

EXPLORING CONTROL ENVIRONMENT PRACTICES IN LOCAL GOVERNMENT-OWNED COMPANIES

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ABSTRAK

Penelitian ini mengeksplorasi dan menilai implementasi praktik tata kelola terkait pengendalian lingkungan di perusahaan penyedia air minum pemerintah di Provinsi Sulawesi Selatan, Indonesia. Tujuan dari penelitian ini adalah untuk mengidentifikasi praktik terbaik dalam penerapan tata kelola di perusahaan milik pemerintah. Tingkat kematangan penerapan lingkungan pengendalian juga dieksplorasi. Metode studi kasus ganda yang digunakan dalam penelitian ini mencakup tiga perusahaan yang diamati. Data kualitatif yang diperoleh kemudian dianalisis dengan dua cara, yaitu penilaian tingkat implementasi dan analisis komparatif terhadap kasus-kasus tersebut. Beberapa temuan terungkap dalam penelitian ini. Pertama, praktik penerapan lingkungan pengendalian pada perusahaan yang diamati masih pada tingkat dasar. Kedua, komunikasi dan koordinasi antar fungsi terkait memberikan hasil positif dalam kesadaran pengendalian dalam organisasi. Selain itu, pemilihan prosedural untuk perusahaan audit diidentifikasi sebagai praktik penting dalam penelitian ini. Namun terdapat beberapa fakta yang perlu diperbaiki, yaitu kesadaran akan pentingnya manajemen risiko dan program kepatuhan dalam rangka meningkatkan kualitas tata kelola secara umum. Berbagai faktor lain yang berpotensi muncul dalam praktik lingkungan pengendalian, seperti budaya perusahaan dan masalah politik, memerlukan eksplorasi lebih lanjut di masa depan.

Kata kunci: lingkungan pengendalian, tatakelola perusahaan, perusahaan milik pemerintah.

ABSTRACT

This study investigated and evaluated the implementation of governance practices concerning the control environment in government-operated water supply firms in South Sulawesi Province, Indonesia. The objective of this study was to ascertain the most effective methods for implementing governance within government-owned firms. It also examined the maturity level of the control environment. This study utilized the multiple case study method and focused on three observed organizations. The qualitative data was analyzed using implementation-level assessment and comparison analysis across the cases. Multiple discoveries were unveiled in this investigation. Initially, the implementation of a control environment in observed organizations was rudimentary. Furthermore, effective communication and coordination across pertinent departments enhanced control consciousness inside the organization. Furthermore, this study recognized the significance of employing a procedural selection process for audit firms. Nevertheless, multiple domains necessitate enhancement to augment the quality of governance, specifically recognizing the significance of risk management and compliance programs. Additional aspects that may arise in control environment practices, such as corporate culture and political difficulties, should be further investigated.

Key words: control environment, corporate governance, state-owned enterprise.

INTRODUCTION

Research on organizational governance is growing, encompassing profit-oriented corporations and government-managed entities. Research on governance in state-owned enterprises emphasizes the successful implementation of governance measures, as demonstrated by the wide variety of governance techniques adopted by different authorities (DesJardine et al., 2023). The government's dedication influences the factors contributing to the variation in the implementation of diversity, the presence of implementation models (Bianchi et al., 2021), the competence of human resources (Azlina et al., 2021), and other supporting elements of implementation. It is widely acknowledged that effective governance implementation in various organizations has been shown to positively impact achieving goals, reducing fraud or corruption in a country, and ensuring organizational sustainability (Kassem, 2022).

The Organisation for Economic Cooperation and Development (OECD) has recognized that the implementation of governance in numerous of its member countries remains challenging. Although external audits are conducted, the disclosure of performance information in state-owned firms still needs to be improved. Various discoveries underscore the inefficiency of implementation, such as the lack of regulations requiring the public disclosure of financial and non-financial information for all state-owned companies, insufficient standard operating procedures to bolster the company's control environment, and incomplete adherence to accounting and auditing standards (AlHares, 2020).

In Indonesia, governance implementation in state-owned companies, including companies owned by regional governments, is still considered very weak. In recent years, corrupt behavior, abuse of authority, and acceptance of bribes by companies' management have still been identified (Susanto & Joshua, 2019). For example, corruption cases involving top management levels often relate to abuse of authority or acceptance of

bribes. Previous research findings indicate that communication factors, resource availability, attitudes, and bureaucratic processes influence the ineffectiveness of governance in preventing corruption in state-owned enterprises (Hikam et al., 2021).

Meanwhile, in the context of local government owned enterprises, the governance implementation in regional public service agencies showed a phenomenon that is not much different from State-Owned Enterprises. It may be caused by the commitment of human resources and governance mechanisms that have yet to be encouraged to be implemented (Angraini & Suhandia, 2023). The vision of a local government-owned company is to carry out regional government functions to meet the community's basic needs. One of the local government-owned entities that is most urgent and has been the focus of criticism and study is Perusahaan Daerah Air Minum (from now on, it is called PDAM). PDAM, a subnational government water supply enterprise, must produce and distribute water to serve the population for domestic, commercial, and industrial uses. Given that this company is closely tied to serving the public, it must comply with the concept of public service, which is accompanied by the responsibility to implement good corporate governance.

One of the dimensions of implementing governance is the Control Environment (CE), a critical dimension among all aspects of implementing governance in a company (Haizam et al., 2021). Control Environment serves as the mainstay of operational support for controlling organizational activities. A conducive control environment considers integrity, ethical values, competencies, management philosophy, and organizational culture. The way management delegates authority and responsibility and organizes and develops its employees is also very important. The effectiveness of internal control stems from an efficient control environment, which is associated with better management of control activities. However, research focusing on governance implementation in

state-owned enterprises is limited, and identifying problems in these companies has yet to be widely recognized (Ilyas et al., 2020). This research aims to comprehensively understand the aspects of implementing a controlled environment in several regional water supply enterprises in Indonesia.

As explained above, the research question is how to implement organizational governance, especially Control Environment practices, in local government-owned enterprises in Indonesia. Furthermore, this research aims to identify the maturity level of Control Environment implementation in several water supply companies and the best practices implemented so far.

Therefore, this research employs an exploratory study with a multi-case study pattern. The use of the case study method is to analyze patterns resulting from the similarity of good practices within the companies being observed and to analyze the uniqueness of best practices in each company (Assche et al., 2021).

At least two research gaps have been identified. First, only some publications focus on governance implementation in Indonesia's local government-owned enterprises. Second, using governance maturity level assessments introduced by the IFC World Bank is still uncommon in that kind of enterprise. These assessments will enrich the research literature on state-owned enterprises by adding an element of novelty.

THEORETICAL REVIEW

This research's conceptual framework is based on governance theories, specifically agency and stewardship theories. Focusing on the control environment, the study provides a more detailed explanation of this conceptual framework and its attributes: Internal Control Unit, Internal Audit Function, External Audit, Risk Management, and Compliance Program (Ifc, 2019).

Theories of Governance.

The Cadbury Committee, formed by the Bank of England and the London Stock

Exchange, defines corporate governance as a system that directs and controls a company to balance the power and authority required to ensure its continued existence and accountability to shareholders. This power allocation extends to owners, directors, managers, shareholders, and other stakeholders (COSO (2013), 2023). This institution defined corporate governance as a set of regulations regulating the relationship between shareholders, company administrators, creditors, government, employees, and other internal and external stakeholders relating to their rights and obligations or a system that regulates and controls the company. Definitions of corporate governance vary widely but generally fall into two categories. The first category focuses on actual corporate behaviour, including performance, efficiency, growth, financial structure, and management's treatment of shareholders and other stakeholders. The second category pertains to the normative framework, the rules under which the company operates, derived from the legal, judicial, financial, and labour markets.

Agency theory has been used to explain the conflicts and relationships between the principals and the management in companies (Gwala & Mashau, 2023). In response to the lack of comprehensive explanations regarding management control systems in existing literature, this study employs agency theory to explain the control environment as an attribute of governance. While corporate governance has garnered significant research interest, governance, especially in cases involving state ownership, remains an area that warrants further examination. By adopting the control environment concept, organizations can mitigate agency problems (Huong et al., 2023).

The end goal of a management control system is achieving organizational objectives. Because employees only sometimes give their best efforts to achieving organizational objectives, governance needs to strive to align the goals of agents (e.g., employees, subordinates) with those of prin-

cipals (e.g., senior management and owners). Agency theory and its extension, the principal-agent model, provide insights into the problem of goal congruence and suggest remedies.

Another governance theory is the Stewardship Theory. It posits that attaining organizational success also satisfies the steward's personal needs. (Gwala & Mashau, 2023) The steward recognizes greater utility in fulfilling organizational goals than through self-behavior. The theory emphasizes the importance of structures that empower the steward, offering maximum autonomy upon trust. Consequently, the cost of monitoring and controlling could be minimized (Schillemans & Bjurström, 2020).

The control environment is pivotal in Good Corporate Governance (GCG) because it significantly influences business processes, ensuring effective and efficient implementation (Susanto & Joshua, 2019). A robust corporate governance system ensures the business environment remains fair and transparent, holds company directors accountable for their actions, and enforces all business contracts. Organizations committed to governance exhibit strong board practices, effective internal controls, transparent disclosures, and well-defined shareholder rights. Within the control environment, a set of actions, policies, and procedures reflects the attitudes of top leadership, directors, and company owners regarding internal control and its importance for the organization (Virginia & Hermawan, 2023).

A positive control environment fosters an organizational atmosphere that emphasizes the need for control. It ensures timely and reliable transmission of relevant information while safeguarding the integrity and efficiency of corporate governance and operations (Einhorn et al., 2023).

Specifically, the control environment refers to the structure established by a company to ensure that financial and non-financial reports accurately and promptly capture all relevant information. Processes are in place to enable effective responses.

With an effective control environment, the other four indicators of internal control may yield the desired results. Essentially, the control environment is an umbrella for the remaining four internal control indicators (Rae et al., 2017).

The Committee of Sponsoring Organizations of the Treadway Commission (2023) introduced an Internal Control-Integrated Frame consisting of several internal control dimensions control, as follows: (1) Control Environment. The importance of control in the organization includes the attitudes of management and employees; (2) Risk Assessment. The risk that an organization has is in an activity, whether activities related to business or non-business; (3) Control Procedures (Control Activities) To ensure the achievement of company goals and prevent or detect irregularities and errors, it is necessary to establish control procedures to standardize performance; (4) Monitoring. Monitoring internal control to find deficiencies and increase control effectiveness is necessary. Internal controls can be monitored effectively through special assessments or aligned with management efforts; and (5) Information and Communication. Information and communication are essential elements of company internal control. Management must possess knowledge of the control environment, risk evaluation, control mechanisms, and monitoring measures that must be implemented.

Control Environment in State Owned Enterprise.

A strong control environment helps prevent errors, fraud, and non-compliance with laws and regulations, supporting the organization's achievement of its objectives and maintaining the reliability of its financial reporting. Many surveyed countries require their SOEs to have an internal audit function and to submit their financial statements to an independent external audit. In at least one-fourth of the reviewed countries, state audits are mandatory annually in addition to existing internal and independent external

controls. However, in several partner countries, information collection across SOEs and implementation of auditing requirements often need to be improved due to a lack of IT infrastructure in some SOEs, low quality of financial statements, and weak corporatization of enterprises (Yasin & Nursadi, 2021).

RESEARCH METHOD

This study utilized a multiple case study methodology involving many research sites to understand a certain event comprehensively. It requires analyzing a greater number of cases in order to examine trends and correlations between features thoroughly. The method is frequently employed in organizational context research to investigate a specific problem or topic thoroughly. It utilizes a systematic strategy to collect and analyze data from many sources, including individuals, organizations, or communities (Gerring, 2016). Utilizing the multiple case study approach allows researchers to get a deeper understanding of intricate issues by considering diverse viewpoints, situations, and sources of information (Assche et al., 2021).

Research using multiple case studies adopts a relativist and constructive perspective, employing semi-structured interviews to explore environmental control practices on the research object (Gadelha et al., 2022).

The study selected three water supply companies in Sulawesi Selatan Province, denominated as Case Study 1, Case Study 2, and Case Study 3. The selection process was based on a performance assessment conducted by the Ministry of Public Works and

Housing, Republic of Indonesia (Ministry of Public Works and Housing Republic of Indonesia, 2023). The chosen companies were categorized as “SEHAT” or “Healthy” level. The category is the highest level of performance assessment for government water supply enterprises, encompassing the financial, service, operational, and human resource aspects. The more case studies a scientific article includes, the more confidence it likely has in its representativeness, albeit at the expense of reduced observation time for the researcher to study the cases (Gerring, 2016).

Each case study explored several key informants related to implementation practices, with thirteen informants involved. The criteria for selecting informants for all case studies were as follows: (1) the informant's tenure at the concerned company is over five years, and (2) the informant has held their current position for over one year. Table 1 provides a profile of informants in this study.

Moreover, this study designed an interview protocol that guides the data-collecting process. The development of this case study was as follows: (i) planning, producing, and selecting respondents. Development of case study design and structure of interview; (ii) data collection (environmental observation of the control environment (organization), documentary evidence, semi-structured with interview; (iii) data analysis, cross-reference (triangulation), discourse analysis; (iv) analysis and conclusions (Wahyuni, 2019). It employed a semi-structured interview, which consisted of twenty-two questions. Interviews and observations were conducted during April and September 2023.

Table 1
Informant Profiles

Informant	Case Study 1	Case Study 2	Case Study 3
Director Board	1 (NS-1a)		1 (NS-3b)
Supervisory Board			1 (NS-3c)
Senior Manager	3 (NS-1b; NS-1c; NS-1d)	3 (NS-2a; NS-2b; NS-2c)	1 (NS-3a)
Staff		1 (NS-2d)	2 (NS-3d; NS-3e)

Note: Informants' code in parentheses

Source: Processed Author, 2023

Table 2
Company Profile of Case Studies

Item	Case Study 1	Case Study 2	Case Study 3
Year established	1924	1980	1993
Legal status of the company	Perumdam	PDAM	Perumdam
Number of employees (person)	1.324	311	157
Number of customers (SL)	216.992	52.328	22.516
Performance Rate	3,24	3,18	3,18

Source: Kementerian Pekerjaan Umum dan Perumahan Rakyat (2023)

This research uses five attributes to assess the implementation of the control environment: Internal Control System, Internal Audit Function, External Auditor, Risk Management, and Compliance Program (Ifc, 2019). The governance implementation assessment framework above also offers four levels of implementation: basic practice, extra stages, major contribution, and leadership.

Table 2 explains the basic profile of each study case, which was adopted from (Ministry of Public Works and Housing Republic of Indonesia, 2023).

ANALYSIS AND DISCUSSION

This section outlines the implementation of the control environment as the principal component of governance in three case studies. It begins with a brief description of the observed companies, followed by the practical implementation of the five attributes of the control environment. The detailed exploration of the elements of the control environment can be significant, as revealed through the analysis of all case studies.

Case Study 1

Internal Control System

Based on the interview results, it was found that the company already has an internal control system, as demonstrated by the functions of the Internal Control Unit. This unit aims to control the internal aspects of the company. Additionally, the SPI unit has a procedure/manual, which is the primary guideline for conducting control activities. Regular inspection activities are carried out to ensure compliance with establish-

ed rules and standards. Internal control documentation is performed periodically to ensure its continued relevance and effectiveness. Management conducts its assessment of the company's internal controls before external auditors or state auditors examine them.

“Everything... is documented because documentation is a form of accountability... for example, it could be unclear if we do something without documentary evidence. That is why (when) everything that is done, in addition to written results, needs to be supported with written documents, including photo documentation or similar as concrete evidence”. (NS-1c).

Internal Audit Function

It has been identified that the supervisory Board routinely monitors the directors' responses concerning deficiencies and weaknesses identified by the internal audit function. This process involves effective communication between the supervisory Board, directors, and the internal audit team to ensure appropriate improvements are implemented.

External Audit

An external audit firm audits the company's financial statements. Consequently, a company has an external audit conducted by a government inspectorate or another party from outside the company, and regular audits are carried out. The Board can ensure that management takes appropriate action to address the weaknesses identified in the management letter by implementing a rigorous monitoring and oversight process. The

Financial Audit Board of the Republic of Indonesia, or BPK-RI, conducts a financial performance audit in management.

Risk Management

Management informs on the risk management questionnaire that responsibility for developing and implementing a risk management system is imposed at various levels of management, from specialized divisions to top-level management. However, the company does not appear to have a Chief Risk Officer (CRO) specifically tasked with managing risk centrally. However, efforts to manage risk exist in various fields, and in some cases, companies are establishing structures and initiatives related to risk management. The Board must periodically conduct its obligation to review and evaluate the risk management system implemented in the organization. As the informant commented: *“There is no specific way to manage risk yet, but risk control is underway in each field. However, no one is in charge of managing risk yet”*. (NS-1d).

Compliance Program.

It is depicted that the company's compliance program is strictly managed, with routine internal checks conducted by the Internal Control Unit (SPI) and field supervision carried out routinely. This compliance program includes diverse types of training, such as cashier training, meter reading, engineering, and auditing, which are tailored to the needs of each department. Employees are expected to comply with company SOPs and ethics, with violations being followed up according to existing regulations. It shows the company's commitment to maintaining compliance and conducting operations with integrity and high quality.

Case Study 2

Internal Control System

Discussions with informants revealed that management is committed to strengthening the internal control system and governance through integration efforts, consi-

deration of control in strategic planning, the role of external auditors, and regular self-assessment practices. However, despite efforts to organize and monitor internal controls at this company, there are still potential aspects to be developed, such as improvements in the coordination model for controlling the company's strategic planning. The implementation of self-assessment and the role of external auditors are also crucial components in ensuring the effectiveness and transparency of internal control.

Internal Audit Function

Multiple procedures for the internal audit function have been identified. The control environment that has been put in place facilitates the establishment of effective governance. The internal audit unit diligently oversees operational procedures and frequently evaluates the extent of compliance. Additionally, it actively identifies and resolves any issues that may develop during firm operations. Internal auditors' primary responsibility is performing audit activities and ensuring compliance with regulations and policies.

Additionally, several expressions suggested that their role may not prioritize operational obligations. This information is derived from interviews with sources connected to the internal audit function. Staff indicated that the Internal Control Unit functions as an internal auditor. The unit has a direct means of communication with the director to report the outcomes of audits. The Board of directors consists of three positions: the president director, the director of technical affairs, and the director of general affairs. Nevertheless, with the outcomes of the audit, it possesses the power to communicate them to the president director directly.

The chief internal auditor also regularly and periodically meets with the Supervisory Board to discuss audit results and related issues. The frequency of these meetings varies depending on each source, but the chief internal auditor generally interacts with the board and audit committee.

The observations showed that the control environment in implementing governance supports the internal audit function by ensuring direct access, active communication, and a clear role in monitoring internal control and compliance. Internal auditors focus more on audit and control tasks than operational responsibilities. The Supervisory Board also has a significant role in ensuring follow-up to internal audit results.

External Audit

It is observed that the external audit function exists effectively in a company. The role of external auditors in the company's control environment is particularly important in ensuring transparency, accountability, and integrity in financial reporting and company operations. An external auditor is an independent party whose main task is to evaluate the company's financial information to provide an objective opinion regarding the truth and fairness of the financial statements.

Regarding accounting firm selection, management policy is highly considered in BPK recommendations. It relates to criteria for selecting external auditors that consider the firm's license and rotation of accounting firm duties to avoid potential conflicts of interest. This policy describes efforts to ensure the selection of independent and qualified external auditors to monitor financial reports accurately and reliably. It is quoted by the informant that.

'...the selection of external auditors was determined by the director and appointed the firm that will be on audit duty this year. The provisions of the accounting firm team must be different every year to avoid a negative effect on the relationship between the external audit team and management'. (NS-2c).

Risk Management

Observation and interviews revealed that the presidential director is responsible for developing and establishing a risk management system, with assistance from various related departments such as the internal control unit and the general and personnel

departments. Collaboration between these departments helps ensure a comprehensive approach to managing risk in the company. Moreover, it was found that the Board also periodically reviews the risk management system to make the right decisions and resolve problems. This process is important to ensure the company can address risks effectively.

However, the company currently does not have a Chief Risk Officer (CRO), and this position is still being formed. However, it is becoming an integral component of successful company management. The CRO works closely with senior management and the Board of directors to ensure that the company has a clearer view of risk and how best to manage it to achieve its long-term goals.

Compliance Program.

Informants have summed up compliance programs in place at the company. This program involves an annual compliance review and a commitment to comply with applicable laws and regulations. However, the compliance program's level of detail and focus varied among the informants. The head of the IC unit revealed that the BPK audit is also concerned with compliance and is reviewed annually. The head of personnel also revealed that the compliance program always involves regulations from the regional government,

Informants (General and administration staff) commented as follows:

'...there is no compliance program yet, but PDAM always adheres to existing regulations such as Perda (local government regulation)... health minister regulations, and Board of directors regulations'. (NS-2d)

Also, the company's compliance program involves a mechanism for reporting violations, which shows a commitment to transparency and accountability in maintaining compliance with regulations and policies. However, a compliance training program for employees still needs to be created or has yet to be provided.

Case Study 3

Internal Control System

Controls conducted by company management are supervised by the SPI (Internal Control Unit). The unit supervises all departments, including operations, finance, general, and others. This supervision is carried out to monitor whether all company levels have carried out their duties properly and by applicable regulations. The controls conducted will be documented in report form and reviewed and evaluated monthly. This is supported by the results of the interview with NS-3a, which stated:

"If there is an SPI here, the SPI's job is operational and financial control, so our job at SPI is to ensure that all operations at the PDAM are by the regulations that have been determined. Now, there is an SPI that regulates and controls operations and finances. Every month, there is a report from the head of the department to SPI, and we will evaluate the results later; for example, if the income has decreased, SPI recommends this is what we should do. "While we do that at SPI, that is our main task". (NS-3a)

This statement was also supported by NS-3b, which stated:

"Oh yes, what is the name of the KAP's external audit? After performing his specific duties, he submits his report to the director, which will be discussed later, along with what matters are of special concern in this company. Alternatively, there are special policies that the director will adopt so that is where external parties provide input and suggestions, like that". (NS-3b)

Internal Audit Function

The head of internal audit, in this case, the head of the IC unit, will report the results to the director and discuss them with the head of finance. However, it is also possible that the head of the unit will report this directly to the supervisory Board. The head of internal audit will meet and report his findings to the director as often as possible, two to three times a month. This is supported by the results of an interview with NS-3a, which stated that:

"The head of internal audit reports to the director who is also discussed with the head of finance. Meetings are held as often as possible, maybe two to two times a week, apart from the scheduled once a month, then at the weekend, if only for a short time, usually before midday, what events have happened in the field during this week are reported." "Yes, we are also audited by BPKP and that is a performance audit, so from there, every time an audit is carried out, there are recommendations or what is called suggestions, that is what we follow up every time we are audited, yes, and evaluate in the next audit whether the previous suggestions and recommendations have been implemented...".

External Audit

Management is subject to audits recommended by the state audit agency, BPKP. If there are recommendations or suggestions, these will be followed up and evaluated in the next audit. The company has an external auditor (accounting firm) to audit its financial and performance reports. Companies have their criteria for selecting external auditors. The appointed accounting firm has enough experience in auditing SOE, especially PDAM.

Risk Management

In carrying out risk management, the director is specifically responsible, and institutionally, it will be the responsibility of all employees. However, the company structure still needs a special section overseeing risk management. The risks that will usually be faced are identified during regular meetings. This is supported by the results of interview NS-3b, which stated that

"If you ask (me) who is responsible, of course, the director, but institutionally, all of us here are structured in a structured way from directors to heads of divisions and sub-divisions, down to employees, we are all responsible for risk management. "In terms of our system, we do not have risk management, but in practice, we have done that. It is not yet systemized; there is no specific standard that we guide, but in practice, we have done it". (NS-3b).

Compliance Program.

The company already has a good compliance program; this is stated in the Employee Discipline Enforcement Guidelines book, which the HRD department and the disciplinary enforcement committee regularly review. The compliance program includes a mechanism for reporting violations that occur. This is supported by the results of interviews with NS-3b, which stated that:

"Yes, there is everything, it is clear, we write it coherently in this regulation regarding violations, then the types of sanctions and so on." (NS-3b)

The observation results obtained in the internal control dimension include having an electronic attendance system to increase employee discipline and creating an employee discipline enforcement manual. This manual references employees in operational activities and outlines what they may and may not do during operational hours. The document obtained was the director's decision letter regarding the company's employee disciplinary guidelines, issued as an employee disciplinary enforcement manual.

Implementation Level Assessment

Based on the interviews and observations above, researchers assessed the implementation of Environmental Control using the maturity level framework introduced by the IFC World Bank. The framework employs four company maturity levels: Basic Practices, Intermediate Practices, Good International Practices, and Leadership (Ifc, 2019). Table 3 explains the implementation level of governance for each case study.

Those three companies have demonstrated a commitment to building a basic practice control environment. The practices in those companies above tend to show the same pattern. Implementation levels are identified at the basic practices level, although a few items are identified at intermediate practices. Furthermore, all control environment sub-parameters show adequate

practices in those companies. For example, they already have an internal control unit and have implemented an internal audit function.

Likewise, observed companies annually conducted external audit contracts from both public accounting firms and also periodically allowed inspections from national audit boards, such as Badan Pemeriksa Keuangan or BPK and Badan Pengawasan Keuangan dan Pembangunan or BPKP (National Government Internal Audit). This level of practice is triggered by the encouragement of shareholders to implement the practices mentioned above and is driven by external audit activities that are carried out regularly (Jenkins & Stanley, 2019).

Furthermore, the three case studies above provide adequate internal audit activity. This activity will at least influence and even form an atmosphere in the management environment for implementing the principle of accountability. Likewise, to increase the maturity level, implementation practices should be encouraged by shareholders (in this case, local governments), associations, accounting firms, and other external parties that tends to happen in developing countries.

Specifically, companies still need to establish risk management units for risk management practices. The absence of such a function is critical because this element is a basic practice. Previous research identified risk management benefits, such as improving the quality of decision-making, encouraging management to comply with regulations, facilitating business planning, and demonstrating leadership (Jung & Cho, 2022).

Implementing external audits in the three case studies illustrates practices that meet the attribute at the intermediate level. Applying the principle of accountability to a government-owned company is good practice. Moreover, management desires to follow up on audit findings to make changes or adjustments immediately.

Table 3
Implementation Levels

Level of Implementation	Case Study 1	Case Study 2	Case Study 3
Basic Practices			
The SOE has an IC system in place.	√	√	√
Internal audit function in place	√	√	√
Annual FS are subject to an independent audit.	√	√	√
The state audit institution's work is clearly defined.	√	√	√
Intermediate Practices			
IC and internal audit are staffed and in place.	√	√	√
Risk Management is part of the IC framework.	×	×	×
Internal audit is accountable to the Board.	×	×	×
An independent external audit is carried out using the International Standards on Auditing.	×	×	×
SOE acts on issues raised by the independent auditor	√	√	√
Good International Practices			
The independent external audit is subject to the oversight of an audit committee or equivalent body.	√	×	√
An Independent external auditor's opinion on the FS contains no qualification.	√	√	√
The state audit institution uses public funds to implement service objectives.	×	×	×
Leadership			
The design of the IC system complies with the 2013 COSO framework.	×	×	×
The internal audit unit meets the standards of IIA, and its recommendations are considered.	×	×	×
A fully independent audit committee exercises oversight and, when appropriate, a risk committee.	×	×	×

SOE = State Owned Enterprise ; IC = Internal Control ; IIA = International Internal Audit
Source: Processed Author, 2023

Table 3 shows that many things still need to be addressed to optimize the control environment as a dimension of corporate governance. This maturity level framework will help management map areas that need improvement and establish a priority scale for relevant content and activities related to the control environment (d'Arcy & Eulerich, 2023).

Comparative Analysis

A comparative analysis was undertaken using cross-case analysis to uncover similarities and differences in governance implementation strategies, specifically with the

control environment, across the three case studies. Implementing control environment elements exhibits similarities across nearly all parameters of the control environment. The consistency in execution patterns may stem from the district or city government's strong commitment as the largest stakeholder.

From Table 4, the analysis identified several areas related to environmental control practices; firstly, the IC unit's function is implementing a management control system. This functional unit is equipped with administrative and operational tools to carry out its functions-for example, audit standards,

standard operating procedures, and audit manuals. The effectiveness of conducting the tasks of this unit is also greatly influenced by the capabilities and experience of the human resources involved. Success in the internal control function is highly related to conveying the results of work in this area to related parties, such as the audit committee, Board of Directors, or Board of Commissioners. It is related to anticipatory and corrective actions (Tawfik et al., 2023).

Secondly, effective communication between the IC unit and the external auditor. The ability to coordinate and communicate is important (Kachelmeier, 2018). Communication with external auditors is generally conducted directly to determine the audit's scope and findings and follow up on the findings. The more effective the internal control unit's duties are in conducting supervision and control functions, the easier

it will be for external audits to determine the level of audit risk.

Thirdly, regarding the internal audit function, those case studies identified effective communication in interaction and coordination as a good practice implemented so far.

This communication pattern connects the IC department with the supervisory Board, directors, audit committee, and commissioners. Previous research revealed that effective communication between the internal audit function and the audit committee positively impacted internal audit performance (Jung & Cho, 2022). The findings illustrate that optimizing the internal audit function is possible by building effective communication among the internal audit unit and other internal functional units.

Effective communication patterns can include information sharing, intervention, and direct coordination.

Table 4
Comparative Analysis of Case Studies

Attribute	Case Study 1	Case Study 2	Case Study 3
Internal Control System	<ol style="list-style-type: none"> 1. The Internal Control unit (SPI) adheres to the internal control function. 2. The SOP manual is used as a reference for IC unit work. 3. The documentation of results/ findings was carried out well. 	<ol style="list-style-type: none"> 1. IC units were established. 2. Follow up on results/findings submitted regularly to superiors. 3. Audit findings are presented at a meeting with the external auditor. 	<ol style="list-style-type: none"> 1. The IC unit was formed and focused on audit and supervision functions. 2. Self-assessments for all sections are carried out regularly.
Internal Audit Function	<ol style="list-style-type: none"> 1. Effective communication among the supervisory Board, directors, and internal auditor ensures appropriate improvements. 2. The internal audit function conducts routine audits to evaluate the IC system, identify potential risks, and find weaknesses in organizational processes. 	<ol style="list-style-type: none"> 1. The head of the IC unit coordinates to meet regularly and report its findings to the director and supervisory Board. 	<ol style="list-style-type: none"> 1. Internal auditors frequently communicated with the board and audit committee.

Attribute	Case Study 1	Case Study 2	Case Study 3
External Audit	<ol style="list-style-type: none"> 1. The accounting firm audited the company's financial statement. 2. The National Audit Board audited the company. 	<ol style="list-style-type: none"> 1. Management has its criteria for selecting an external audit (Accounting firm). 	<ol style="list-style-type: none"> 1. The policy for selecting external auditors highly considers BPK recommendations.
Risk Management	<ol style="list-style-type: none"> 1. The company still needs to set up a chief risk officer. 2. Efforts to manage risk already exist at various levels, and in some cases, companies are developing related structures and initiatives. 	<ol style="list-style-type: none"> 1. Risk management is the responsibility of the Board of Directors. 2. The company still needs to have a special section that handles risk management. 3. Discussions regarding risks are at regular meetings. 	<ol style="list-style-type: none"> 1. The company still needs to set up a chief risk officer.
Compliance Program	<ol style="list-style-type: none"> 1. A compliance program is mostly under the control of the IC unit. 2. This compliance program includes diverse types of training, such as cashier training, meter reading, techniques, and auditing, which are tailored to each department 	<ol style="list-style-type: none"> 1. 's needs. 2. 3. The disciplinary enforcement guidelines document states that management has a good compliance program. 4. The human resources function or the personnel department periodically reviews employees. 5. There is a disciplinary enforcement committee. 6. The compliance program includes a mechanism for reporting fraud or misconduct. 	<ol style="list-style-type: none"> 1. The management does not implement a systematic compliance program.

Source: Processed Author, 2023

Finally, the process of selecting an external auditor is critical. The external audit activities in the three case studies above may differ slightly from those of private companies. Of course, as a regionally owned company, it is the object of an audit from the state auditor's office, for example, the National

Audit Board. The company is also required by regulation to be audited regularly by the accounting firm.

This research identified good practice in one of the cases observed, namely the existence of a procedural process in external auditor selection. This is, of course, intended

to comply with the regulated governance procedures, but what is more important is to avoid conflicts of interest and quality considerations. Decision makers in selecting an accounting firm must consider many factors, such as licensing, experience, ability, and integrity. Although sometimes an office excels in one aspect, it falls short in others (Gerged et al., 2020).

In addition, two practices need improvement. Firstly, there is no risk management function. This function aims to protect an entity from potential losses or threats to its continued operation. Risks could be generated from various sources, such as financial uncertainties, legal liabilities, strategic errors, accidents, and natural disasters. Risk management is an inseparable part of all control environment attributes and is integrated to support the effectiveness of good governance (Kalia & Gill, 2023).

Secondly, there is no structured compliance program. The companies observed have various practices regarding compliance programs, but it can be concluded that management still needs to implement a compliance program systematically. The compliance program is related to a series of internal policies and procedures created to facilitate management in complying with related regulations. This attribute is based on the strength of management ethics and integrity in supporting the creation of an adequate control environment. An effective compliance program can support effective company operations, improve the quality of work results, and reduce costs (Andreisová, 2016). Several studies on governance have encouraged implementing an effective compliance management system as an important part of good corporate governance (Remmerbach & Krumme, 2020).

This research has some limitations. Findings reflect the Indonesian context and must be assessed in other contexts to confirm their capability. Moreover, other factors potentially arising in control environment practices, such as corporate culture and political issues, require further exploration. The re-

search used a framework based on a single standard: many governance frameworks are available.

CONCLUSION AND SUGGESTIONS

This research successfully uncovered multiple effective strategies for implementing governance, specifically emphasizing the control environment. The management of local government-owned firms has established environmental control methods at a rudimentary level. The presence of a well-established department responsible for internal control, annual external audits, and diligent follow-up on audit results demonstrate these organizations' dedication to adopting effective governance in the control environment. Furthermore, it was noted that effective collaboration among functions regarding the control environment has been a key driver of current achievements. The control environment encompasses many internal entities, including the Internal Control Unit, Board of Directors, Board of Commissioners, audit committee, national audit board and accounting firm auditors.

On the other hand, this practice still requires attention, especially for risk management and compliance programs. These two elements are considered particularly important in supporting the development of better governance implementation (for example, at the intermediate level or in good international practice).

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