Analysis of Internal Control over Financial Reporting on Inventory Accounts: A Case Study at Institution X

Ni Luh Putu Ayu Priscilla Wirantika Putri[1]
Dyah Setyaningrum[2]
[1,2]Faculty of Economics and Business, Universitas Indonesia, Indonesia
**Correspondences*: priscillaluhputu@gmail.com

ABSTRACT

The implementation of Internal Control over Financial Reporting (PIPK) at Institution X from 2022 to 2024 was deemed effective, yet it does not fully reflect the actual condition, as repeated audit findings from the Audit Board of the Republic of Indonesia (BPK RI) revealed weaknesses in inventory internal control. This indicates that the PIPK design remains suboptimal and requires further analysis in accordance with Minister of Finance Regulation (PMK) Number 17 of 2019. This study employed a qualitative case study approach through document analysis and semi-structured interviews with eight internal respondents and two from the Institution of Finance, using data triangulation to strengthen validity. The results show that the inventory financial reporting process is not fully documented and that risk identification remains limited to areas with existing control tests. Therefore, an integrated flowchart between financial reporting and inventory management, along with extended risk identification, is needed to strengthen the PIPK design. This study contributes by proposing a regulation-based PIPK design to enhance the effectiveness of PIPK and the accountability of financial reporting.

Kata Kunci: Financial Reporting, PIPK Design, Inventory, Internal Control, Ministries/Agencies

Analisis Pengendalian Intern atas Pelaporan Keuangan (PIPK) pada Akun Persediaan: Studi Kasus pada Lembaga X

ABSTRAK

Pelaksanaan PIPK Lembaga X tahun 2022–2024 dinilai efektif, namun belum mencerminkan kondisi riil karena masih ditemukan temuan berulang BPK RI atas kelemahan SPI persediaan. Hal ini menunjukkan bahwa rancangan PIPK belum optimal dan perlu dianalisis lebih lanjut berdasarkan PMK Nomor 17 Tahun 2019. Penelitian ini menggunakan pendekatan kualitatif dengan studi kasus melalui analisis dokumen dan wawancara semi-terstruktur dengan delapan narasumber internal dan dua dari Kemenkeu RI, dengan triangulasi data untuk memperkuat validitas. Hasil menunjukkan bahwa alur pelaporan keuangan persediaan belum terdokumentasi secara menyeluruh dan identifikasi risiko masih terbatas pada aspek yang diuji pengendaliannya. Oleh karena itu, diperlukan penyusunan flowchart terpadu antara pelaporan keuangan dan pengelolaan persediaan serta identifikasi risiko lanjutan untuk memperkuat rancangan PIPK. Kontribusi penelitian ini terletak pada usulan rancangan PIPK berbasis regulasi yang dapat meningkatkan efektivitas PIPK dan akuntabilitas laporan keuangan.

Keywords: *Pelaporan Keuangan; Rancangan PIPK; Persediaan; Pengendalian Internal; Kementerian/Lembaga*

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INTRODUCTION

Institution X is required to prepare and present financial statements (LK) as a form of accountability for the implementation of the State Budget (APBN) (Republik Indonesia, 2003), which are subsequently audited by the Audit Board of the Republic of Indonesia (BPK RI) to assess their fairness (Republik Indonesia, 2004). In the audit of Institution X's 2021 financial statements, BPK RI issued a Qualified Opinion (WDP) due to inaccuracies and insufficient audit evidence regarding the value of inventories (Badan Pemeriksa Keuangan Republik Indonesia, 2022). Although Institution X received Unqualified Opinions (WTP) for its 2022 and 2023 financial statements, BPK RI noted recurring findings that must be addressed—specifically, weaknesses in the Internal Control System (ICS) related to the inventory account (Badan Pemeriksa Keuangan Republik Indonesia, 2023 & 2024) as presented in Table 1.

Table 1. ICS Findings on Institution X's Inventory Account

Fiscal Year	Work Units	ICS Findings
2021	3 Work Units	Inventory management remains inadequate in terms of recordkeeping (on inventory cards and reports), stocktaking, and updating the physical existence of inventory
2022	9 Work Units	Inventory administration remains inadequate in terms of recordkeeping (in reports and the SAKTI application), stocktaking, maintenance, disclosures and documentation of asset transfers.
2023	3 Work Units	Inventory administration remains inadequate in terms of storage, safeguarding, utilization, stocktaking, and recordkeeping

Source: Audit Report (LHP) Badan Pemeriksa Keuangan Republik Indonesia, 2022; 2023 & 2024), recompiled 2025

The effective implementation of ICS is essential, as it directly influences the quality of the financial statements (FS) presented. The better and more adequate the internal controls, the higher the quality of the financial statements produced—and vice versa (Widaryani & Kiswanto, 2020; Indriyani & Mappanyukki, 2022; Haryanto & Hidayah, 2023). Given the ongoing weaknesses in ICS that may pose risks to the reliability and fairness of Institution X's financial statements, a specific internal control mechanism focused on financial reporting risks is necessary. This mechanism is known as Internal Control over Financial Reporting (PIPK), which is designed to address risks in the preparation of financial statements, support the achievement of government objectives, and enhance public trust (Kementerian Keuangan RI, 2019 &2022). PIPK is part of the Government Internal Control System (SPIP) (Badan Pendidikan dan Pelatihan Keuangan Kemenkeu RI, 2023) and it plays a critical role in mitigating financial reporting risks and determining effective control measures (Committee of Sponsoring Organizations of the Treadway Commission, 2013). When properly implemented, PIPK helps ensure that financial statements are free from material misstatements and meet the four qualitative characteristics of financial reporting (Bimo et al., 2019).

PIPK is not only related to the quality of financial statements but also plays a vital role in preventing recurring findings by BPK RI concerning internal control weaknesses and financial statement manipulation. Ananda & Wijayati (2023) evaluated and analyzed the PIPK design in response to BPK RI's recurring findings on inventory at Institution X in 2020 and concluded that the Institution had failed

to identify several relevant risks and controls. Maghfira & Wondabio (2023) conducted a study on the PIPK design for the management of confiscated assets at the Corruption Eradication Commission (KPK) and found that optimizing PIPK through a proper control framework and formal implementation guidelines was necessary for managing such accounts. Similarly, Riawati & Hermawan (2024) found that although the ICoFR score at Company X had increased, indications of financial statement manipulation remained. These studies indicate that without a well-designed and effectively implemented control system, manipulation may still occur.

PIPK has been implemented at Institution X from 2022 to 2024, in accordance with Minister of Finance Regulation (PMK) Number 17 of 2019, covering its implementation, assessment, and review processes. The inventory account has been identified as one of the significant accounts assessed during all three periods. Although the PIPK evaluations yielded effective results, recurring findings related to internal control weaknesses in the financial statements for fiscal years 2021–2023 indicate a misalignment between the assessment outcomes and the actual conditions. This suggests that the PIPK implementation has not been optimal and thus requires an evaluation of its design.

The design of PIPK consists of five key steps: determining significant accounts, identifying key processes, identifying material risks, determining key controls, and documenting the processes and controls (Kementerian Keuangan RI, 2019). Management is also required to identify relevant financial statement assertions related to significant accounts to ensure accurate recording and disclosures in accordance with accounting principles. This design process is critical, as it serves as the foundation and direction for conducting PIPK assessments.

Based on the initial assessment of Institution X's PIPK data, it is suspected that, in practice, the design of PIPK for inventory management has not been fully optimized. This is evident from the inventory-related processes/transactions documented in the Risk-Control Matrix (Table A), which merely reflect commonly occurring processes/transactions that are subject to control testing. These three processes/transactions have remained unchanged over time, with only one risk—namely, misclassification of expenditure accounts—being removed on the grounds that it has been mitigated and controlled by the SAKTI application. Furthermore, a risk register for the significant inventory account has not yet been developed, considering that risk management at Institution X has only been implemented at the organizational level in accordance with the Head of Institution Decree issued in 2022.

Given the inadequacy in the current PIPK design at Institution X—particularly when viewed in the requirements outlined in Minister of Finance Regulation (PMK) Number 17 of 2019—and supported by previous research findings that have indicated ineffective PIPK design and implementation, a more in-depth study is needed. Prior studies have not specifically or comprehensively evaluated the components or steps of PIPK design as required by the PMK, particularly with respect to inventory, which is one of the significant accounts in the financial statements. Therefore, this study is necessary to provide recommendations for improving the PIPK design in a more systematic and

regulation-based manner, with a specific focus on inventory management. Such improvements are intended to ensure that PIPK assessment reflects the actual conditions of financial reporting and that the objectives of PIPK are achieved effectively

RESEARCH METHODS

A case study method with a qualitative approach was employed to explore in depth the evaluation of the PIPK design in inventory management at Institution X during the 2022–2024 period. The case study method was chosen because it emphasizes an in-depth exploration of a specific case within defined timeframes and activities (Creswell & Poth, 2023 & Priya, 2021) and it allows for the detailed collection of data from multiple sources, such as documents, interviews, archival records, observations, and physical artifacts (Yin, 2018).

This study collected data and information through both primary and secondary sources. Primary data were obtained through interviews, while secondary data were collected from written documents, both internal and external, including BPK RI's Audit Reports (LHP) on Institution X's Financial Statements for the 2022–2024 period, Internal Audit Reports (LHA) by the internal audit unit (APIP) for the same period, as well as relevant regulations and policies concerning PIPK, financial reporting, and inventory management, issued by Institution X and the Institution of Finance of the Republic of Indonesia.

Secondary data collection was conducted first, serving as the foundation for developing interview questions and guiding the interview process. Document review was focused on the key data components relevant to PIPK design process, as outlined in PMK Number 17 of 2019. The evaluation of design conformity was carried out by assessing the existence, completeness, and clarity of each data component. The results of the review were marked using a checklist to categorize each item as (1) adequate, (2) requiring further clarification through interviews, (3) unavailable, or (4) irrelevant/not applicable in the context of the design being assessed.

In its implementation, the researcher referred to the PIPK design framework under PMK Number 17 of 2019, however, the determination of significant accounts was excluded from the analysis since the inventory account had already been designated as one of the significant accounts in Institution X's PIPK implementation. In addition, the analysis was also guided by two references on inventory management, the 2024 Head of Institution Decree concerning inventory management at Institution X and Government Regulation (PP) Number 28 of 2020, along with the PIPK design benchmark from Institution ABC, which has served as a reference since the initial implementation of PIPK at Institution X. The combination of these two sources supported the researcher in drawing conclusions regarding the analysis of PIPK design in the inventory management processes at Institution X.

For primary data collection, semi-structured interviews were conducted using questions developed based on the analysis of secondary data. Respondents were selected through purposive sampling, considering their roles and active involvement in the implementation stages of PIPK, which include implementation, assessment, and review. A total of 10 (ten) respondents were selected to represent

these stages: (1) the implementation team consisted of personnel from 2 (two) out of 7 (seven) work units that had undergone PIPK assessments, (2) the assessment team came from 3 (three) different work units to reflect uniformity in implementation conditions, and (3) the review team was represented by APIP form Inspectorate. Also, an additional representatives included management personnel who supported the PIPK implementation at Institution X and an auditor from the Institution of Finance of the Republic of Indonesia. This selection aimed to represent the perspectives of all parties involved in the PIPK process for inventory management at Institution X, as summarized in Table 2

Table 2. Interview Respondents

No	Code	Role	Criteria
1	A1	Implementation Team from Work Unit A (one of the work units with the largest quantity and value of inventory)	Has served as the PIPK implementation team at the work unit level for at least one year
2	A2	Implementation Team from Work Unit B (one of the work units with the largest quantity and value of inventory)	
3	B1	Assessment Team from the Finance Bureau of Institution X	Has served as a member of the PIPK assessment team for at least one year
4	B2		
5	C1	Assessment Team from the State-Owned Assets (BMN) Bureau of Institution X	
6	C2		
7	D1	Assessment Team from the Inspectorate of Institution X	
8	E1	Review Team from the Inspectorate of Institution X	Has served as a member of the review team for at least one year
9	F1	PIPK Management Team from the Institution of Finance of the Republic of Indonesia	Has served on the PIPK management team and accompanied the PIPK process at Institution X for at least one year
10	G1	Auditor from the Inspectorate General of the Institution of Finance of the Republic of Indonesia	Has been involved in the Institution of Finance's PIPK process for at least one year

Source: Research Data, 2025

The substance of the questions used in the semi-structured interviews was developed based on the PIPK design criteria outlined in PMK Number 17 of 2019, with a focus on the second and third stages of the design process. These include: (1) understanding the business processes during the stage of identifying key inventory-related processes/transactions, and (2) identifying and analyzing risks. The interview question themes and their references are presented in Table 3.

The primary and secondary data collected were analyzed using qualitative content analysis, which involves subjective interpretation of textual data through systematic classification, applying coding and identifying themes or patterns (Shava et al., 2021). The evaluation was carried out by assessing the extent to which the components of the PIPK design fulfilled the provisions of PMK Number 17 of 2019. Each data point from documents and interviews was classified into three

categories—Fully Met, Partially Met, and Not Met—which served as the basis for the coding and thematic analysis.

Table 3. Interview Question Themes

No	Interview Question Themes	Respondent Codes	References
1	Understanding of the Inventory Financial Reporting Business Process at Institution X	All Respondents	2024 Head of Institution X Decree on Inventory Management; Government Regulation No. 23 of 2020
2	Identification and Analysis of Inventory Financial Reporting Risks at Institution X	All Respondents	Institution X's PIPK documentation; BPK RI Audit Reports; APIP Internal Audit Reports (LHA); Table A from Institution ABC

Source: Research Data, 2025

In addition, data validity testing was conducted to maintain the integrity of the study by linking theoretical frameworks with empirical evidence to ensure substantively significant results (Lim, 2024). Validity was reinforced through source triangulation, by involving respondents with diverse roles, and method triangulation, by employing multiple data collection techniques such as surveys and interviews (Susanto et al., 2023). Source triangulation included respondents with various roles in the PIPK implementation process, including those from the Institution of Finance of the Republic of Indonesia, in order to obtain a comprehensive perspective. Meanwhile, method triangulation was performed by integrating data from documentation and interviews to generate a more in-depth and holistic analysis.

RESULT AND DISCUSSION

The document analysis was based on data components related to the understanding of business processes and the identification of financial reporting risks for inventory at Institution X, as presented in Table 4.

Institution X has established technical guidelines for inventory management along with Standard Operating Procedures (SOPs) that outline the work units, responsible parties, as well as their respective duties and functions. However, these guidelines only cover processes from planning to inventory disposal, and do not include the financial reporting stage up to the point where inventory values are presented in the financial statements. Although SOPs for financial statement preparation and the Institution of Finance's SAKTI Reporting Module Guidelines—which detail processes and transactions within the SAKTI application—are available, further verification is still necessary to clarify the financial reporting workflow and the parties responsible within Institution X. The relevant documents and information technology systems for each process are listed in these various guidelines. Nevertheless, comprehensive and detailed documentation of the inventory financial reporting flow is not yet available, as existing documentation only includes flowcharts related to procurement, inventory administration, inventory distribution, and financial statement preparation.

Table 4. Document Analysis Results on the PIPK Design of Institution X

Data Component	Component Criteria	Checklist
1. Organizational structure and the roles of work units related to inventory financial reporting	Details of work units and relevant parties responsible for inventory financial reporting	√*
	Duties and functions of the respective work units and relevant parties	√*
2. Types and classification of inventories	Inventory classification based on the Government Accounting Standards (SAP) and regulations related to inventory management at Institution X	√
3. The business process flow of inventory financial reporting at Institution X	Identification and explanation of the transaction cycle/key processes in inventory financial reporting at Institution X (from beginning to end)	√*
	Identification and explanation of supporting documents for each transaction/key process in inventory financial reporting at Institution X	√
	Identification and explanation of the information and communication technology (ICT) systems used in each transaction/key process	√
4. Documentation of transactions/processes in inventory financial reporting	Documentation of transactions/processes in inventory financial reporting in the form of flowcharts	X
5. Detailed overview and analysis of financial reporting risks related to inventory at Institution X	Identification and analysis of key risks in each transaction/process in inventory financial reporting at Institution X based on BPK audit findings, APIP audit reports, and historical PIPK assessment results of Institution X	√*

Source: Research Data, 2025

Description:

√ = Adequate

√* = Requiring further clarification through interviews

X = Unavailable

N/A = Irrelevant/Not applicable

Institution X has not yet established a risk summary or risk register, specifically related to the financial reporting of inventory management. As a result, the risks listed in the Risk-Control Matrix Table (Table A) represent only the key risks from the main transactions in inventory financial reporting at Institution X for which controls will be tested. This condition deviates from the ideal standard set by PMK Number 17 of 2019, which requires management to prepare a summary of risks of material misstatement for specific accounts as a basis for planning control assessments. The key risks identified in Institution X's Table A have been adjusted to reflect field conditions and historical data from the PIPK assessment findings, as well as findings from BPK RI and the internal audit unit (APIP). This approach aligns with the PIPK Review Report for fiscal years 2022 to 2024, which was prepared by the PIPK Review Team of Institution X and states that all key risks have been identified and that no revisions to Table A were necessary regarding risk identification. However, based on a comparative review of the Risk-Control Matrix Table, BPK RI and APIP Audit Reports, several risks

have been identified that are not included in the Risk-Control Matrix Table. Therefore, the researcher decided to conduct further confirmation with repondents regarding the risk identification process and the adequacy of the identified risks.

Based on the interview results, all work units and parties involved in the business process are responsible for inventory management. These include the Budget User Authority (KPA), Commitment Making Officer (PPK), warehouse officer, central and unit-level State Property (BMN) teams, as well as parties involved in financial reporting and PIPK, such as Finance Bureau and the Inspectorate auditors. This is in line with the statements of the respondents: "*In my opinion, those responsible include* ***everyone involved in the PIPK for Inventory Management****. Starting from the top, such as the KPA, then PPK, and PIPK" (*A2, 2025); "***Everyone involved in the inventory business process*** *is responsible*" (B2, 2025).

Several respondents linked the financial reporting business process for inventory to the Head of Institution X Decree of 2024 concerning the Technical Guidelines for Inventory Management. In 2022 and 2023, the financial reporting process followed general regulations such as PMK Number 232 of 2022, PP Number 71 of 2010, PP Number 28 of 2020, and PER-40/PB/2006. Meanwhile, in 2024, it referred to the new technical guidelines of Institution X that had been ratified and were aligned with the prevailing regulations. The following is a quote from one of the respondents:, "***We don't yet have a comprehensive financial reporting business process****. We mostly refer to applicable regulations such as PMK 232/2022 and PP 71/2010. For inventory, we refer to the general Inventory Technical Bulletin and the Director General Regulation No. 40 concerning inventory accounting guidelines. For State Property (BMN) related to inventory, we do have the internal decree. But for financial reporting, it's still just the SOP on Financial Statement Preparation.* ***So far, it's still general and indeed needs to be further detailed****."*(B1, 2025).

However, differences were found in the respondents' level of understanding regarding the financial reporting business process for inventory. Some respondents had a limited understanding focused only on the operational aspects of inventory management, such as procurement, usage, and administration, while others understood the entire process, from planning and purchasing to recording and presentation in the financial statements. These differences reflect the variety of perspectives based on each respondent's role and level of involvement in the PIPK process.

The risk identification process has been based on findings from BPK RI and APIP, as well as aligned with actual field conditions. The risk identification and analysis process has also involved relevant parties, including the implementation team as risk owners, PIPK assessment and review team, and respondents from the Institution of Finance. As stated by one respondent, "***Risk identification took place in a discussion forum****, where all relevant parties—from implementers to assessors—sat together to discuss and identify the risks*." (C2, 2025). The risk identification and analysis process has also taken into account the risks associated with inventory management transactions. These were then discussed and evaluated for the adequacy and effectiveness of the controls in place for each identified risk. This was confirmed by an respondent who stated, "*When a risk arises from an inventory transaction, it is assessed.* ***Once the risks are identified, we determine which ones are key and evaluate the controls*** *—whether they are sufficient*

or lacking. Particular attention is given to those risks for which controls exist but are still considered inadequate." (D1, 2025).

Based on the document review and interviews, the evaluation of the data components related to the understanding of the business process and risk identification for inventory financial reporting at Lembaga X is presented as follows.

Table 5. Evaluation Results of the PIPK Design at Institution X

Data Component	Evaluation Result	Analysis of Evaluation Result
Organizational structure and the roles of work units related to inventory financial reporting	Fully Met	The organizational structure and roles of relevant work units are clearly stated in the inventory management guidelines, the financial statement preparation SOP, and PIPK guidelines. Respondents also demonstrated a clear understanding of these roles.
Types and classification of inventories	Fully Met	The types and classifications of inventories are detailed in Institution X's inventory management guidelines, which refer to PP No. 28 of 2020
The business process flow of inventory financial reporting at Institution X	Partially Met	Supporting documents and the ICT systems used in each transaction/process are clearly outlined in both internal regulations of Institution X and external regulations. However, the transaction/process cycle still needs to integrate the processes described in the inventory management guidelines and financial reporting procedures
Documentation of transactions/processes in inventory financial reporting	Not Met	No comprehensive documentation has been found regarding the end-to-end financial reporting process of inventory management. Institution X only has flowcharts/SOPs related to inventory management and the preparation of financial statements, which are documented separately
Detailed overview and analysis of financial reporting risks related to inventory at Institution X	Partially Met	The risk identification process is in accordance with PMK 17/2019. However, Institution X doesn't yet have a risk register specifically related to the inventory financial reporting, and the identified risks are limited to those listed in Table A, which are intended solely for control testing.

Source: Research Data, 2025

A gap was identified between the ideal and actual conditions in the understanding of the inventory financial reporting business process at Institution X. Most respondents' understanding remains limited to the inventory management aspect, without encompassing the full cycle (from needs planning to presentation in the financial statements). This limitation is reflected in the absence of complete documentation (flowcharts or SOPs) that comprehensively illustrate the entire process flow. In fact, PMK Number 17 of 2019 emphasizes that documentation of key processes, including those involving ICT systems, is a critical foundation for designing and assessing PIPK.

Accordingly, both the understanding and documentation of Institution X's financial reporting business processes do not fully align with the regulation.

Integration is needed between the inventory management process based on the Head of Institution's Technical Guidelines on Inventory Management and PP Number 28 of 2020, with the financial reporting process as outlined in the SOP for Financial Statement Preparation and other applicable regulations. The entire transaction cycle—from beginning balances to reporting in the financial statements- must be systematically illustrated in a flowchart format. This flowchart recommendation aims to enhance cross-unit understanding of the inventory financial reporting process. This finding also aligns with the studies of Maghfira & Wondabio (2023) and Kalyani & Murugan (2021) which emphasize that the implementation of PIPK must involve comprehensive documentation, as the absence of business process documentation is an early indication of a weak control design.

The risk identification process at Institution X has been carried out in accordance with the provisions of PMK Number 17 of 2019, which emphasizes the importance of focusing on key risks that may lead to material misstatements in the financial statements. This process has involved all relevant internal and external parties, taking into account field conditions, findings from BPK RI and APIP. However, the risks listed in Table A only cover those selected for control testing, and thus do not fully represent all potential risks related to inventory financial reporting at Institution X. Therefore, further identification efforts are needed to map other risks that have not yet been recognized but may affect the presentation of the financial statements. This effort is also crucial for refining the PIPK design, particularly to accommodate emerging risks identified in BPK RI and APIP audit findings, as well as suggestions from respondents.

These analysis results are consistent with the findings of Ananda & Wijayati (2023) dan Maghfira & Wondabio (2023), which indicate that financial reporting risk identification remains general and unspecific, and thus requires more thorough and comprehensive identification. Furthermore, this analysis aligns with the studies of Fitriana & Hoesada (2019), Mohammed et al. (2021), Otoo et al. (2023), and Wang & Yang (2024), which emphasize that the effectiveness of internal control is highly dependent on a deep understanding of business processes and the specific identification of risks. Without these two critical aspects, internal controls tend to be merely formalities and are unlikely to prevent misreporting or operational deviations.

The recommended flowcharts, as previously described, represent comprehensive documentation of the business process for inventory financial reporting. They illustrate the transaction flow starting from the beginning balance, additions (such as purchases, transfers, and grants-in), deductions (such as usage, transfers, and grants-out), physical inventory check/ stocktaking, up to the ending balance of inventory presented in the financial statements, as shown in Figures 1 to 3. In relation to further risk identification, this study also presents proposed inventory financial reporting risks aligned with the transaction flow depicted in the flowcharts. These risks are derived from the Audit Reports of BPK RI (LHP BPK RI), Internal Audit Reports (LHA APIP), Table A of Institution ABC, as well as input from respondents. The proposed risks, as presented in Table 5, include new potential risks not yet listed in the original Table A, such as the risk of errors in detailed data entry and risks related to physical inventory check/ stocktaking.

Both flowcharts and the proposed risks have been reviewed and approved by respondents.

Table 6. Proposed Financial Reporting Risks Related to Inventory Management at Institution X

Transaction/ Process	Risk Name	Sources of Risk Identification
Planning (R1)	Misalignment between budget planning and procurement (expenditure account classification)	Interview findings with respondents; Internal Audit Report (LHA) Institution X 2022& 2023
Procurement/Purchase (R2)	Delays in the completion of inventory procurement activities	Internal Audit Report (LHA) Institution X 2024
Procurement/Purchase (R3)	Received inventory items do not match the quantity, price, or specifications stated in the contract	Internal Audit Report (LHA) Institution X 2023; Tabel A of Institution ABC 2023 & 2024
Recording of Handover Report (BAST) (R4)	Procured inventory items not yet recorded in the accounting system	Internal Audit Report (LHA) Institution X 2023
Recording of Handover Report (BAST) (R5)	Errors in recording BAST (e.g., incorrect entry of source document data)	Tabel A of Institution ABC 2024; Interview findings with respondents
Item Specification/ Detailing (R6)	Errors in item detail entry in the SAKTI application (e.g., incorrect input of item value or type)	Tabel A of Institution ABC 2024; Internal Audit Report (LHA) Institution X 2022
Distributions of Goods (R7)	Inventory items not yet distributed/used but already excluded from inventory records	Audit Report of BPK RI 2023; Internal Audit Report (LHA) Institution X 2024
Inventory Usage Recording (R8)	Errors in inventory usage recording (e.g., incorrect item type or quantity)	Tabel A of Institution ABC 2024; Internal Audit Report (LHA) Institution X 2022
Physical Stocktaking (R9)	Inadequate storage of inventory (items mixed together or location unknown)	Internal Audit Report (LHA) Institution X 2022, 2023 & 2024
Physical Stocktaking (R10)	Physical inventory not conducted or conducted ineffectively (e.g., miscounting)	Audit Report of BPK RI 2023; Internal Audit Report (LHA) Institution X 2022& 2023
Physical Stocktaking (R11)	Obsolete, expired, or unusable inventory items not properly recorded	Audit Report of BPK RI 2023; Internal Audit Report (LHA) Institution X 2022, 2023 & 2024
Presentation, Reporting, and Disclosure (R12)	Inadequate disclosure of inventory presentation in the financial statements	Audit Report of BPK RI 2023

Source: Research Data, 2025

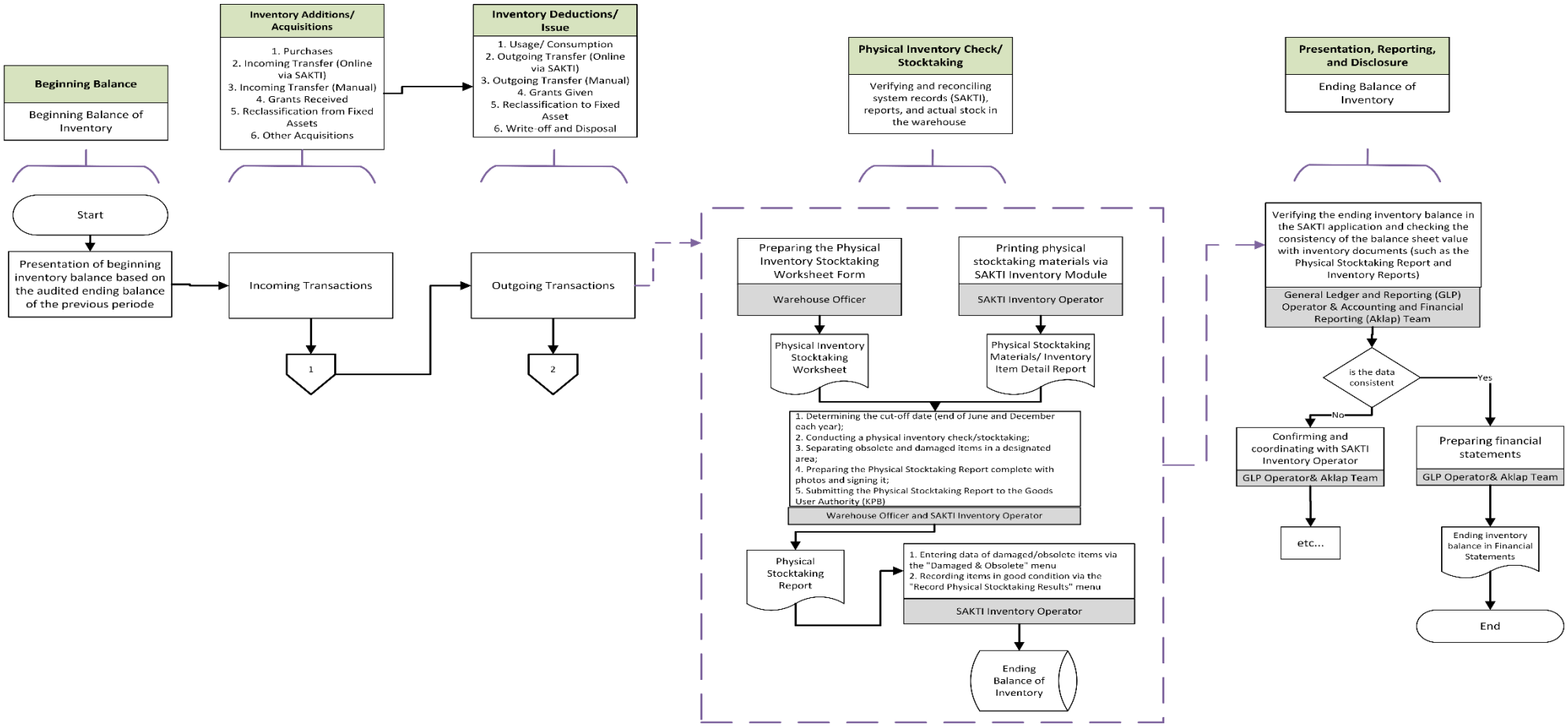

Figure 1. Business Process Flowchart of Inventory Financial Reporting at Institution X

Source: Research Data, 2025

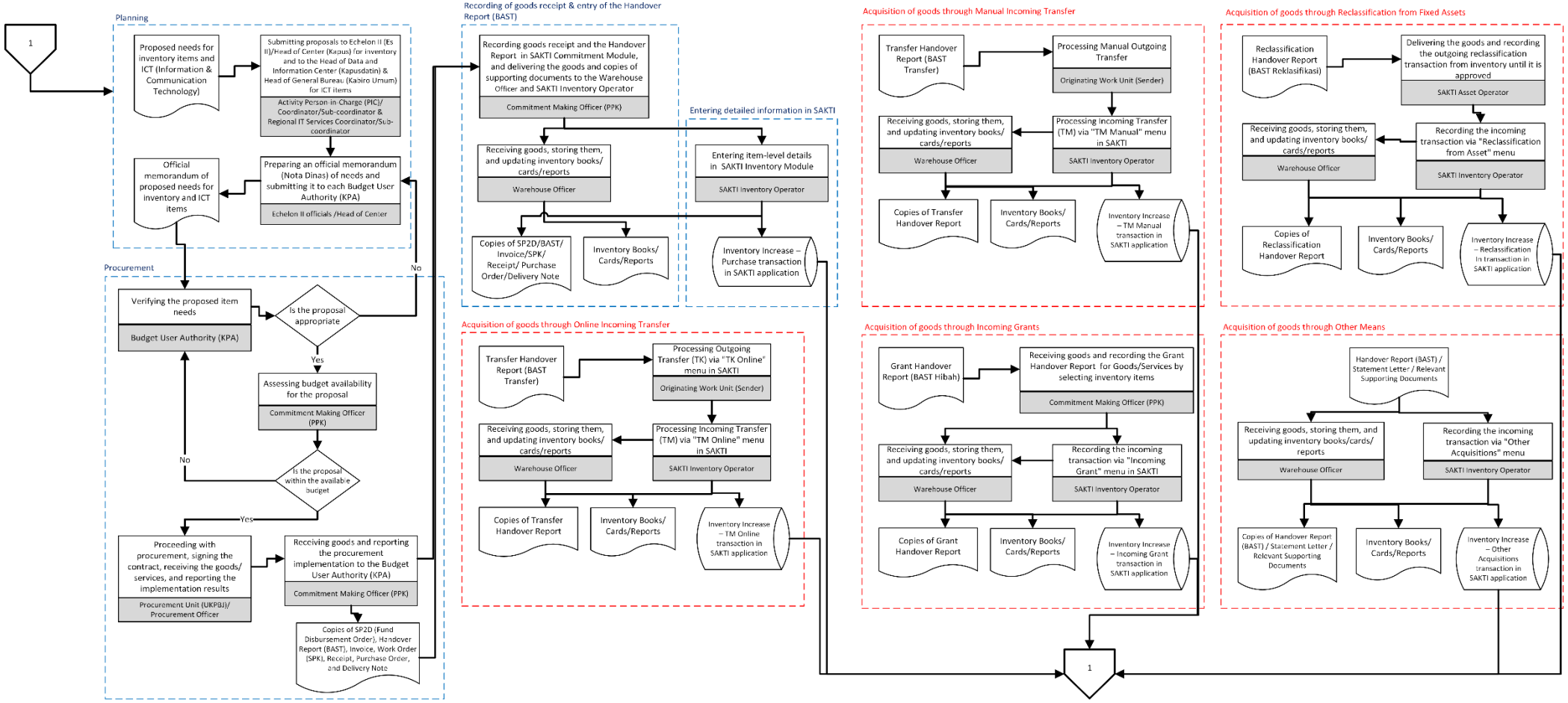

Figure 2. Flowchart of the Inventory Financial Reporting Process at Institution X – Detailed Incoming Transactions

Source: Research Data, 2025

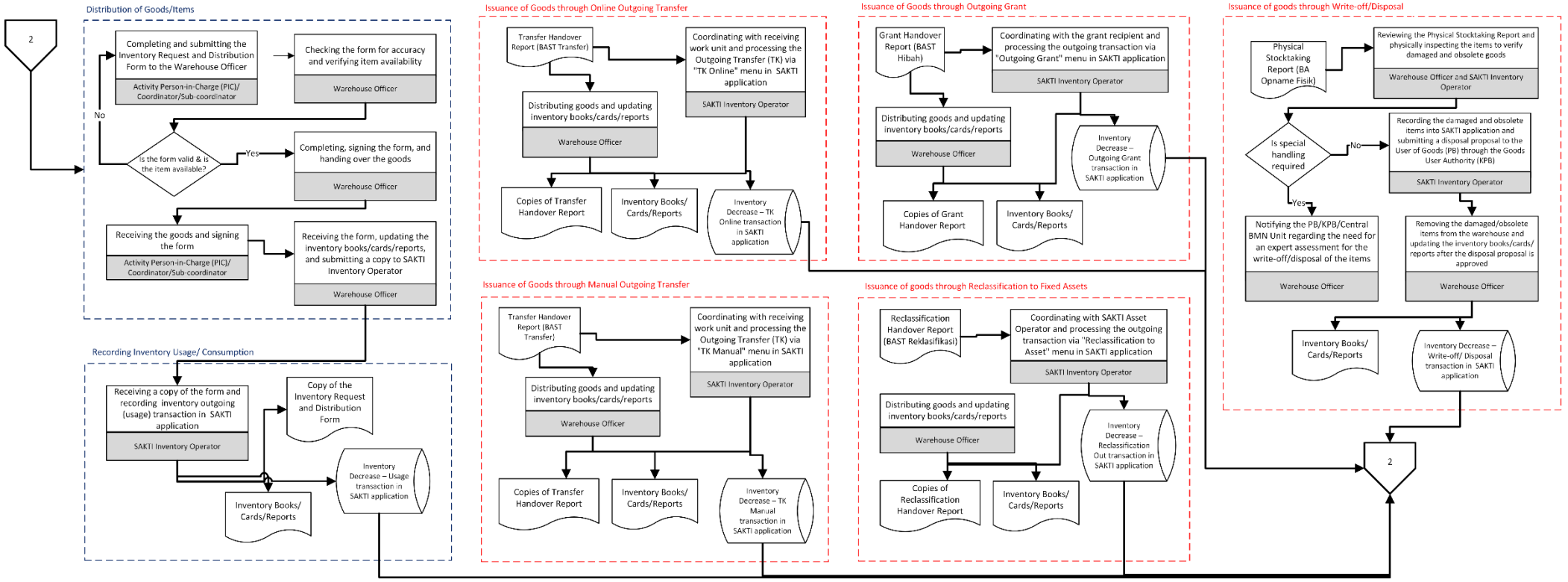

Figure 3. Flowchart of the Inventory Financial Reporting Process at Institution X – Detailed Outgoing Transactions

Source: Research Data, 2025

CONCLUSION

The design process of PIPK at Institution X has not yet fully referred to the provisions of Institution of Finance Regulation (PMK) Number 17 of 2019. This is due to the absence of comprehensive and systematic documentation of the business process that outlines the entire financial reporting flow for inventory — starting from opening balances, inventory additions, inventory deductions, physical stocktaking, to the final inventory balance presented in the financial statements. The lack of an integrated flowchart may hinder a complete understanding of the transaction cycle, roles and responsibilities, as well as the involvement of supporting documents and IT systems.

In terms of risk identification, although Institution X has considered findings from BPK RI and internal auditors (APIP), it has not yet developed a risk register that comprehensively maps all potential risks. As a result, it does not fully comply with PMK Number 17 of 2019. The risks listed in Table A are still limited to those subject to control testing, and therefore do not capture the full scope of financial reporting risks related to inventory. To address this, this study presents a flowchart and proposed additional risk identification that have been confirmed by respondents and were developed based on document analysis, interviews, and benchmarking from Institution ABC.

Based on the proposed flowchart and additional risks generated from this study, Institution X is advised to promptly organize discussions and deliberations involving all relevant stakeholders, including work units that were not selected as respondents, to obtain more comprehensive input. The developed flowchart and risk register should be formally approved as part of the refinement of the PIPK design. Subsequently, Institution X should revise Table A, including its controls, to ensure it covers the entire transaction cycle and all significant risks comprehensively. To support effective implementation, understanding of business processes and financial reporting risks should also be enhanced through continuous outreach and technical training programs.

This study has several limitations that need to be acknowledged. The scope of analysis was limited to the design phase of PIPK, focusing on understanding business processes and risk identification, without evaluating the effectiveness of controls or management assertions. In addition, the identification of additional risks relied on historical data from BPK RI audit reports, internal audit (APIP) reports, and PIPK assessment and review documents, which may not fully capture emerging risks. The study also did not involve all work units included in the PIPK assessment and evaluation, thus the findings may not fully represent the conditions across all work units. Therefore, future research is recommended to adopt a quantitative or mixed-method approach to evaluate control effectiveness and management assertions, and to consider a projective approach to anticipate new and undocumented risks. Broader participation from all work units should also be pursued to obtain a more comprehensive overview.

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