

# THE EFFECTIVENESS OF GOVERNMENT REGULATION (PP) NO. 60 OF 2008 ON GOVERNMENT INTERNAL CONTROL SYSTEM IN NORTH SUMATERA

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**Abstract:** *This study aims to see how the effectiveness of the internal control system of government, especially in local governance North Sumatera in Indonesia, The research method is the research method with explanatory approach (explanatory research), while the type of research is descriptive. Population in this research is All Regional Government in North Sumatera Province. The target population is the district and city governments in North Sumatera. Furthermore, the unit of analysis is the Regional Government consisting of 33 (thirty three) District and City Governments in North Sumatera. In this study, the type of data is qualitative and quantitative data that consist of questionnaires, interviews and documentation data. Sources of data are primary data and secondary data. Qualitative or primary data are obtained from respondents with data collection techniques, they are: questionnaires and documentation. Primary data is collected by spreading the questionnaire which needs to be tested first with the consideration that the seriousness of respondents in answering the questions is very important in this study. The technique analysis is descriptive analysis. It is by explaining in detail of the problems that occurs The results showed that the internal control system of government on governance in North Sumatera is still inadequate can be proven by the physical control of assets which not inadequate, is still inadequate commitment to competence, a good working relationship with the relevant government, risk analysis, and recording and documentation, only indicator that is conducive leadership, the role of internal control apparatus, separation of duties and monitoring have adequate conditions while the rest goes into the category quite adequate.*

**Keywords:** *effectiveness, Internal Control System of Government, the Internal Control*

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## Introduction

The internal control system is defined as a process which is influenced by boards of directors, management and employees that is designed to provide assured assurance that organizational goals will be achieved through 1) the efficiency and effectiveness of operations, 2) the presentation of credible financial statements, and 3) compliance on applicable laws and regulations (Azhar Susanto, 2008: 95).

If internal control system is weak, it will result in the government wealth security is not guaranteed; the existing accounting information is not accurate and not reliable; the operational activities of the company are inefficient and effective and the management policy which is set can not be obeyed. This is confirmed by Jones and Rama (2006: 7-8) stating that by establishing internal controls in computer-based accounting information systems, it will assist management efforts to protect its assets from loss and embezzlement and to maintain the accuracy of company financial data. Furthermore, according to O, Brien and Marakas (2010: 495) that internal control is designed to monitor and to maintain the quality and safety of accounting information system activities to perform input, process and output activities. Furthermore Wilkinson et al (1996) discloses that if an internal control has been established then all operations, physical resources, and data will be monitored and under control, objectives will be achieved, risks become small, and the resulting information will be more qualified.

Several studies indicate the importance of internal control systems within an organization. Hayale and Khadra (2006) in his research stated that the use of internal control system at the Bank in Jordan can improve the effectiveness of accounting information systems. Furthermore, Guan (2010) offers a concept of internal control application in the accounting information system to fully protect or minimize the possibility of error or fraud that arises from accounting information system. Further research results of Iceman and Hilison (1990) show the evidence that the average accounting errors in the weak internal control system are more common than the average accounting errors in the strong internal control system.

In connection with the weak internal control system in Indonesia, it also occurs in public sector organizations. Uchok Sky Khadafi (2012) states that based on audit results analysis of BPK/Audit Board in 2005-2011, it is found 24 *BUMN (Badan Usaha Milik Negara)* /state-owned enterprises with potential as corrupt state institutions. The potential deviations occur due to a number of factors, but the strongest factor is the weakness of internal control system. Further Halim Alamsyah (2011) states that the number of fraud or bank burglary cases lately due to weak internal supervision. Furthermore, according to Sumarjati Arjoso (2013) the Chairman of State Finance Accountability Board of the House of Representatives (*BAKN DPR/Ketua Badan Akuntabilitas Keuangan Negara Dewan Perwakilan Rakyat*) that the cause of the low transparency on state financial management in Indonesia is the failure of ministries, institutions, State Owned Enterprises (*BUMN/Badan Usaha Milik Negara*) and local governments in implementing the Government Internal Control System (*SPIP/Sistem Pengendalian Internal Pemerintah*).

According to BPK-RI (2012), the findings of SPIP weakness are due to inadequate physical control over assets, inaccurate and timely recording of transactions, control over weak management of information systems and poor documentation of SPIP, transactions and important events. According Simanjuntak (2012) that SPIP is vital, to be able to improve the financial management system of regional government, then fix SPIP first as its foundation, by improving SPIP then the information system can be more qualified. In addition, the Minister of

Internal Affairs, Gamawan Fauzi (2010) states that up to now there are only seven provinces that have issued governor regulation on control standards, the seven provinces that have compiled the Governor Regulation on SPIP are West Sumatra, Lampung, West Kalimantan, East Kalimantan, Gorontalo, Central Sulawesi and North Maluku. For districts/cities, there are 96 regions that have regent/mayoral regulations. Through the strengthening of internal controls, the weaknesses of financial management and irregularities that become indications and potential losses of the state on Ministry of Internal Affairs/*Kemendagri* can be detected early.

In general, the internal control system has five components: 1) control environment, 2) risk assessment, 3) control activities 4) Information and communication, and 5) monitoring (Elder, 2012; SPIP, 2008; COSO, 2013; Arens et al, 2014). These five components of internal control system are built into accounting information system infrastructure, so that the accounting information system objectives can be achieved. This is confirmed by Azhar Susanto (2008: 96) which states that the internal control system will be very effective if the control is integrated with infrastruktur and is an important part for the organization. Internal control which is integrated into the infrastructure will drive quality and initiative improvements, will avoid unnecessary costs and will generate rapid response to changing circumstances. Ruth and Gwathmey (2003) state that to develop an information system, it is required internal control, because without proper internal control it can lead to inaccuracy and inefficiency of information systems. Arens et al (2008: 371) states that companies are required to develop internal controls in order to provide reasonable assurance that the financial statements are presented fairly. In line with O'Brien and Marakas (2010: 495) that internal controls are designed to monitor and to maintain the quality and safety of accounting information system activities to perform input, process and output activities. Furthermore Wilkinson et al (1996) discloses that if an internal control has been established then all operations, physical resources, and data will be monitored and under control, objectives will be achieved, risks become small, and the resulting information will be more qualified.

Based on the above descriptions, the researcher is interested to conduct further research on the effectiveness of the government internal control system, especially in Regency and City Government of North Sumatera Province. By knowing the effectiveness of SPIP, it will become a reference for regional government to be able to produce more qualified financial report.

## **Theoretical Foundation**

### **Government Internal Control System**

Elder et al (2010: 290) states that internal control system consists of policies and procedures that are designed to provide reasonable assurance to management that the company has achieved its goals and objectives. These policies and procedures are often called controls, and collectively comprise the entity internal controls. In line with Azhar Susanto (2008: 95) that defines internal control as a process which is influenced by boards of directors, management and employees that are designed to provide assured assurance that organizational objectives will be achieved through (1) the efficiency and effectiveness of operations, (2) ) the presentation of credible financial statements, and (3) compliance with applicable laws and regulations. Opinion of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) (2013) that:

*“An internal control is a process, affected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance*

*regarding the achievement of objectives in (1) effectiveness and efficiency of operations (2) Reliability of financial reporting and (3) compliance with applicable laws and regulations”.*

The pioneer of the government Internal Control System in Indonesia begins with the existence of Presidential Instruction/*Instruksi Presiden* no. 15 of 1983 on Guidelines for the Implementation of Supervision and Presidential Instruction/*Pedoman Pelaksanaan Pengawasan dan Instruksi Presiden* No. 1 of 1989 on Guidelines for the Implementation of Inherent Control, Decree of the Minister of Administrative Reform/*Pedoman Pelaksanaan Pengawasan Melekat, Keputusan Menteri Pendayagunaan Aparatur Negara* (PAN) no. 30 of 1994 on guidance of Implementation of Inherent Controls/*Pelaksanaan Pengawasan Melekat* which is updated by Decree of PAN Minister No.KEP/46/M.PAN/2004. The elements of Inherent Controls/*Waskat* are Organizing, Personnel, Policy, Planning, Procedure, Recording, Reporting, and Internal Review. Subsequently, on August 28, 2008, Government Regulation/*PP* No. 60 of 2008 is issued about SPIP which is an adaptation of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Government Regulation (PP) no. 60 of 2008 is a further elaboration of Article 55 paragraph (4) and Article (58) paragraph (1) and (2) of Law/*UU* no. 1 of 2004 concerning State Treasury.

According to Government Regulation/*PP* No. 60 of 2008 on Government Internal Control System/*Sistem Pengendalian Intern Pemerintah* (SPIP) defines the internal control system is an integral process on the actions and activities that are undertaken continuously by the leadership and all employees to provide reasonable assurance on the achievement of organizational goals through effective and efficient activities, reliability of financial reporting, security of state asset, and compliance with laws and regulations.

Based on the above description, it can be concluded that the internal control system is an intergral process that is influenced by the leadership and all employees to provide reasonable assurance on the achievement of organizational goals through effective and efficient activities, reliability of financial reporting, security of state assets, and compliance with regulations legislation.

### **The Components of Government Internal Control System**

Committee of Sponsoring Organizations of the Treadway Commission (COSO) (2013) states that: the five components of internal control are Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring Activities. Messier et al (2010:193) states that: Internal control consists of five components: (1) The control environment, (2) The entity's risk assessment process, (3) The information system and related business process relevant to financial reporting and communication,(4) Control procedures, dan (5) Monitoring of controls.

Further Elder *et al* (2012:370) states that the Internal Control Components: 1) control environment, 2) risk assessment, 3) control activities, 4) Information and communication, and 5) monitoring. In line with the opinion of Boynton and Johnson (2008: 396) that the components of internal control are:

According to Government Regulation No. 60 in 2008 on SPIP that the components of the Government Internal Control System consist of: consists of the elements: a. control

environment; b. risk assessment; c. control activities; d. Information and communication; and e. monitoring of internal control.

### **Literature Review**

Arens et al (2008: 371) state that companies are required to develop internal controls in order to provide reasonable assurance that the financial statements are presented fairly. If internal control system is weak, it will result in the company wealth security is not guaranteed, the existing accounting information is not accurate and unreliable, the inefficient and ineffective operational activities of the company and the management policy which is set can not be obeyed. This is reinforced by Jones and Rama (2006: 8) stating that by establishing internal controls in computer-based accounting information systems, it will assist management efforts to protect its assets from loss and embezzlement and to maintain the accuracy of company financial data.

In line with O'Brien and Marakas (2010: 495) that internal control is designed to monitor and to maintain the quality and safety of accounting information system activities to perform input, process and output activities. Furthermore Wilkinson et al (1996) discloses that if an internal control has been established then all operations, physical resources, and data will be monitored and under control, objectives will be achieved, risks become small, and the resulting information will be more qualified.

In general, the internal control system has five components: 1) control environment, 2) risk assessment, 3) control activities 4) Information and communication, and 5) monitoring (Elder, 2012); SPIP (2008); COSO (2013); Arens et al (2014). These five components of the internal control system are built into accounting information system infrastructure, so that the accounting information system objectives can be achieved. This is confirmed by Azhar Susanto (2008: 96) which states that the internal control system will be very effective if the control is integrated with infrastructure and is an important part for the organization. Internal control which is integrated into the infrastructure will drive quality and initiative improvements, avoid unnecessary costs and generate rapid response to changing circumstances. Ruth and Gwathmey (2003) state that to develop an information system is required internal control, because without proper internal control it can lead to inaccuracy and inefficiency of information systems.

### **Research Methods**

The research method is the research method with explanatory approach (explanatory research), while the type of research is descriptive. Population in this research is All Regional Government in North Sumatera Province. The target population is the district and city governments in North Sumatra. Furthermore, the unit of analysis is the Regional Government consisting of 33 (thirty three) District and City Governments in North Sumatra. In this study, the type of data is qualitative and quantitative data that consist of questionnaires, interviews and documentation data. Sources of data are primary data and secondary data. Qualitative or primary data are obtained from respondents with data collection techniques, they are: questionnaires and documentation. Primary data is collected by spreading the questionnaire which needs to be tested first with the consideration that the seriousness of respondents in answering the questions is very important in this study. The technique analysis is descriptive analysis. It is by explaining in detail of the problems that occurs.



## Research Result and Discussion

### Research Results

The government internal control system is measured through five dimensions and operationalized into twenty-one indicators. The following is the recapitulation percentage score or value of districts and cities in North Sumatra here in after it is referred to entities regarding the government internal control system. It can be seen in table 1 below:

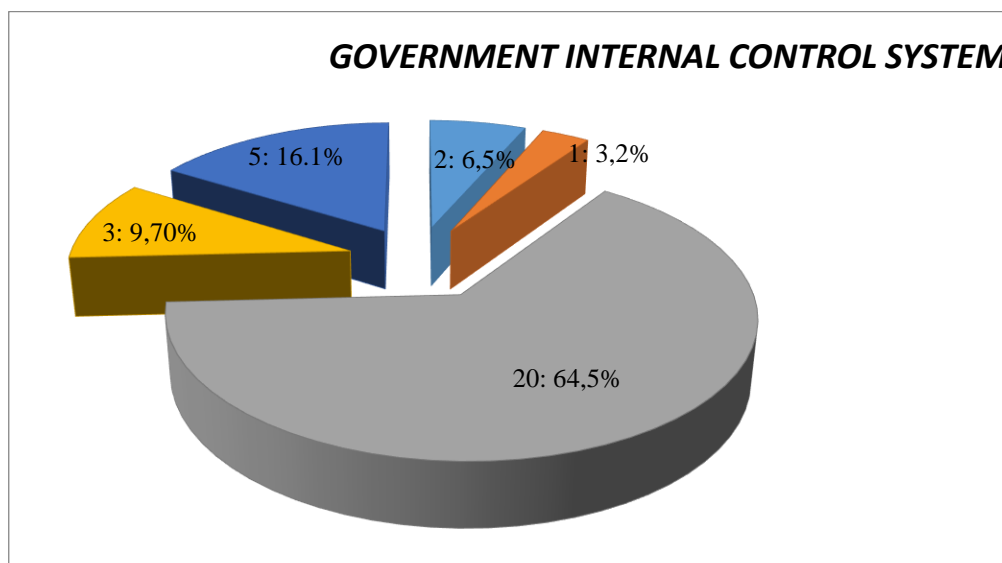
Table. 1

No	Dimention/indicator	Response Distributioon					Score	Category	
		VA	A	QA	IA	IA			
<b>Control Environ</b>									
1	Integrity and ethical values (IEV)	F	4	9	8	7	3	52,5%	Adequate
		%	12,9	29,0	25,8	22,6	9,7		
2	Commitment To Competence (Ctc)	F	1	3	7	14	6	38,3%	Inadequate
		%	3,2	9,7	22,6	45,2	19,4		
3	Conducive Leadership (Cl)	F	9	13	3	2	2	68,2%	Adequate
		%	29,0	48,4	9,7	6,5	6,5		
4	Organizational Structure (Os)	F	5	10	10	4	2	56,8%	Quite Adequate
		%	16,1	32,3	32,3	12,9	6,5		
5	Granting authority and responsibility (PWT)	F	3	14	7	7	0	59,4%	Quite Adequate
		%	9,7	45,2	22,6	22,6	0,0		
6	Human Resources Policies And Practices (HRPP)	F	2	5	12	10	2	48,5%	Quite Adequate
		%	6,5	16,1	38,7	32,3	6,5		
7	The role of the Internal Supervisory apparatus (IAS)	F	9	9	7	5	1	64,6%	Adequate
		%	29,0	29,0	22,6	26,1	3,2		
8	Good working relationship with related government (RG)	F	1	4	3	10	13	30,6%	Inadequate
		%	3,2	12,9	9,7	32,3	41,9		
<b>Total Skor</b>							<b>52,36%</b>	<b>Quite Adequate</b>	
<b>Risk Assessment</b>									
9	Risk Identification (RI)	F	3	2	16	6	4	47,5%	Quite Adequate
		%	9,7	6,5	51,6	19,4	12,9		
10	Risk Analysis (RA)	F	3	1	4	3	20	27,4%	Inadequate
		%	9,7	3,2	12,9	9,7	64,5		
11	Management Risk (MR)	F	8	6	3	3	11	51,7%	Quite Adequate
		%	25,8	19,4	9,7	9,7	35,5		
<b>Total Skor</b>							<b>42,00%</b>	<b>Quite Adequate</b>	
<b>Control Activities</b>									
12	Review of performance (RP)	F	6	11	5	8	1	58,4%	Quite Adequate
		%	19,4	35,5	16,1	25,8	3,2		
13	Information Processing (IP)	F	3	4	9	8	7	45,9%	Quite Adequate
		%	9,7	12,9	29,0	25,8	22,6		
14	Physical control of assets (PCA)	F	3	0	0	3	25	13,8%	Inadequate
		%	9,7	0	0	9,7	80,6		
15	Separation of duties(SD)	F	20	6	1	4	0	79,9%	Adequate
		%	64,5	19,4	3,2	12,9	0,0		
16	Recording and documentation (RD)	F	3	2	6	8	12	35,5%	Inadequate
		%	9,7	6,5	19,4	25,4	38,7		
<b>Total Skor</b>							<b>46,69%</b>	<b>Quite Adequate</b>	
<b>Informasi dan Komunikasi</b>									
17	Manage, develop, and update information systems on an ongoing basis (INF)	F	2	10	12	3	4	53,8%	Quite Adequate
		%	6,5	32,3	38,7	9,7	12,9		

No	Dimention/indicator	F	Response Distributioon					Score	Category
			VA	A	QA	IA	IA		
18	Provide and utilize various forms and means of communication (COM)		1	4	14	8	4	42,5%	Quite Adequate
		%	3,2	12,9	45,4	25,8	12,9		
<b>Total Skor</b>							<b>48,16%</b>	Quite Adequate	
<b>Pemantauan</b>									
19	Ongoing monitoring (OM)	F	20	5	2	3	1	79,6%	Adequate
		%	64,5	16,1	6,5	9,7	3,2		
20	Separate Evaluation (SE)	F	3	2	14	9	3	48,0%	Quite Adequate
		%	9,7	6,5	45,2	29,0	9,7		
21	Follow up recommendations of audit results and other reviews (RAR)	F	2	11	9	5	4	53,2%	Quite Adequate
		%	6,5	35,5	29,0	16,1	12,9		
<b>Score Total</b>							<b>60,26%</b>	Adequate	
<b>Total Skor Sistem Pengendalian Intern Pemerintah</b>							<b>50,29%</b>	Quite Adequate	

Based on the above table, it can be seen that the calculation results of total entity scores on internal control system of 50.29% is at the interval of 40.01% - 60%. Thus it can be concluded that government internal control system in districts and cities in North Sumatra is categorized quite adequate. When compared with the ideal score (100%), it turns out that government internal control system is still facing problems. The gap between the ideal score of 100% with the actual score of 50.29% shows the value of 49.71%. This gap should be eliminated so that condition in the field of government internal control system is at 100% level that is the optimal score of the implementation of government internal control system. Gap of 49.71% is concluded as a problem that must be addressed in the implementation of government internal control system in districts and cities in North Sumatra Province.

Furthermore, the overall picture of the government internal control system in districts and cities in North Sumatra Province is presented in Figure 1 below.



In Figure , it can be seen that most entities in North Sumatra Province still have adequate internal control system or 64.5%, but there are 2 districts and cities in North Sumatra Province or 6.5% have government internal control system which is in very 'enough' category. In addition, there are still districts and cities that have an inadequate government control system

or 9.70%, even there are 5 entities or 16.1% have inadequate government control system. This condition shows that in North Sumatera there are still many districts and cities that have problems in the implementation of the government internal control system.

## Discussion

The calculation result of total score on internal control system of government is on score 50.29%. The scores are included in 'enough' category which means that the government internal control system in the district and city in North Sumatra Province is still adequate. When compared with the ideal score of 100%, the government internal control system is still experiencing difficulties. The gap between the ideal score of 100% and the actual score of 50.29% shows the gap value of 49.71%. Gap of 49.71% can be concluded as a problem or constraints that must be addressed in the implementation of government internal control system in the district and city in North Sumatra Province, the weaknesses on the implementation of internal control system is caused by several indicators that are part of the dimensions in internal control system.

In the Control Environment Dimension, this dimension belongs to the 'enough' category, meaning that the control environment is still not ideal and has weakness mainly due to the lack of good commitment level to competence and not ideal working relation with related government, these two indicators are still in the less 'enough' category. Based on the results of interviews and questionnaires that are given to the respondents, there are findings that the weakness of the commitment aspect to the competence occurs because so far in the district and city in North Sumatra province does not have clear provisions regarding the level of competence which is required for a particular job in local government, there is no evidence to assure that an employee has been placed in accordance with the skills and knowledge that are required. Furthermore, there is no clear provision on when an employee can obtain education and training, and it turns out that the structural officials in the district and city governments of the North Sumatera Province do not yet have the knowledge, experience, and training to carry out their duties.

The weakness in the aspect of working relation between related government is caused by the absence of mutual inter-government test mechanism related to this matter is indicated that there is still incompatibility of interrelated data from 2 (two) or more different Government Institution. Consequently, financial data between one government agencies with one another in the entity concerned has a different number. This happens because between government agencies with one another the existing data has not been well integrated.

Other aspects of the control environment dimension that include adequate are on the aspects of integrity and ethical values, the weakness occurs because there are still city and district governments in North Sumatra that do not yet have a comprehensive code on ethics of employees, disciplinary action or sanctions for violations is still not submitted to the agency related, and actions or sanctions for violations have not been able to provide a deterrent effect and the recurring incidents are still occurring by the same party. In the aspect of conducive leadership, weakness occurs because there are still regional governments that have not been optimally applying prudential principles, there is still no prior planning in rotation of employees. In the aspect of organizational structure, weakness occurs because the structural officials in the regional government are still not optimally fully understand the responsibilities of control and supervision that are owned, and organizational structure that is owned by local government is still not complete. In the aspect of granting authority and responsibility, the



weakness occurs because in the district and city governments in North Sumatra Province, the mechanism on imposition of responsibility, delegation of authority and policy development has not been able to support accountability and control. In addition, the operational standards and procedures in performing government functions are not optimal yet. In the aspect of human resources policies and practices, weakness occurs because they still do not have written procedures and policies in training, promotion and salary of employees adequately. It is proven there are still regional leaders who do not know the policy of mutation and promotion ideally. Subsequent weakness is the ranks of leaders. District and city government officials in North Sumatra Province have not been optimal to review the performance of employees. This can be understood because regional governments do not have the ideal criteria in performance appraisals for their employees.

In the Risk Assessment Dimension, this dimension belongs to 'enough' category, it indicates the weakness of this dimension, the weakness is mainly due to the aspect of risk analysis, the cause of which there is no reference to determine the presence/absence of risk in the form of legislation adequately. Another weakness in the risk identification aspect, where in general there are still many district and city governments in North Sumatra has not identified the risks that will be faced by regional governments in carrying out government functions. Further weakness occurs in risk management aspects where there is no adequate effort to overcome or reduce and even eliminate the risk in the district and city in North Sumatra Province.

In the Dimension of Control Activities, this dimension belongs to 'enough' category. It shows the weakness in control activities mainly due to the aspect of the physical control asset (included in 'not enough' category). In addition, the aspects of recording and documentation includes in inadequate. As for the review aspects of the performance and processing of information, they are included in 'enough category'. The weakness on the aspect of the physical control assets occurs because so far in the districts and cities in North Sumatra Province, documentation and recording of all assets which are owned have not done adequately, in addition documentation of the assets has not been done completely and accurately so that the sacking of assets has not been able to do.

Another aspect of control activities is on the aspects of recording and documentation, where in districts and cities in northern Sumatra documentation of transactions and important events has not been done completely and accurately so this makes it difficult in tracking transactions. In the review aspect to the performance of weakness occurs because the strategic plan regarding the management of employees is still not adequate. Further other weakness, it is not yet adequate payroll system and there is no special incentives that can encourage employees to work optimally. In the aspect of duties and functions separation, the weakness that the district and city governments in North Sumatra Province, it lacks adequate separation of authority to control all activities, then the authorization procedure has not been adequately communicated to all employees including when the authorization is used. In the aspect of information processing, the weakness occurs because with respect to any transactions, they are not yet adequately classified and recorded, this will certainly make it difficult in controlling operations and in decision making.

In the Dimensions of Information and Communication, this dimension belongs to the 'enough' category, it is of course generally that the district and city governments in North Sumatra have weakness mainly due to the aspects of providing and utilizing various forms and means of communication. The weakness occurs due to lack of communication through media adequately

to the tasks and responsibilities of the district and city in North Sumatra Province, because of this is, every employee do not yet know the optimal purpose of each activity and how to achieve those goals. Furthermore, other weaknesses because employees have not understood that their duties can influence the duties of other employees, the lack of adequate communication channels for everyone to report the existence of irregularities, the lack of adequate mechanism for employees to deliver improvement suggestions, inadequate communication between units, and the inadequate inter-unit relations mechanisms in districts and cities in North Sumatra Province.

In the Monitoring Dimension, although this dimension belongs to an 'enough' category, it is still not ideal and has weakness mainly due to the separate evaluation aspect. The weakness occurs because the House of Representatives/*DPRD* is still not maximally involved in the implementation of monitoring, the data which is recorded by *SIKD* has not been periodically compared with the physical, and there is not yet adequate mechanism of meeting with the employees in order to obtain feedback on the effectiveness of the internal control system in the environment government. In addition, the weakness occurs in the follow-up aspect on recommendation of audit result and other reviews, where generally in districts and cities in North Sumatra there has been no evaluation on certain occasions, and the evaluation has not been adequately documented.

Efforts to achieve an adequate internal control system, the district and city governments should consider attainment to an adequate level of control environmental aspects that include: integrity and ethical values, commitment to competence, organizational structure, empowerment and responsibility, human resources policies and practices, and good working relation with related government. Adequate achievement is also expected in other aspects, in risk assessment including: identifying risks that are likely to be faced by the regional government, conducting risk analysis and then managing risk appropriately. In the aspect of control activities, district and city governments should review the performance of their employees to facilitate the provision of rewards (incentives or promotions), to process information which is related to financial transactions data, to control the physical assets through recording and documentation of local assets completely and accurately so as to facilitate the tracking of these assets, in addition not only to the asset but necessary recording and documentation for all transactions that are conducted in regional government. Furthermore, district and city governments provide full attention to information and communication facilities and infrastructure through the provision of infrastructure on information technology (IT) and IT experts who are related to regional financial management, and lastly give full attention to separate evaluations and follow-up recommendations of audit outcomes.

## **Conclusion and Recommendation**

### **Conclusion**

The conclusion of this study is that the government internal control system is still not effective, it is marked by the inadequate physical control of assets, lack of commitment to competence, good working relation with related government, risk analysis, and recording and documentation, only the indicators of a conducive leadership, the role of the internal supervisory apparatus, the separation of duties and the ongoing supervision have adequate conditions while the rest are in 'enough' category.

### Recommendations

The recommendation which is given in this study is: Regional Government should arrange, communicate and implement the rules of behavior (code of ethics) consistently in the implementation of organizational routine activities, should compile the standard of competence from the structural officer to the employee which is adjusted to the field work, should manage good relation working mechanism with the work unit/organizational unit concerned, through periodic data matching between work unit/organizational unit that handles budget, accounting, and treasury, should develop appraisal criteria system of employee performance, so that it will facilitate in giving of training, promotion and payroll as well as providing special incentives..

Subsequently, regional government should formulate formal risk assessment guidelines which is formally established by regional leaders, should establish operational standards/SOPs for main activities in regional government environment based on the result of identification and risk analysis; should do recording and documenting on all assets fully and accurately, by recycling the assets that are owned and certifying the assets, carrying out activities by making clear main tasks and functions which are communicated through effective media to employees, and streamlining the role of the inspectorate in monitoring the follow-up recommendations of audit results and other reviews.

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