section 404 requires annual assessments of internal controls over financial reporting by management and external auditors, with mandatory disclosure of material weaknesses ([Radu & Segalin Zanella, 2023](#)). In contrast, Indonesia lacks specific disclosure regulations for ICoFR, making external observation difficult. Disclosure remains voluntary, and while management must explain internal controls, no standard format or ICoFR-specific rules exist ([Bimo et al., 2019](#)).

Indonesia adopts the COSO framework, and public HEIs are mandated to implement internal controls since 2009, while private HEIs depend on internal policies ([Sofyani et al., 2023](#)). Efforts like PIPK indicate movement toward structured governance, guided by models such as the Three Lines Model ([The Institute of Internal Auditors, 2022](#)). Institutional Theory further explains these developments, showing how practices are shaped by regulatory, normative, and cultural-cognitive factors ([Scott, 2013](#)).

The analysis indicates that the variability in PIPK institutional arrangements across K/Ls reflects differing implementation structures, shaped by both external settings and internal organizational design (Sager & Gofen, 2022). Disparities in formal structure, resources, and HR capacity, such as limited budgets or repeated standardization due to staff turnover, demonstrate how decision-making power and roles are unevenly distributed (Sager & Gofen, 2022). These gaps between formal rules and actual practices, including the absence of clear sanction policies in K/L B, point to inconsistencies in institutional enforcement (Sager & Gofen, 2022). In contrast, K/Ls with more structured and resourced PIPK systems (like A and C) reflect greater institutionalization, where control frameworks gain legitimacy within organizational norms (Hinings et al., 2018), similar to how traditional authorities gain formal legitimacy when integrated into state systems (Henn, 2023).

2. Leadership

Leadership commitment to PIPK varies across the four K/Ls, with a common issue being the inconsistent integration of PIPK into formal performance management systems. While leaders generally prioritize achieving a WTP opinion, the proactive use of internal PIPK results is often overshadowed by a stronger focus on external audit findings (BPK). K/L A and K/L C show stronger leadership by embedding PIPK into organizational KPIs and strategic goals, whereas K/L B and K/L D tend to emphasize external compliance without internalizing PIPK outcomes. This reflects a broader challenge in aligning internal control efforts with leadership accountability and performance evaluation frameworks.

Management plays a key role in ICoFR by disclosing activities, ensuring report quality, implementing controls, addressing audit findings, and reporting to the commissioner—reflecting a commitment to transparency and reducing opportunistic behavior (Bimo et al., 2019). Effective leadership, rooted in ethical values, supports internal control and aligns with Total Quality Management (TQM), which HEIs must integrate to achieve excellence (Sofyani et al., 2023).

Given the vital role of leadership in internal control, its influence on PIPK capacity building is further examined below. As observed in the K/L samples, there is variability in the commitment and effectiveness of leadership, which aligns with findings from (Lin et al., 2021), where leadership in local government units in Taiwan had positive scores but still required improvements in professional training for communication and coordination. Shams and Hasan (2020)'s research on capacity building emphasizes the critical role of leadership in formulating and implementing strategies. In the case of K/L, it becomes evident that strong leadership is essential for driving the capacity building process of PIPK by embedding it into performance targets and ensuring its monitoring as part of organizational performance management.

The variability in leadership across K/Ls significantly shapes PIPK implementation, reflecting differences in internal organizational design and commitment. Leaders play a crucial role in setting ethical standards, promoting accountability, and driving effective internal control systems (Qaiser & Hassan, 2024). Knowledge-oriented leadership further supports learning and capacity building through guided knowledge processes and behavioural reinforcement (Gürlek & Çemberci, 2020). In K/L A and C, the integration of PIPK into performance indicators demonstrates strong leadership alignment, while in K/L B and D, weak commitment and exclusion of PIPK from KPIs hinder implementation (Qaiser & Hassan, 2024). Despite the importance of top management

support, misalignment with strategy or overconfidence may reduce its effectiveness, though a supportive culture can help mitigate such risks ([Qaiser & Hassan, 2024](#)). Overall, these contrasting leadership approaches explain the differing levels of maturity in PIPK implementation and underline leadership's central role in shaping organizational control and culture ([Qaiser & Hassan, 2024](#)).

3. Knowledge

Knowledge capacity across the four K/Ls is uneven, with a common challenge being inconsistent understanding and technical expertise related to PIPK. While K/L A and K/L C have implemented structured training programs and knowledge-sharing forums, they still face comprehension issues due to staff rotations. K/L B shows limited depth in knowledge distribution, and K/L D experiences the most severe gaps, relying heavily on untrained personnel and informal learning. These differences in staff background, limited certifications, and repeated standardisation efforts undermine consistent application of PIPK principles and affect implementation effectiveness.

Internal control supports reliable, timely, and transparent reporting, ensuring accurate data for quality management decisions ([Sofyani et al., 2023](#)). The COSO framework guides ICoFR assessments, highlighting the need for CFOs and audit committee members with accounting or finance backgrounds ([Bimo et al., 2019](#)). Auditor expertise also affects control weakness detection, with larger firms identifying issues earlier due to higher audit quality ([Radu & Segalin Zanella, 2023](#)).

As internal control effectiveness depends on knowledge and expertise, the next section discusses how varying understanding of PIPK affects its implementation. The variation in understanding of *PIPK*, particularly in its core elements, can impact the effectiveness of its implementation across Ministries/Institutions. This issue aligns with the research of ([Shams & Hasan, 2020](#)), which highlights the importance of organizational learning and proactive knowledge management capacity. The ability to recognize, absorb, transform, and apply external information (absorptive capacity) is crucial for adapting to change.

Efforts such as regulation dissemination and knowledge sharing represent key aspects of building knowledge capacity. The challenges of diverse understanding and limited competencies indicate that the knowledge management and absorptive capacity within several K/L are still developing. Consequently, continuous learning processes are essential for adapting to the evolving dynamics and needs of *PIPK* implementation.

To address challenges related to knowledge and competence, and to meet the standardization requirements for financial managers within the *K/L* environment, various *PIPK* learning facilities are available. For example, the Budget and Treasury Education and Training Center (a training unit under the Ministry of Finance) offers specialized programs such as Distance Learning (PJJ) on *PIPK* Assessment, *PIPK* Implementation, and *PIPK* Review for the Central Government. These are available through the Letter of the Head of the Center Number S-532/PP.3/2024, dated December 23, 2024, to all relevant agencies ([Pusdiklat Anggaran dan Perbendaharaan, 2024](#)). The training sessions are conducted via virtual meetings and e-learning through the *Kemenkeu* Learning Center (KLC). *Pusdiklatmas* BPKP (2025) also provides relevant training catalogs, including *PIPK* Assessment and *PIPK* Review, for auditors and other functional staff in *K/L/Regional* Government, which are available on its website.

The varying maturity of the Knowledge aspect in *PIPK* implementation across *K/Ls* reflects differences in knowledge management capacity (KMC), defined as an

organization's ability to acquire, retain, share, and apply knowledge over time (([Gürlek & Cemberci, 2020](#); [Santoro et al., 2018](#)). Challenges such as staff transfers, diverse technical backgrounds, and limited certified auditors hinder consistent expertise. Strong KMC is vital for performance and innovation, with leadership playing a key role in fostering knowledge processes and promoting learning ([Gürlek & Cemberci, 2020](#)). Differences in training provisions, resource allocation, and reliance on informal learning reveal inconsistent success in building a knowledge-driven culture. These variations show that effective internal controls depend heavily on how well organizations manage and enhance their knowledge assets.

4. Accountability

Accountability across the four K/Ls shows a common challenge of inconsistent documentation, limited information access, and weak follow-up on internal PIPK findings. While K/L A and K/L C have stronger mechanisms, such as structured reporting, open communication, and thorough evaluations, K/L B and K/L D struggle with incomplete records, limited data integration (e.g., via SAKTI), and insufficient follow-up, especially on internal issues. This disparity highlights a broader issue where internal PIPK findings are often deprioritized compared to external audit results, undermining the proactive function of internal control.

On average, K/L has achieved a level of accountability capability close to the expected standard, with only a small gap between existing and desired levels. [Lin et al. \(2021\)](#) emphasize the importance of a strong vision and system for accountability, suggesting that the challenges faced by K/L B and D—such as a lack of leadership commitment and documentation issues—highlight areas requiring improvement. Furthermore, [Shams and Hasan \(2020\)](#) argue that monitoring plays a crucial role in the capacity-building process to ensure institutional success and accountability. The leadership commitment and documentation system challenges observed can be seen as weaknesses in the implementation of key elements in the capacity-building process.

The variability in the accountability aspect of PIPK implementation across K/Ls reflects differing levels of effectiveness in accountability mechanisms ([Tran et al., 2021](#)). Accountability leadership, encouraging justification of actions and delivering quality information, is essential, alongside management's role in setting ethical standards and ensuring internal controls ([Qaiser & Hassan, 2024](#)). While K/L A and K/L C show stronger documentation and follow-up practices, K/L B and K/L D face challenges such as weak documentation, limited data access, and lack of clear policies like sanctions. These issues suggest that leadership alone is insufficient without a culture that supports transparency and accountability ([Qaiser & Hassan, 2024](#)). Ultimately, effective accountability, backed by reliable financial reporting, is crucial for public trust and organisational performance ([Tran et al., 2021](#)).

The evaluation of PIPK implementation across four K/Ls reveals varying levels of capacity maturity. K/L A and C showing stronger institutionalization through structured governance, leadership integration, and training efforts, while K/L B and D face significant gaps in formalization, awareness, and resource support. Across all K/Ls, core issues persist: institutional arrangements remain inconsistent in structure and resource allocation ([Sager & Gofen, 2022](#)); leadership integration into strategic frameworks is uneven ([Qaiser & Hassan, 2024](#)); knowledge capacity is limited by staff turnover and lack of certification ([Gürlek & Cemberci, 2020](#)); and accountability mechanisms, though relatively better, still struggle with documentation and internal follow-up ([Tran et al., 2021](#)). These findings collectively

demonstrate that while progress exists, capacity development for PIPK remains uneven and requires targeted interventions across all four dimensions.

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CONCLUSION

The UNDP Capacity Assessment Framework can be used to identify constraints in capacity development related to the implementation of PIPK within K/L, enabling targeted efforts to address capacity gaps in core elements.

In this research, the framework is applied to core elements such as institutional arrangements, leadership, knowledge, and accountability, which are compared with the requirements of PMK Number 17. This approach helps identify specific areas requiring capacity development and provides a strong foundation for formulating more focused strategies. The conclusions for each core element are elaborated as follows:

1. Institutional Management: Constraints in human resources, including employee shortages, dual roles, high turnover, and the absence of a firm sanction policy for officials involved in findings, undermine the effectiveness of internal policies and procedures.
2. Leadership: Leadership commitment to PIPK varies across K/L, with significant capacity gaps indicating a need to enhance the role of leadership in integrating PIPK into organizational performance.
3. Knowledge: Variations in understanding of PIPK affect its implementation and highlight uneven knowledge management capacity, despite training efforts provided by the Ministry of Finance and BPKP.
4. Accountability: While ministries and agencies are close to meeting the expected level of accountability, challenges remain in the commitment of leadership to evaluation and documentation within regional work units. Nevertheless, these challenges do not hinder the overall implementation of PIPK.

To enhance the quality of PIPK implementation and reduce future capacity gaps, the following recommendations are proposed:

1. To address human resource constraints, K/L should increase the allocation of HR and funding for PIPK implementation, reinforce the separation of functions in line with governance principles such as the Three Lines Model, and establish clear policies and sanctions for officials repeatedly identified in findings to improve compliance.
2. K/L should enhance leaders' understanding and commitment to PIPK through strategic forums during financial report preparation. PIPK processes and results should be more explicitly integrated into organizational and individual performance assessments, with consistent follow-up on both PIPK implementation and BPK findings. The Ministry of Finance and BPKP should organize joint forums with K/L leaders to strengthen the understanding of PIPK's role in financial report preparation.
3. To address discrepancies in understanding and strengthen knowledge management, K/L should enhance the knowledge management system and documentation to ensure the continuity of PIPK knowledge despite staff turnover. Ministries/Institutions should also identify expertise needs and effectively utilize training programs from the Ministry of Finance and BPKP to improve personnel competency related to PIPK.
4. Although the average accountability level is close to expectations, it is crucial to further enhance leadership commitment in reviewing and addressing internal PIPK assessment results. Ministries should also develop robust documentation and archiving systems, particularly for regional work units, and ensure the availability and accessibility of relevant data to strengthen accountability mechanisms across all levels of K/L.

This research is limited to an interpretive qualitative approach, employing case research of

four selected K/L samples. Consequently, the analysis and findings regarding capacity gaps based on the UNDP framework cannot be generalized to all K/L within the Central Government. The results are also contingent on the accuracy and completeness of the provided documents and the openness of the data sources used in the capacity assessment.

Future research should consider a broader sample to allow for a deeper understanding of the phenomena related to PIPK implementation in K/L. This research represents an adaptation of the Capacity Assessment Framework, focusing on certain aspects; further studies could explore other components, such as the five stages of functional capacities, or additional entry points. The four core issues of the framework could also be developed as independent variables in future research, enabling a quantitative analysis of the relationship between PIPK implementation and the quality of financial reports across a larger sample of K/L.

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