

# The Effectiveness of Internal Control over Lease Accounting: Case Study of PSAK 116 Lease

Ivan Alexander<sup>1</sup>

Aria Farah Mita<sup>2</sup>

<sup>1,2</sup>Faculty of Economics and Business, Universitas Indonesia, Indonesia

\*Correspondences: [ivan.alexander94@gmail.com](mailto:ivan.alexander94@gmail.com)

## ABSTRACT

The objective of this study is to evaluate the internal control procedures implemented by PT ABC in relation to PSAK 116: Lease, with a focus on completeness and accuracy as outlined by the COSO framework and the Three Lines Model. According to the external auditor's examination, PT ABC has faced deficiencies in Internal Control Over Financial Reporting, particularly regarding the completeness and accuracy of lease recording for two reporting periods. Effective remediation efforts have not been found, which poses a risk to the reliability of the financial report. This study employs a descriptive qualitative analysis method to gather direct insights from the management perspective. The findings suggest that key factors in enhancing internal control deficiencies include monitoring and evaluation of the effectiveness of internal control and strengthening the internal audit function. Additionally, fostering interaction, communication, and collaboration among management and internal functions is crucial for establishing effective internal control.

**Keywords:** Internal Control; Lease Accounting; Control Deficiency, Three Line Model.

***Efektivitas Pengendalian Internal Untuk Akuntansi Sewa: Studi Kasus PSAK 116***

## ABSTRAK

Tujuan dilakukannya penelitian ini adalah untuk melakukan evaluasi atas pengendalian internal yang telah dilakukan PT ABC dalam penerapan PSAK 116 khususnya terkait dengan kelengkapan dan akurasi berdasarkan kerangka COSO dan Model Tiga Lini. Berdasarkan pemeriksaan auditor eksternal, PT ABC telah mengalami defisiensi pengendalian internal atas laporan keuangan, khususnya untuk kelengkapan dan akurasi pencatatan sewa selama dua periode pelaporan dan belum menemukan upaya remediasi yang efektif sehingga berpotensi memengaruhi kehandalan laporan keuangan. Metode analisis yang digunakan pada penelitian ini adalah metode analisis kualitatif deskriptif untuk dapat memperoleh pengetahuan langsung mengenai pengalaman dari sudut pandang narasumber. Hasil penelitian menunjukkan bahwa faktor penting dalam memperbaiki defisiensi pengendalian internal adalah pemantauan dan evaluasi atas efektivitas pengendalian internal serta peningkatan peranan fungsi internal audit. Hal tersebut juga perlu didukung oleh interaksi, komunikasi, dan kolaborasi antar ketiga lini dalam hal ini manajemen dan fungsi internal sehingga mendukung terciptanya pengendalian internal yang efektif.

**Kata Kunci:** Pengendalian Internal; Akuntansi Sewa; Defisiensi Pengendalian; Model Tiga Lini.

Artikel dapat diakses : <https://ojs.unud.ac.id/index.php/Akuntansi/index>



e-ISSN 2302-8556

Vol. 35 No. 4  
Denpasar, 28 April 2025  
Hal. 1246-1263

**DOI:**  
10.24843/EJA.2025.v35.i04.p03

**PENGUTIPAN:**  
Alexander, I., & Mita, A. F.  
(2025). The Effectiveness of  
Internal Control over Lease  
Accounting:  
Case Study of PSAK 116  
Lease.  
*E-Jurnal Akuntansi*,  
35(4), 1246-1263

**RIWAYAT ARTIKEL:**  
Artikel Masuk:  
2 Januari 2025  
Artikel Diterima:  
8 Maret 2025

## INTODUCTION

Pernyataan Standar Akuntansi Keuangan (PSAK) 73 (Financial Reporting Standards) about Leases became effective on January 1, 2020, and was later known as PSAK 116 starting from January 1, 2024. PSAK 116, which adopts International Financial Reporting Standards (IFRS) 16 Leases, is technically complex and may create ambiguity in financial statements (Utami et al., 2023). Furthermore, its implementation significantly affects corporate financial ratios, particularly during the adoption phase (Utami et al., 2023). The telecommunications industry is among those significantly impacted by PSAK 116 (Lestarini, 2019). The shift in asset procurement strategies within telecom companies aligns with their transition toward digital business portfolios and a greater focus on core connectivity services (Saumi, 2022). Therefore, accurate representation and relevance of lease accounting is materially significant for financial statement users. The quality of financial statements greatly influence management decision-making (Kieso et al., 2022). Reliable reporting enhances investor and creditor confidence and supports optimal resource allocation (Kieso et al., 2022).

The adoption of PSAK 116 significantly transformed the lease transaction recording process, especially from the lessee's perspective. The recognition of lease assets and liabilities by lessees may cause a substantial increase in a company's total assets and liabilities. This could significantly reshape a company's financial statement profile, as observed in the airline industry (Azka, 2021), and similarly applies to telecommunications firms transitioning to leasing models (Saumi, 2022). PT ABC, a leading telecommunications provider, engages in significant leasing activities, particularly for telecommunications towers. According to PT ABC's 2023 financial report, lease transactions reached IDR12.7 trillion, with tower leases accounting for 88.15% of total lease asset additions. Additionally, lease assets represented 25.99% of total assets, while lease liabilities comprised 52.79% of total liabilities. This underscores the materiality of lease transactions in financial reporting and the necessity of robust internal controls.

In applying PSAK 116, PT ABC encountered several issues, particularly regarding internal control activities related to lease transaction recording. External auditors in 2022 and 2023 identified internal control deficiencies in financial reporting, particularly in the completeness and accuracy of lease data. These findings suggest a potential for material weakness if not addressed by management.

The internal control weaknesses in lease accounting at PT ABC, recurring over two consecutive years, may result in material weaknesses that compromise the reliability of the financial statements. Management's remedial efforts have not yet effectively addressed the deficiencies, especially concerning completeness and accuracy. Therefore, evaluating the implementation of internal control in line with PSAK 116 is necessary. Internal control effectiveness is influenced by corporate governance, with independence and competence of governance bodies being critical to ensuring effective internal control (Nalukenge et al., 2018). Furthermore, internal controls function optimally when companies ensure that internal audit functions are properly established and operating effectively (Nalukenge et al., 2018). Kim et al. (2012), as cited in Alzeban (2018), emphasized that adopting financial reporting standards such as IFRS is a complex process that requires

technical knowledge and reliable information systems to avoid material misstatements. As a result, the internal audit function plays a vital role in the successful adoption and implementation of new financial reporting standards (Alzeban et al., 2018).

Internal control over financial reporting aims to ensure the reliability of financial statements, which is one of the company's core objectives (COSO, 2013). Companies require proper structures and processes to achieve this goal (IIA, 2020). The Three Lines Model, developed by The Institute of Internal Auditors (IIA), is designed to help organizations identify such structures and processes, facilitating strong governance and risk management (IIA, 2020). This model also ensures a clear division of responsibility in risk management and internal control activities (Fenelon et al., 2024; IIA, 2020).

In practice, the Three Lines Model faces challenges, including perceptions of excessive complexity, unclear role definitions across lines, and inadequate guidance on effective implementation (Fenelon et al., 2024). Previous studies have also highlighted misaligned incentives for first-line risk-takers, limited organizational independence in the second line, and insufficient expertise to address practical challenges (Fenelon et al., 2024). Thus, effective application of the model relies heavily on interaction, communication, and collaboration across the three lines (Fenelon et al., 2024; IIA, 2020).

Based on this context, evaluating internal control activities in implementing PSAK 116 is essential – particularly in terms of completeness and accuracy – as well as assessing the roles of management and internal audit functions using the Three Lines Model in supporting internal control effectiveness as part of the company's risk management process. Such evaluation helps identify key factors that determine successful remediation of internal control weaknesses at PT ABC, especially in the context of PSAK 116.

## RESEARCH METHODS

The research strategy employed in this study to address the research questions is the case study approach. A case study is utilized as a strategy to explore issues through extensive and in-depth descriptions of observed social phenomena while maintaining a holistic perspective (Yin, 2018).

This case study aims to answer the research questions and gain a deeper understanding of how internal control over the completeness and accuracy in the implementation of PSAK 116 is applied, and how each line's role, based on the Three Lines Model, supports internal control as a risk mitigation mechanism for misstatements in the application of PSAK 116. PT ABC was selected as the subject of this study due to identified internal control deficiencies in its financial reporting, particularly in lease accounting, across two reporting periods.

This study adopts a single unit of analysis, focusing on one research subject, namely PT ABC, a company operating in the telecommunications sector. PT ABC is one of the largest mobile service providers in Indonesia and is a subsidiary of a state-owned enterprise (BUMN), with majority ownership held by the parent company and the remaining shares owned by a foreign entity. In alignment with the parent company's policies, PT ABC is required to conduct evaluations of internal control over financial reporting.

The research approach applied is the orthodox linear approach, which comprises five stages: literature review and formulation of research questions, case study design, preparation and data collection, data analysis, and conclusion drawing and reporting of findings (Lee and Saunders, 2017). This study utilizes comparative analysis of various data sources. The data collected is qualitative and derived from multiple sources. The use of diverse data sources aims to enrich perspectives and enhance the validity of findings through a process known as triangulation (Myers, 2019).

Primary data for this research was collected through interviews with relevant company representatives and documentation from internal reports, annual reports, and internal policy documents. Interviews were conducted with four resource persons, each representing one line within the Three Lines Model. The data sources used in this research are presented in Table 1 below.

**Table 1. Documents Used in the Research**

No.	Documents	Sources
1	PT ABC Annual Report for the Year 2023	General Accounting and Reporting Division
2	Internal Company Policy Related to Risk Management	Internal company database (released by the Sub-directorate of Risk Management, Internal Control, and ERP)
3	Documentation of Audit Findings on the 2023 Financial Statements	Asset Management Division
4	Standard Operational Procedure (SOP)	Finance Policy and Procedure Division
5	Lease Recording Policy	Finance Policy and Procedure Division

Source: Research Data, 2024

This study employed semi-structured interviews to ensure a more focused process and enable deeper exploration of the research issues. During data collection, interviews were conducted with several informants. Each informant provided perspectives based on their understanding and expertise related to their respective roles in the lease accounting process at the company.

Resource person A is the General Manager of the Finance Policy and Procedure Division at PT ABC. As a senior leader, resource person A is responsible for formulating company guidelines and policies, particularly those related to financial functions. This includes the development of accounting policies and guidelines, preparation of Standard Operating Procedures (SOPs), and providing advisory support for the company's accounting processes. According to the Institute of Internal Auditors' (IIA) Three Lines Model, resource person A represents the Second Line, acting as the risk control unit responsible for monitoring compliance with financial reporting standards.

Resource person B is the General Manager of the Asset Management Division at PT ABC. This informant plays a senior leadership role in asset management and accounting, including for lease assets and liabilities. Responsibilities include overseeing operational lease accounting processes, data reconciliation, and asset management activities. Based on the IIA's Three Lines

Model, resource person B represents the First Line, functioning as an operational unit directly involved in lease accounting processes.

Resource person C is a Manager in the Leased Asset Reporting and Controller Department at PT ABC. Resource person C leads the operational unit responsible for recording lease assets and liabilities. Their duties include managing the operational lease accounting processes, data reconciliation, and asset management. With a comprehensive understanding of lease accounting operations, resource person C is also directly involved in remedial efforts. In accordance with the Three Lines Model, Resource person C is categorized as part of the First Line, as they directly engage in the lease accounting activities of the company.

Lastly, resource person D is a Manager from the consulting team appointed by the internal audit function at PT ABC to assist, review, and monitor the effectiveness of internal control. Informant D is tasked with providing independent advice regarding the adequacy and effectiveness of internal control systems, risk management, and asset management processes. This informant possesses in-depth knowledge of the lease accounting process and is directly involved in providing support when needed by management. As per the IIA's Three Lines Model, resource person D acts as the Third Line, representing the internal audit function responsible for conducting reviews, support, and monitoring of internal control effectiveness.

All interviews were conducted in person using a structured set of interview questions as outlined in Table 2.

The analytical method employed in this study is descriptive qualitative analysis. This method is utilized to gain direct insights into experiences from the perspectives of the informants (Neergaard in Hall and Liedenbergh, 2024). Furthermore, descriptive qualitative analysis is considered an effective approach for explaining or describing experiences or events (Hall and Liedenbergh, 2024). This analytical method is applied to answer the research questions by providing an in-depth elaboration based on the examination of the research instruments used.

The data analysis process began with the collection of research data, which included information obtained through interviews with informants and a review of documentation related to risk management policies, standard operating procedures, lease accounting policies, and the 2023 financial audit report. Based on the collected data – particularly the interview results – a data reduction process was conducted by categorizing or grouping the research data according to the research questions and the conceptual frameworks employed, namely COSO Internal Control (COSO, 2013) and the principles of the Three Lines Model (IIA, 2020). The reduced data were then presented in the research discussion in tabular format. Finally, using the descriptive qualitative analysis method, the findings were synthesized to draw conclusions and provide answers to the research questions.



**Table 2. List of Interview Questions**

No.	Questions	References	Resource Persons
1	How is the internal control over financial statements implemented in the lease recording cycle?	<i>Internal Control Over Financial Reporting</i> (COSO, 2013)	Resource Person A, B, and D
2	What challenges are encountered in the lease recording process?	<i>Internal Control Over Financial Reporting</i> (COSO, 2013)	Resource Person A, B, C, and D
3	How do the risk management function and internal audit function understand internal control as part of the risk management process for misstatements and also challenges in lease recording?	<i>Internal Control Over Financial Reporting</i> (COSO, 2013) <i>Three Lines Model</i> (IIA, 2020)	Resource Person A, B, and C
4	How do the business unit and asset management unit understand internal control as part of the risk management process for misstatements and also challenges in lease recording?	<i>Internal Control Over Financial Reporting</i> (COSO, 2013) <i>Three Lines Model</i> (IIA, 2020)	Resource Person A and D
5	What internal control processes need to be added or improved to ensure the accuracy and completeness of lease data?	<i>Internal Control Over Financial Reporting</i> (COSO, 2013) <i>Three Lines Model</i> (IIA, 2020)	Resource Person A and D
6	What is the role of the board of directors, risk management function, and internal audit function in supporting the effectiveness of internal control as part of the risk management process to ensure completeness and accuracy?	<i>Three Lines Model</i> (IIA, 2020)	Resource Person A and B

Source: Research Data, 2024

## RESULT AND DISCUSSION

Based on the research background and problem identification, an evaluation was conducted on the internal control over PSAK 116 implementation at PT ABC. This evaluation is based on the five components of internal control as outlined in the COSO Internal Control Framework, which include the control environment, risk assessment, control activities, information and communication, and monitoring (COSO, 2013). In addition, an assessment of the roles of each line within the Three Lines Model was conducted to determine their contribution to the effectiveness of internal control as part of the company's overall risk management process.

The evaluation of internal control implementation for PSAK 116 at PT ABC was carried out for each component in accordance with the COSO Framework. The assessment considered the guiding principles of each component, supported by a review of internal policy documents and interviews with key resource person.

The control environment refers to a set of standards, processes, and structures that form the foundation for internal control within an organization (COSO, 2013). To establish an adequate control environment, the board of directors and senior management must set a strong tone at the top that emphasizes the importance of internal control. PT ABC has established policies outlining the internal control structure to foster such an environment. These policies require entity-level controls that align with the first principle of the COSO control environment component: demonstrating a commitment to integrity and ethical values. PT ABC's management places significant emphasis on instilling a culture and behavioral standards among management and employees when implementing operational policies.

Creating a robust control environment also requires a clear structure of authority and delineation of responsibilities (COSO, 2013). PT ABC's management has fulfilled this by designing an organizational structure that reflects reporting lines and clearly separates functions and responsibilities, thereby supporting effective internal control. Additionally, PT ABC ensures that the internal audit function reports directly to the President Director and has direct access to the Audit Committee.

To assess PT ABC's control environment in the context of internal control effectiveness for financial reporting—specifically concerning PSAK 116—interviews were conducted with key informants to capture the prevailing conditions. The board of directors and senior management have demonstrated active oversight of internal control effectiveness. Deficiencies identified in lease accounting during 2022 and 2023 have led the board—particularly the Finance and Risk Management Directors—to prioritize internal control over lease reporting. The board has also directed the relevant departments to develop specific policies related to lease asset management. Furthermore, PT ABC's top management established a special task force to address internal control issues in lease accounting and appointed a team leader to monitor and evaluate progress. This task force reflects the commitment of the board and senior management to clarify reporting lines and responsibilities to enhance internal control for financial reporting.

The board and senior management at PT ABC conduct regular monitoring of internal control effectiveness, particularly in lease accounting, and include these issues as recurring agenda items in the directors' hurdle meetings. The commitment of the Finance and Risk Management Directors is further reflected by incorporating internal control over lease accounting and the remediation of related deficiencies into PT ABC's Objective and Key Results (OKR) performance evaluation metrics.

Risk assessment is an iterative process for identifying and evaluating risks that may hinder the achievement of company objectives (COSO, 2013). Based on a review of company documents, PT ABC has developed entity-level internal control policies for financial reporting, which serve as a basis for adequate risk

assessment. The design of PT ABC's internal controls—especially for risk assessment—aligns with the four principles of the COSO risk assessment component.

Management has clearly defined financial reporting objectives through accounting policies and procedures that allow the identification of risks, including those related to the implementation of PSAK 116. PT ABC has also designated several units, including the Finance Policy and Procedure Division, as risk control units responsible for identifying, evaluating, managing, and monitoring financial risks—including the risk of financial reporting fraud. These risk control units act as coordinators for the company's risk management process.

Further observations indicate that the Internal Control and Design Monitoring ICoFR division—the company's risk management function—regularly monitors business process changes and confirms with relevant units to ensure that operations align with established policies and procedures, including those for PSAK 116. In addition to business process monitoring, this division also evaluates the effectiveness of internal controls and collects control self-assessment reports from risk owners.

PT ABC has implemented internal control over financial reporting (ICoFR) in accordance with Section 404 of the Sarbanes-Oxley Act (SOA). Consequently, the company has formally defined internal control policies to ensure the reliability of its financial reporting. A review of internal documents reveals that PT ABC has structured entity-level control designs that include control activities. These designs are aligned with COSO principles, including the selection and development of relevant control activities (COSO, 2013).

Regarding control activities for lease accounting, the Finance Policy and Procedure Division, as the designated risk control unit, has identified the risks faced by business units involved in the process. It has also developed relevant control activities to manage those risks. Additionally, the Internal Control and Design Monitoring ICoFR division periodically evaluates the risk identification, assessment, and mitigation efforts carried out by the risk control units.

The control activities implemented by PT ABC in lease accounting are presented in Table 3.



**Table 3. Internal Control Activities of PT ABC in the Implementation of PSAK 116**

No	Business Processes	Control Activities
1	Lease Transaction Identification	<ul style="list-style-type: none"> <li>Identify and review the completeness of the entire population of contracts that are indicated to contain leases;</li> <li>Validate the completeness and accuracy of contract data indicated to contain leases and assign the lease data to the relevant units for assessment.</li> </ul>
2	Data Collection	<ul style="list-style-type: none"> <li>Review the completeness and accuracy of lease-indicated contract data within the Lease Contract Admin system.</li> <li>Ensure the completeness and accuracy of lease-indicated contract data within the Lease Contract Admin system.</li> <li>Verify contract data completed by the relevant units, check the reasonableness of the data entries, and perform the data "release" in the Lease Contract Admin system.</li> </ul>
3	Invoice Reconciliation	<ul style="list-style-type: none"> <li>Validate the consistency between the invoice and lease contract data, and take follow-up actions if discrepancies are found;</li> <li>Validate the completeness of invoice reconciliation data and perform the "invoice release."</li> </ul>
4	Right of Use Asset and Lease Liabilities Calculation	<ul style="list-style-type: none"> <li>Ensure the completeness of commitment/transaction data for tower leases, land leases, and building leases, and upload the data in loader format to the Lease Contract Admin system;</li> <li>Check the completeness of data calculated in the Lease Accounting system and verify the accuracy (e.g., duplication of journal entries) of lease asset and lease liability data derived from lease commitments/transactions.</li> </ul>
5	Period Month End	Perform validation of the accuracy of journal entries.
6	Lease/Non-Lease Material Determination	Perform classification (lease/non-lease) as required for material data within the Lease Contract Admin system.
7	Discount Rate Calculation	Review the discount rate inputted in the ERP system.
8	Lease Transaction Reporting	Prepare and send the Recapitulation of Handover Minutes/ Site Usage Minutes to the relevant units.
9	Reporting and Reconciliation Process of Lease Transaction Addition and Reduction	Verify data related to additions, deductions, or changes in lease contracts using supporting documents.

Source: Research Data, 2024

Based on the data analysis, two control activities were identified as deficient according to the financial audit conducted for the 2023 fiscal year. These control deficiencies are detailed in Table 4.

**Table 4. Internal Control Deficiencies of PT ABC**

No	Business Process	Control Activities
1	Invoice Reconciliation	Validate the consistency between invoices and lease contract data, and take follow-up actions if discrepancies are found.
2	Reporting and Reconciliation Process of Lease Transaction Addition and Reduction	Verify data related to additions, deductions, or changes in lease contracts using supporting documents.

Source: Research Data, 2024

Furthermore, PT ABC's management has planned several corrective measures to address the identified control deficiencies. These include increasing the frequency of testing and monitoring the effectiveness of internal controls, as well as modifying control attributes within business processes. The enhancement of testing and monitoring frequency is conducted by the internal audit function. To support these improvement efforts, management—through the internal audit function—appointed an external consultant to provide continuous assistance and monitoring to the Asset Management Division and related units.

In addition, with regard to the modification of control attributes, management made changes specifically within the invoice reconciliation process. These adjustments aim to rectify deficiencies in validating the alignment between invoices and lease contract data, which had previously led to inaccuracies and delays in recording lease liability reductions. The specific changes to control attributes implemented by PT ABC are detailed in Table 5.

**Table 5. Changes in Control Attributes in the Improvement of Deficiencies**

Business Process	Before	Control Activities After
Invoice Reconciliation	Validate the completeness of invoice reconciliation data and perform the "invoice release."	Validate the completeness of invoice reconciliation data and perform the "invoice release" (for invoices marked as paid).

Source: Research Data, 2024

The internal control deficiencies identified in the 2023 fiscal year—specifically regarding incomplete lease recordings and inaccuracies in the recording of lease liability reductions—have been addressed by management through the corrective actions previously outlined. The primary factor contributing to the success of these remediation efforts was the increased frequency of testing and monitoring of internal control effectiveness, along with the provision of improvement recommendations and enhanced awareness among relevant units regarding the importance of internal control in ensuring the reliability of financial reporting, particularly in the implementation of PSAK 116.

Regarding the communication of internal controls at PT ABC, particularly within the lease accounting process, the company has established policies and procedures that serve as a reference for developing effective internal and external communication. A review of PT ABC's internal control documentation revealed the design of the information and communication components. According to the

COSO Internal Control Framework, this component comprises three principles: the use of relevant information, internal communication, and external communication (COSO, 2013). Internal control procedures related to lease accounting have been routinely communicated to the procurement function through workshops and regular discussions. PT ABC's management appointed the General Manager of the Finance Policy and Procedure Division as the head of the task force responsible for evaluating and improving internal controls related to lease accounting. Both internal and external communication processes are led by this task force leader, including the delivery of internal control monitoring results to the board of directors.

The final component evaluated in the internal control assessment is monitoring, which provides management with assurance regarding the effectiveness of internal control implementation (COSO, 2013). The monitoring component of the COSO framework consists of two principles: selecting, developing, and performing ongoing evaluations of internal control implementation, and evaluating and communicating internal control deficiencies (COSO, 2013).

Each risk owner assigned to control activities is required to conduct monthly evaluations and monitoring of compliance using the Control Self-Assessment system. This practice demonstrates that internal control monitoring has been conducted regularly. However, these efforts were insufficient in fully addressing the deficiencies in lease accounting. A significant improvement undertaken was the increase in internal control testing frequency by the internal audit function. The internal audit team also appointed a consultant to provide continuous support and monitoring for the Asset Management Division and related units in addressing the internal control weaknesses in lease accounting.

Specifically concerning deficiencies related to the implementation of PSAK 116, management routinely reports the results of evaluations on internal control effectiveness to the board of directors. These reports include a list of control deficiencies, deficiency assessments, and recommended follow-up actions. A special team formed by PT ABC's management holds regular, scheduled meetings, including sessions with the board of directors.

Based on the evaluation of each COSO internal control component, it can be concluded that, overall, internal control over financial reporting related to lease accounting at PT ABC is adequate to ensure the reliability and accuracy of financial reporting. PT ABC's management has fostered a robust control environment, demonstrated by strong senior management attention and a commitment to internal control over financial reporting. These efforts have also been embedded in the company's performance evaluation metrics through its Objective and Key Results (OKR). However, the discovery of internal control deficiencies highlighted weaknesses in control activities, particularly in ensuring the completeness and accuracy of lease recording. To remediate these deficiencies, management has increased the frequency of testing the effectiveness of internal controls over lease accounting and has engaged external consultants to provide ongoing assistance and monitoring throughout the lease asset recording process. The overall evaluation results, based on document reviews and interviews with key informants, are presented in Table 6.

Table 6. Evaluation of PT ABC's Internal Control in Implementing PSAK 116

Internal Control Components	Principles (COSO, 2013)	Evaluation Results
Control Environment	<ol style="list-style-type: none"> <li>1. Demonstrates commitment to integrity and ethics.</li> <li>2. Performs oversight responsibilities.</li> <li>3. Establishes structure, authority, and responsibility.</li> <li>4. Demonstrates commitment to competence.</li> <li>5. Enforces accountability.</li> </ol>	PT ABC has formal policies in place to establish an adequate control environment. Based on interviews conducted regarding internal control over lease recording, the board of directors and senior management have actively exercised oversight of the effectiveness of internal control.
Risk Assessment	<ol style="list-style-type: none"> <li>1. Defines appropriate objectives.</li> <li>2. Identifies and analyzes risks.</li> <li>3. Identifies fraud risks.</li> <li>4. Identifies and analyzes significant changes.</li> </ol>	PT ABC has formal policies in place to support adequate risk assessment. Based on interviews conducted regarding internal control over lease recording – particularly risk assessment – management has clearly established that the reliability of lease recording is one of the key objectives of the implemented internal controls. Periodically, PT ABC's management, through the risk control unit, identifies risks related to lease recording, including when system changes or organizational restructuring occur that may impact the lease recording process.
Control Activities	<ol style="list-style-type: none"> <li>1. Selects and develops control activities.</li> <li>2. Selects and develops control activities over technology.</li> <li>3. Implements internal controls through policies and procedures.</li> </ol>	Based on interviews with the resource persons, it was found that there are weaknesses in control activities, particularly regarding how to ensure the completeness and accuracy of lease recording data. These weaknesses relate to control activities in the reporting and reconciliation processes for lease additions and deductions, as well as invoice reconciliation.
Information and Communication	<ol style="list-style-type: none"> <li>1. Uses relevant information.</li> <li>2. Internal communication.</li> <li>3. External communication.</li> </ol>	Based on the review of policy and procedure documents as well as interviews with the resource persons, it can be concluded that the information and communication component of internal control over lease recording has been functioning properly and adequately.
Monitoring	<ol style="list-style-type: none"> <li>1. Selects, develops, and evaluates the implementation of internal control.</li> <li>2. Evaluates and communicates deficiencies in internal control.</li> </ol>	The monitoring process of internal control effectiveness has been carried out regularly through the Control Self-Assessment system, including internal controls over lease recording. A significant change resulting from the identified control deficiency is the increased frequency of internal control testing by the internal audit function. The internal audit function has also appointed a consultant to assist with continuous support and monitoring.

Source: Research Data, 2024

Internal control over financial reporting serves, among other purposes, to ensure the reliability of a company's financial statements (COSO, 2013). Organizations require structures and processes that support the achievement of these objectives (IIA, 2020). The Three Lines Model is designed to help

organizations identify the structures and processes that contribute to their goals and to facilitate strong governance and risk management (IIA, 2020). Moreover, the Three Lines Model ensures a clear division of responsibilities in risk management and internal control activities, as well as effective collaboration across the lines in managing risks (Fenelon et al., 2024).

In this study, the application of the Three Lines Model is focused specifically on the evaluation of internal controls related to the implementation of PSAK 116. Therefore, the assignment of each line is based on the roles and responsibilities of organizational units in implementing PSAK 116 and in the corrective actions addressing internal control deficiencies, which are then aligned with the respective responsibilities of each line within the model. The Asset Management Division is responsible for asset management and accounting, including lease assets and liabilities. It also manages the operational process of lease accounting, reconciliation of accounting data, and overall asset management. According to the IIA's Three Lines Model, this division functions as the First Line, directly engaged in the operational aspects of lease accounting.

The Finance Policy and Procedure Division is tasked with formulating corporate policies and guidelines, particularly related to financial functions. It is responsible for the development of accounting policies and procedures, standard operating procedures, and advisory functions for financial reporting. Within the IIA's Three Lines Model, this division represents the Second Line, acting as a risk control unit that monitors compliance with financial reporting standards.

Finally, the internal audit function is responsible for providing oversight, review, and support in implementing corrective actions. It provides independent advice on the adequacy and effectiveness of internal controls, risk management, and asset management processes. Under the IIA's Three Lines Model, the internal audit function constitutes the Third Line, responsible for assisting, reviewing, and monitoring corrective efforts.

The evaluation aims to assess the roles of each line within the Three Lines Model in supporting the effectiveness of internal controls and the remediation of deficiencies in completeness and accuracy in the implementation of PSAK 116. The evaluation results are analyzed based on the principles of the Three Lines Model, specifically Principle 3: Roles of Management and First and Second Line, and Principle 4: Role of the Third Line. The First Line role in the implementation of PSAK 116 is held by the Asset Management Division, which is directly responsible for asset management and accounting, including lease assets and liabilities. This division has been actively involved in the remediation of internal control deficiencies, including leading coordination with business units engaged in lease transactions. This reflects that the Asset Management Division, as the First Line, has ensured the existence of appropriate processes in the implementation of PSAK 116.

The role of the Second Line is to manage risks to ensure that the organization's objectives are met. The Finance Policy and Procedure Division has been appointed by PT ABC's management to act as a risk control unit and to monitor compliance with financial reporting standards. In addressing internal control deficiencies, this division was tasked with leading a special task force responsible for implementing and monitoring improvements. During this process,



the Finance Policy and Procedure Division actively coordinated with consultants appointed by internal audit and the Asset Management Division. This indicates that the Second Line has actively fulfilled its role and collaborated with both the First and Third Lines to establish effective internal controls in the implementation of PSAK 116.

The internal audit function, representing the Third Line, plays a key role in supporting, reviewing, and monitoring corrective actions. During the remediation process, PT ABC's internal audit appointed a consultant team to carry out these responsibilities. The consultant team, acting on behalf of internal audit, possessed a deep understanding of the operational process of lease accounting and the required corrections, and was directly involved in implementing improvements. The team also provided recommendations for enhancements in accounting policies, business processes, and internal control activities. To strengthen the understanding of units involved in lease transactions regarding the importance of reliable lease accounting, the consultants collaborated with the Asset Management and Finance Policy and Procedure Divisions through workshops and discussion forums.

Based on the evaluation conducted, it was concluded that the three units representing each line in the Three Lines Model demonstrated effective collaboration, shared common objectives, and aligned their activities. Particularly when considering the successful remediation of internal control deficiencies in lease accounting, it can be inferred that interaction, communication, and collaboration among the three lines have been well established, enabling resolution of identified weaknesses. These findings are consistent with the study by Fenelon et al. (2024), which highlighted that the effectiveness of the Three Lines Model relies heavily on the interaction, communication, and collaboration among all three lines. When such collaboration is achieved, there is a clear allocation of responsibilities in risk management and internal control activities (Fenelon et al., 2024; IIA, 2020).

The Three Lines Model aims to help organizations identify the structures and processes that support their goals and facilitate sound governance and risk management (IIA, 2020). Additionally, it ensures a clear division of responsibilities and fosters collaboration among the lines in managing risk (Fenelon et al., 2024). Previous studies have identified challenges such as misaligned incentives for risk-takers in the First Line, lack of organizational independence in the Second Line, and insufficient competencies and practical expertise within the Second Line to adequately address control challenges at the operational level (Fenelon et al., 2024). This study demonstrates that when collaboration and aligned incentives exist across the lines, they establish structures and processes that enhance the effectiveness of internal control.

Furthermore, the evaluation findings emphasize the critical role of the internal audit function in the implementation of financial reporting standards. This aligns with Alzeban's (2018) research, which found that the internal audit function plays a vital role in ensuring the implementation of reporting standards. Internal audit is also instrumental in establishing sound governance practices that require reliable financial reporting and adequate disclosures (Alzeban, 2018).

## CONCLUSION

The findings of this study indicate that, in order to establish effective internal control in the implementation of PSAK 116 – particularly in relation to completeness and accuracy – management must ensure that all five components of internal control over financial reporting are well-established, adequately functioning, and effectively implemented. PT ABC has clearly designed an internal control framework aligned with each principle of the COSO internal control components. This framework serves as a clear guideline for management regarding objectives, role distribution, duties, and responsibilities in internal control over financial reporting, including the implementation of PSAK 116. PT ABC's internal control framework also provides a well-defined structure for delineating the roles of each line according to the Three Lines Model.

The role of PT ABC's management, particularly the board of directors, in ensuring the effective establishment and operation of the internal audit function – through the appointment of consultants and ongoing support – is positively associated with the successful remediation of control deficiencies. This finding is consistent with Nalukenge et al. (2018), who emphasized the positive relationship between governance bodies ensuring the effective functioning of internal audit and the successful remediation and establishment of adequate internal control. Moreover, this study reaffirms the critical role of internal audit in the implementation of reporting standards, which aligns with the findings of Alzeban (2018).

The success of PT ABC's management in remediating internal control deficiencies also reflects how interaction, communication, and collaboration among the three lines of the Three Lines Model contribute to the establishment of effective internal control. These findings support the research by Fenelon et al. (2024), which emphasizes that the effectiveness of the Three Lines Model is heavily dependent on the level of interaction, communication, and collaboration across the three lines. Such collaboration facilitates a clear distribution of responsibilities for risk management and internal control activities (Fenelon et al., 2024; IIA, 2020).

Effective internal control in the implementation of PSAK 116 is achieved when collaboration among the lines of the Three Lines Model occurs. Additionally, this study reveals that the monitoring component of the COSO internal control framework is a crucial element in remediating internal control weaknesses. Periodic monitoring of control effectiveness through the Control Self-Assessment system and the strengthening of the internal audit function in conducting control testing have proven effective in addressing the identified weaknesses. Furthermore, successful remediation was supported by increased testing and monitoring frequency by the internal audit function, including walkthrough testing based on prior audit samples from transaction initiation, review of business process design and control attributes in lease accounting, and verification of system enhancement implementation.

The enhanced role of internal audit, through more intensive collaboration with the first and second lines, also yielded positive outcomes in this study. Such involvement resulted in regular recommendations for internal control improvements and enhanced understanding among relevant units regarding

internal control in ensuring the reliability of financial reporting – particularly in the application of PSAK 116 – so that it can be carried out effectively.

This study has several limitations. One key limitation is that the data used were limited to interviews with four respondents, which may leave out alternative perspectives not captured in the study. Future research could also consider the role of systems or information technology in supporting the effectiveness of internal control over lease accounting, given the close relationship between accounting processes and the company's system capabilities.

#### REFERENCE

- Alzeban, A. (2018). The association between internal audit department characteristics and IFRS compliance. *Asian Review of Accounting*, 26(3), 336–358. <https://doi.org/10.1108/ARA-03-2017-0054>
- Azka, Rinaldi Mohammad. (2021). Utang Garuda (GIAA) Melonjak 229 Persen Akibat Penerapan PSAK 73. <https://market.bisnis.com/read/20210808/192/1427324/utang-garuda-giaa-melonjak-229-pers-en-akibat-penerapan-psak-73>.
- Bougie, R. and Sekaran, U. (2020) *Research Methods For Business*. 8th edn. Wiley. <https://www.perlego.com/book/1485150/research-methods-for-business-a-skill-building-approach-pdf>.
- Chalmers, K., Hay, D., & Khlif, H. (2019). Internal control in accounting research: A review. *Journal of Accounting Literature*, 42, 80–103. <https://doi.org/10.1016/j.acclit.2018.03.002>
- Committee of Sponsoring Organization of the Treadway Commission. COSO. (2017). *Enterprise Risk Management*.
- Committee of Sponsoring Organization of the Treadway Commission. COSO. (2013). *Internal Control Integrated Framework*. Committee of Internal Control.
- CNBC Indonesia. (2022). Mitratel Akuisisi 6.000 Unit Menara Telkomsel Rp 10,28 T. <https://www.cnbcindonesia.com/market/20220802165004-17-360551/mitratel-akuisisi-6000-unit-menara-telkomsel-rp-1028-t/amp>.
- CRMS Indonesia. (2020). *Pertahanan 3 Lapis The Three Lines of Defence Konteks ERM Perusahaan Publik di Indonesia*. <https://crmsindonesia.org/publications/pertahanan-3-lapis-the-3-lines-of-defence-konteks-erm-perusahaan-publik-di-indonesia/>.
- Fenelon, M., van Doorn, J., & Scholten, W. (2024). Crossing the lines a human approach to improving the effectiveness of the three lines model in practice. *Journal of Financial Regulation and Compliance*. <https://doi.org/10.1108/JFRC-09-2023-0150>
- Hall, Steven and Liebenberg, Linda .(2024). *Qualitative Description as an Introductory Method to Qualitative Research for Master's-Level Students and Research Trainees*. <https://journals.sagepub.com/doi/epub/10.1177/16094069241242264>
- Ikatan Akuntan Indonesia (IAI). (2019). *Kerangka Konseptual Pelaporan Keuangan*. Jakarta.IAI.
- Ikatan Akuntan Indonesia (IAI). (2019). *Pernyataan Standar Akuntansi Keuangan (PSAK) No 116*. Jakarta.IAI.

- IndoTelko (2019). Kisah Telkom terapkan PSAK 71, 72, dan 73. <https://www.indotelko.com/read/1557446052/kisah-telkom-73>
- Kieso, D., Weygandt, J. and Warfield, T. (2022) Intermediate Accounting. 18th edn. Wiley. <https://www.perlego.com/book/3866034>
- Kontan. (2019). Indosat (ISAT) jual 3.100 menara ke Mitratel dan Protelindo, begini penilaian Moody's. <https://amp.kontan.co.id/news/indosat-isat-jual-3100-menara-ke-mitratel-dan-protelindo-begini-penilaian-moodys>
- Lee, B. and Saunders, M. (2017) Conducting Case Study Research for Business and Management Students. 1st edn. SAGE Publications. <https://www.perlego.com/book/1431360/conducting-case-study-research-for-business-and-management-students-pdf>.
- Lestarini, Ade Hapsani. (2019). Penerapan PSAK Baru Akan Memengaruhi Laporan Keuangan Emiten. <https://www.medcom.id/ekonomi/mikro/VNxqPAYb-penerapan-psak-baru-akan-memengaruhi-laporan-keuangan-emiten>
- Myers, M. (2019). Qualitative Research in Business and Management. 3rd edn. SAGE Publications. <https://www.perlego.com/book/1431616/-qualitative-research-in-business-and-management-pdf>.
- Nalukenge, I., Nkundabanyanga, S. K., & Ntayi, J. M. (2018). Corporate governance, ethics, internal controls and compliance with IFRS. *Journal of Financial Reporting and Accounting*, 16(4), 764–786. <https://doi.org/10.1108/JFRA-08-2017-0064>
- Narimawati, U. (2008). Metodologi Penelitian Kualitatif dan Kuantitatif, Teori dan Aplikasi. Bandung: Agung Media,9.
- Paramitha, A., Sari, R., & Nurcholis, Kgs. M. (2024). Pengaruh Sistem Informasi Akuntansi dan Pengendalian Internal Terhadap Kualitas Laporan Keuangan. <https://doi.org/10.47065/jtear.v4i3.1190>.
- PT ABC. (2021). Kebijakan Internal Perusahaan Terkait Dengan Manajemen Risiko. Jakarta: PT ABC.
- PT ABC. (2023). Laporan Tahunan PT ABC Tahun 2023. Jakarta: PT ABC.
- PT ABC. (2021). Manajemen Risiko Perusahaan. Jakarta: PT ABC.
- PT ABC. (2023). Standard Operating Procedures Keuangan. Jakarta: PT ABC.
- PT ABC. (2023). Pedoman Penerapan Kebijakan Akuntansi Terkait Aktivitas Bisnis Dan Operasional Di Perseroan. Jakarta: PT ABC.
- Public Company Accounting Oversight Board (PCAOB). (2002). Sarbanes Oxley Act of 2002.
- Putri, N. W. A. & Suartana, I. W. (2022). Faktor-Faktor yang Mempengaruhi Kecenderungan Kecurangan Akuntansi Pada LPD di Kabupaten Badung: Peran Keefektifan Pengendalian Internal. *E-Jurnal Akuntansi*, 32(1), 1-16.
- Saumi, Annisa Kurniasari. (2022). XL Axiata EXCL Jual 859 Menara Ke Edotco Rp750 Miliar. <https://market.bisnis.com/read/20220227/192/1505313/xl-axiata-excl-jual-859-menara-ke-edotco-rp750-miliar>.
- Securities and Exchange Commission (SEC). (2002). SOX Section 404: Management Assessment of Internal Controls. United States Securities And Exchange Commission.

- Simons, Robert. (2014). *Performance Measurement and Control Systems for Implementing Strategy: Text and Cases*, First Edition. Published by Pearson Prentice Hall.
- Sugiyono. (2013). *Metode Penelitian Kuantitatif Kualitatif dan R&D*. Bandung: Alfabeta.
- Soraya, Tara Farahdiba (2022). Analisis Penyesuaian Proses Bisnis Pasca Implementasi PSAK 73 Sewa: Studi Kasus pada PT XYZ. Fakultas Ekonomi dan Bisnis Universitas Indonesia. [https://lib.ui.ac.id/m/detail.jsp?id=9999920519160 &lokasi=lokal#](https://lib.ui.ac.id/m/detail.jsp?id=9999920519160&lokasi=lokal#)
- The Institute of Risk Management (2012). *Risk Culture Resources for Practioners*.
- The Institute of Internal Auditors. (2020). *The IIA's Three Lines Model An Update of Three Lines of Defense*. [https://www.theiia.org/globalassets/documents/ resources/the-iias-three-lines-model-an-update-of-the-three-lines-of-defense-july-2020/three-lines-model-updated-english.pdf](https://www.theiia.org/globalassets/documents/resources/the-iias-three-lines-model-an-update-of-the-three-lines-of-defense-july-2020/three-lines-model-updated-english.pdf).
- Thompson, C. and Hopkin, P. (2021). *Fundamentals of Risk Management*. 6th edn. Kogan Page. <https://www.perlego.com/book/310447>
- Utami, E. R., Sumiyana, S., Mustakini, J. H., & Barokah, Z. (2024). The IFRS 16 implementation in Asia-Pacific countries: enhancing asset pronouncements or opaque information's conveyance. *Accounting Research Journal*, 37(1), 19–38. <https://doi.org/10.1108/ARJ-04-2023-0115>
- Yin, Robert K (2018). *Case study research and applications*. Sixth edition. SAGE Publications.