

## Analysis And Strategies for Strengthening Internal Controls Over Financial Reporting (PIPK) at PT Wika

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### Abstract

Quality financial statements are very important for companies because they are directly related to stakeholder trust, access to funding, and the legitimacy of corporate governance. Internal Control over Financial Reporting (ICFR) is designed to provide reasonable assurance that financial statements are prepared in accordance with generally accepted accounting principles and are free from material errors or fraud. This article aims to analyze the implementation of ICFR at PT WIKA using the COSO Internal Control–Integrated Framework 2013 and the SOE ICFR policy, as well as to identify control weaknesses and strengthening strategies. This research uses secondary data in the form of PT WIKA’s financial statements, ICFR policies, SOE governance documents, and other relevant supporting documents. The method used is a case study with a descriptivequalitative approach through an analysis of the suitability of company practices with the COSO framework and the stages of ICFR implementation. The results of the analysis show that although PT WIKA already has a formal foundation for ICFR through its governance structure, COSO adoption, and ERP-based IT support, its implementation has not been effective due to weaknesses in liquidity risk assessment, revenue and receivables control activities, control documentation and testing, and the low transparency of material deficiency disclosures. Conceptually, this article emphasizes the importance of consistency between the design and implementation of ICFR in the high-risk construction sector, while practically providing recommendations for strengthening policies, processes, human resources, and information systems as the basis for improving governance and restoring stakeholder trust.

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## INTRODUCTION

Financial statements are the main output of the accounting process and function as a means of transparency, accountability, and decision-making for stakeholders. In the context of public companies and state-owned enterprises, the quality of financial statements is a very important issue because it is directly related to public trust, access to funding, and the legitimacy of corporate governance (Nur et al., 2023). An effective system of internal control over financial reporting is a universally accepted prerequisite for the preparation and dissemination of reliable financial statements by public companies (Gupta et al., 2025). Therefore, companies need an internal control system that is able to ensure that every transaction is recorded correctly, the reporting process runs consistently, and the information

presented is free from material misstatement.

The issue of financial statement reliability becomes increasingly important when companies face high business pressure and large transaction complexity. In such situations, weaknesses in internal control can lead to delays in detecting recording errors, inaccuracies in revenue recognition, weak receivables management, and the emergence of material misstatements that have the potential to mislead report users (Utami et al., 2023). On this basis, ICFR is viewed as an essential mechanism because it is designed to provide reasonable assurance that financial statements are prepared in accordance with generally accepted accounting principles and are free from material errors or fraud. In modern practice, the implementation of ICFR is no longer viewed only as a compliance tool but rather as part of corporate governance that supports organizational discipline, information quality, and protection against financial reporting risks (Weickgenannt et al., 2021).

The construction sector is one of the sectors most vulnerable to fraud, including fraud related to financial reporting. High risks in the construction sector occur due to large project values, long-term contracts, the complexity of revenue recognition, and reliance on disciplined cash and accounts receivable management (Sallal et al., 2023). PT Wijaya Karya (Persero) Tbk (PT WIKA) is one of the construction SOEs in Indonesia that plays a strategic role in national infrastructure development. This position places PT WIKA under public and regulatory scrutiny, requiring the company to present reliable financial statements, given that its operations involve long-term financing with a high level of complexity and risk exposure.

In recent years, PT WIKA's financial statements have shown a decrease in net profit since 2020, recurring losses in subsequent years, operational cash flow pressures, increased accounts receivable, and liquidity issues that raise questions about the reliability of the company's financial reporting process. At the same time, public scrutiny regarding the alleged mismatch between the financial statements and the company's real condition also raises questions about the effectiveness of the internal control system for financial reporting implemented by PT WIKA, particularly whether the existing mechanism is able to detect the risk of misinformation at an early stage, control transaction recognition appropriately, and support the preparation of reliable financial statements (Provasi & Riva, 2015).

At the global level, weaknesses in internal control over financial reporting continue to attract attention because they can reduce trust in financial statements even when the financial statements themselves are not immediately proven to be misstated. The PCAOB states that a material weakness may exist when internal control cannot provide reasonable assurance that material misstatements will be prevented or detected in a timely manner. This shows that internal control is not only a procedural requirement but also a preventive mechanism to protect stakeholders from financial reporting risks, including inaccurate revenue recognition, weak receivables control, poor cash flow monitoring, and inadequate disclosure (Lai & Liu, 2026).

The issue becomes more specific in the construction sector, where financial reporting risks are relatively high due to long-term contracts, large project values, complex revenue recognition, subcontracting arrangements, and dependence on receivables collection and project cash flow. Construction companies often face pressure to maintain profitability while managing liquidity, project completion risks, and financing obligations. In this context, ICFR is essential because it helps ensure that every project transaction, billing, revenue recognition, receivables valuation, and liability presentation is recorded properly and supported by adequate

documentation (Cohen et al., 2017).

PT Wijaya Karya (Persero) Tbk, or PT WIKA, represents an important case because it is one of Indonesia's strategic state-owned construction enterprises involved in national infrastructure development (Chen et al., 2025). The manuscript explains that PT WIKA has formally adopted ICFR through governance structures, COSO-based control, and ERP-based information system support, but its implementation still faces weaknesses in liquidity risk assessment, revenue and receivables control, documentation, testing, and the disclosure of material deficiencies. The company's 2024 annual report also shows that the Group recorded a net loss of around Rp2.59 trillion as of December 31, 2024, indicating continuing financial pressure (Bouheraoua & Djafri, 2022).

Previous studies have shown that internal control plays a significant role in improving financial reporting quality and organizational accountability. Gupta et al. (2025) found that the 2013 COSO framework contributes to improving the information environment in capital markets, especially by strengthening the quality and reliability of financial disclosure. Nur et al. (2023) also discussed ICFR practice in Indonesia's public sector and emphasized that financial reporting control is closely related to transparency, accountability, and institutional trust. These findings support the view that ICFR is highly relevant for organizations managing public accountability and complex financial transactions.

Other studies also confirm that internal control must be evaluated not only based on the existence of formal policies but also based on the effectiveness of implementation. Research on ICFR in public institutions highlights that the five COSO components—control environment, risk assessment, control activities, information and communication, and monitoring—are central to ensuring reliable financial reports. In addition, literature mapping indicates that research on ICFR continues to grow, but there remains a need for more contextual case studies that examine how control frameworks operate in specific institutional and industrial settings.

Despite these contributions, a research gap remains in the limited discussion of ICFR implementation in Indonesian state-owned construction companies facing financial distress and public scrutiny. Many prior studies discuss internal control in general, banking, public sector institutions, or manufacturing contexts, but fewer examine how ICFR functions in construction SOEs where revenue recognition, receivables, gross bills, liquidity, and project financing risks are highly material. Therefore, PT WIKA provides a relevant case for understanding whether a formally designed control system can operate effectively under complex business pressure.

The urgency of this research lies in the need to strengthen stakeholder confidence in PT WIKA's financial reporting and governance. When a company experiences recurring losses, negative operating cash flow, high receivables, and liquidity pressure, stakeholders need assurance that the financial reporting process is supported by strong controls and transparent disclosure. Without effective ICFR, financial statements may fail to reflect risks accurately, while management decisions may be based on incomplete or delayed information. Thus, strengthening ICFR is urgent not only for compliance but also for risk mitigation, governance improvement, and the recovery of public trust.

The novelty of this research lies in its focus on the gap between the formal design and actual implementation of ICFR at PT WIKA by using the COSO 2013 framework and SOE

ICFR policy as the analytical basis. Unlike studies that discuss internal control only conceptually, this research links control weaknesses with concrete financial reporting risks in a high-risk construction SOE. The study also emphasizes the importance of connecting policy, process, human resources, and information systems as an integrated strategy for strengthening internal control over financial reporting.

Therefore, this research aims to analyze the implementation of ICFR at PT WIKA, identify the elements of internal control that have been established, examine the main weaknesses affecting financial reporting reliability, and formulate strategies to strengthen ICFR at the levels of policy, process, human resources, and information systems. The study is expected to contribute academically by enriching case-based literature on ICFR implementation in Indonesian SOEs, particularly in the construction sector. Practically, the research may provide recommendations for PT WIKA and similar companies to improve governance, enhance financial reporting reliability, strengthen transparency, and restore stakeholder trust.

## **RESEARCH METHOD**

This study uses a case study method with a descriptive-qualitative approach. This type of descriptive research, as described by Neuman (2014), presents an overview of the specific details of a situation, social setting, or relationship and seeks to produce a detailed picture of the problem or answers to research questions (Neuman, 2014). This approach was chosen because it aligns with the research objectives, namely to gain an in-depth understanding of how ICFR is designed and implemented at PT WIKA, as well as to identify gaps between formal design and actual practice based on the company's official documents and related regulations.

This research uses secondary data obtained through a documentation study of PT WIKA's financial statements and annual reports for the 2018–2024 period, SOE ICFR policies and guidelines, and other relevant supporting documents. Data analysis was carried out using the COSO framework as the main basis for evaluating ICFR by comparing the practices described in the documents with the ICFR components according to COSO and applicable policies. The focus of the evaluation is directed at the five COSO components and the six stages of ICFR implementation, so that areas of conformity and non-conformity can be identified more systematically (Indonesia, 2024).

The analysis stage was carried out through three steps. First, the study identified an overview of ICFR policies and practices at PT WIKA. Second, it assessed control weaknesses by examining indications of problems such as negative cash flow, high receivables, weak risk identification, and limited control testing evidence. Third, it prepared recommendations for improvement based on the findings identified in the documents.

## **RESULTS AND DISCUSSION**

### **ICFR Policy on SOEs**

The Ministry of SOEs has determined the implementation of ICFR as part of strengthening accountability and transparency in state financial management, which is regulated in the Decree of the Deputy for Finance and Risk Management of the Ministry of SOEs No. SK-5/DKU. MBU/11/2024. This policy requires SOEs and subsidiaries to implement internal control over financial reporting in a structured manner, both at the entity

and consolidated levels. With these guidelines, SOEs are expected not only to prepare financial statements in accordance with accounting standards, but also to be able to show that the preparation process is in an effective control system.

The implementation of ICFR in SOEs is based on COSO 2013 and is supported by general control of information technology through COBIT 2019. Its scope includes Entity Level Control (ELC), Transaction Level Control (TLC), and Information Technology General Control (ITGC), which together form the foundation of financial reporting reliability. In terms of governance, a three-line model is used so that control responsibilities are distributed proportionally between operational units, risk management functions, and internal auditors (Asqolani et al., 2023).

The stages of implementing ICFR in SOEs require companies to prepare Business Process Mapping (BPM), Risk Control Matrix (RCM), carry out Control Self-Assessment (CSA), conduct Test of Design (TOD) and Test of Operating Effectiveness (TOE), carry out remediation, and prepare management assertions. This series shows that the effectiveness of ICFR cannot be assessed only from the existence of formal policies, but must be supported by evidence of adequate implementation and evaluation.

### **Implementation of ICFR at PT WIKA**

PT WIKA has basically built a relatively adequate control environment foundation. The company has a separation of roles between the Board of Commissioners and the Board of Directors, the existence of an Audit Committee, ethics and conduct guidelines, corporate culture, and a whistleblowing system as a means of reporting violations. In terms of human resources, the company also sets competency standards for key positions related to financial management and control (Wehrhahn & Velte, 2024).

In addition, PT WIKA has adopted the COSO 2013 framework for the implementation of ICFR and uses COBIT 2019 for general control of information technology. This shows that companies have formally recognized the importance of controls over financial reporting and are working to align them with widely recognized practices. At some stage, the company also began to carry out business transformation that placed increasing the effectiveness of internal controls as part of the restructuring agenda.

Nonetheless, the formal foundation has not yet been fully reflected in the expected financial results and quality of control. PT WIKA's Financial Statements show that since 2020 PT WIKA has experienced a decrease in operating income, followed by recurring net losses, liquidity pressures, negative operating cash flows, and failure to meet its principal payment obligations. These conditions show that control over the most material financial areas, especially cash management, receivables, revenue, and liquidity projections, has not been adequately implemented (Lokanan & Ramzan, 2024).

### **Major Disadvantages of Internal Control**

One of the main weaknesses of the internal controls identified lies in risk assessment. PT WIKA is reported to use the Enterprise Risk Management framework in identifying risks, but the risk management function is not yet optimal in recognizing and controlling liquidity risks at an early stage. Material risks to financial statements, such as premature revenue recognition, uncollectible receivables, and mismatches between earnings and cash flows, do not appear to have been adequately identified at an early stage, even though the symptoms had emerged several years earlier (de la Puente et al., 2026).

The next weakness is found in control activities. In the 2022–2024 financial statements, PT WIKA recorded accounts receivable and gross bills that were not proportional to cash inflows from operational activities, indicating that controls over revenue recognition, receivables collection, and transaction validation were not effective. In a good internal control system, this area should be the main focus because it directly affects the reliability of the company's revenue, profit, and cash position (Ardianingsih & Setiawan, 2023).

Problems also arise in the documentation and testing aspects of control. There was no adequate disclosure regarding the implementation of Control Self-Assessment (CSA) by the first line, as well as the testing of the Test of Design (TOD) and Test of Operating Effectiveness (TOE) by the third line as the basis for assessing control effectiveness. In fact, referring to the SOE ICFR Technical Guidelines, these three processes are important stages to ensure that controls are not only well designed but also consistently implemented. The absence of such evidence makes management's assertion about the adequacy of internal control difficult to verify (Chronopoulos et al., 2024).

Another weakness is the lack of disclosure regarding material control deficiencies. Although there are strong indications in the form of negative operating cash flow, business continuity issues, and serious reputational pressure, PT WIKA's management report does not explicitly state any material weaknesses in ICFR. The absence of official disclosure of material internal control weaknesses may indicate problems in the internal control system and raise concerns that the process of classifying control deficiencies has not been conducted objectively, or at least has not been transparently disclosed to stakeholders. This not only has the potential to mislead stakeholders and investors but can also undermine public confidence in good corporate governance. In this context, honest and transparent disclosure of material control weaknesses is essential to ensure the accountability and reliability of the financial information presented by the company (Sofyani et al., 2022).

### **Improvement Efforts That Have Begun**

In the midst of these various weaknesses, PT WIKA has started to take improvement steps since 2023. The company is undertaking business transformation to achieve the key goal of "cash focused, lean and fit for future", which signals a shift in focus towards cash health and efficiency. In the second semester of 2023, PT WIKA also conducted a ICFR audit by an independent consultant as part of an effort to evaluate and strengthen internal controls.

The audit produced recommendations for improvement in four main aspects, namely policies, procedures, human resources (people), and systems. In the policy aspect, companies are advised to strengthen more specific and rule-based accounting guidelines so as not to cause differences in interpretation. In terms of procedures, companies need to prepare more detailed technical instructions, including for receivables reserves, inventory impairment assessments, and other material accounts. In the aspect of human resources, socialization and strengthening of the competence of control implementers must be carried out regularly so that the first and second lines are better prepared to carry out control functions.

In terms of systems, PT WIKA has implemented Enterprise Resource Planning (ERP) based on the SAP (Systems, Applications, and Products in Data Processing) platform since 2023, but the integration has not fully reached all subsidiaries. Through the implementation of an integrated ERP system in all parent and subsidiary entities, it is hoped that PT WIKA's cost control and cash flow management will be more prudent so as to encourage profitability and a

better liquidity position. ERP strengthening is seen as important because it can replace errorprone manual processes, improve standardization, and provide financial data in real time. In addition, testing of ITGC is also carried out to assess whether the information system is reliable enough to support control over financial reporting.

### **Implications of the Findings**

The above findings show that the problem experienced by PT WIKA lies not in the absence of a control framework, but in the inconsistency between formal design and actual implementation. The company already has elements of a control environment and institutional commitment, but weaknesses in risk identification, transaction controls, test documentation, and reporting openness have made ICFR not yet optimally functioning. In the context of complex construction companies, these kinds of weaknesses can have a huge impact as revenue recognition errors, gross bill assessments, and receivables management directly affect the perception of the company's performance.

Therefore, strengthening the ICFR must be carried out comprehensively. Control needs to be focused on the most material accounts and processes, especially contract revenue, accounts receivable, gross bills, short-term liabilities, and cash flow. In addition to technical improvements, companies also need to strengthen a culture of accountability by ensuring that any control weaknesses are recorded, tested, classified, and honestly disclosed. Without these steps, the existing internal control system risks becoming just a compliance document, rather than a truly effective risk management and reporting tool.

### **CONCLUSION**

Based on the results of the analysis, it can be concluded that PT WIKA already has a basic foundation for implementing ICFR, both through its governance structure, ethical policies, adoption of the COSO framework, and initial support for information technology control. However, its implementation has not fully met the substance of effective ICFR because weaknesses remain in risk assessment, control activities, process documentation, control effectiveness testing, and the transparency of deficiency reporting. Thus, ICFR at PT WIKA cannot yet be fully considered effective in supporting the reliability of financial statements.

In line with these findings, this study recommends strengthening ICFR at PT WIKA in several key aspects. First, in terms of policy, PT WIKA needs to develop and improve accounting policies that are more detailed and uniform across all entities. Second, in terms of processes, PT WIKA needs to prepare BPM and RCM for all material business processes, as well as ensure the periodic and documented implementation of CSA, TOD, and TOE. Third, in terms of human resources, it is necessary to strengthen control capacity and awareness in the first and second lines through training, socialization, and role strengthening within the framework of the three lines of defense. Fourth, in terms of information systems, SAP-based ERP integration needs to be expanded and deepened across all subsidiaries so that the flow of financial data becomes more reliable, standardized, and supportive of control at both the entity and group levels. In addition, the Board of Directors, the Board of Commissioners, the internal audit function, and the internal control function need to increase transparency in disclosing material control weaknesses and consistently follow up on remediation so that public confidence in the quality of PT WIKA's financial statements can be restored.

Practically, the implementation of these recommendations is expected to strengthen

governance, improve the reliability of financial statements, and restore stakeholder trust in PT WIKA. Academically, this study contributes by presenting a case study on the gap between ICFR design and implementation in high-risk construction SOEs in Indonesia, while emphasizing that the effectiveness of ICFR is determined not only by the adoption of formal frameworks and policies but also by the consistency of control implementation, the quality of monitoring, and the transparency of deficiency disclosure.

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