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The Role of Internal Control in Preventing Accounting Fraud in the Public Sector

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Abstract

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Public sector accounting plays a strategic role in ensuring accountability, transparency, and efficiency in managing public funds. However, the growing number of accounting fraud cases in government institutions indicates weaknesses in internal control systems and governance practices. This study aims to analyze the relationship between the implementation of public sector accounting, the effectiveness of internal control, and fraud prevention based on empirical literature from the past five years. The review results reveal that a strong internal control system, the application of government accounting standards, and ethical behavior among public officials significantly influence the reduction of fraud potential. The implementation of the Government Internal Control System, regular training for public officers, and enhanced community oversight strengthen financial accountability within public institutions. Therefore, public sector accounting serves not merely as a recording mechanism but as a moral and structural control instrument that reinforces institutional integrity, improves transparency, and minimizes the misuse of public resources to achieve good governance in the public sector.

1. Introduction

Public sector accounting is a system designed to produce relevant financial and non-financial information for public decision-making and to realize accountability and transparency in the management of state resources. In the context of modern governance, public accounting functions not merely as a transaction recording tool, but as a public accountability mechanism that ensures public funds are used efficiently, transparently, and in accordance with statutory regulations. Through the presentation of reliable financial reports, the public and supervisory bodies can assess the extent to which the government has fulfilled its financial management responsibilities (Ningtyas et al., 2019). However, the phenomenon of accounting fraud in the public sector remains a serious challenge in various developing countries, including Indonesia. Fraud in the public sector manifests in various forms such as manipulation of financial statements, misuse of budgets, and administrative corruption. This behavior not only reduces the credibility of government institutions but also erodes public trust in state institutions. In the study by Majid et al. (2022), weak public control and internal oversight are one of the dominant factors enabling the misappropriation of public funds, especially at the local government level.

Various studies indicate that the effectiveness of the internal control system is a critical determinant in preventing fraud practices in the public sector. Internal control plays a preventive and detective role against financial deviations through the implementation of segregation of duties, restriction of access, internal audit, and transparent reporting systems. According to Bracci et al. (2022), the public sector accounting model accompanied by a strong internal control system has a positive correlation with fraud prevention efforts. This system ensures that every financial transaction can be traced and accounted for, while simultaneously reducing the opportunity for collusion among employees.

In addition to structural factors, the behavioral and ethical dimensions of apparatus are also a crucial aspect of fraud prevention. Government officials who possess integrity and an ethical awareness of accountability tend to adhere to the principles of honest financial reporting. Research by Rizal et al. (2022) found that the competence and morality of civil servants have a significant influence on the effectiveness of preventing financial statement fraud. Moral integrity strengthens the success of internal control because ethical values form the basis of accountable behavior. Within the framework of bureaucratic reform, the Indonesian government has implemented the Government Internal Control System *(Sistem Pengendalian Intern Pemerintah*/SPIP) as the primary instrument to strengthen performance accountability and prevent deviations. SPIP functions to ensure all institutional activities are carried out effectively, efficiently, and in accordance with applicable regulations.

The results of Illiyyien et al. (2023) research confirm that the implementation of the reinventing government concept in strengthening SPIP can improve public financial governance and reduce the potential for fraud. This approach emphasizes managerial innovation, public involvement, and increasing the capacity of public sector human resources. Nevertheless, the implementation of public sector accounting and internal control systems still faces various constraints, such as limited technical competence, weak enforcement of regulations, and lack of ethical awareness among apparatus. Aulia et al. (2023) asserts that the application of good public sector accounting does not always guarantee a low level of fraud if the organizational culture does not yet support transparency. Therefore, the strengthening of public governance needs to be accompanied by the establishment of a healthy control environment oriented towards the value of integrity.

Based on this description, it can be concluded that fraud in the public sector is a consequence of a combination of systemic factors and individual behavior. This literature review seeks to examine in depth the relationship between public sector accounting, the effectiveness of internal control, and fraud prevention efforts based on empirical research findings from the last five years. With a comprehensive understanding, the results of this study are expected to provide a theoretical contribution to the development of public accounting policies with integrity and serve as a practical reference in strengthening government financial governance.

2. Literature Review

2.1. The Concept of Public Sector Accounting and Government Accountability

Public sector accounting developed in response to the demands for accountability and transparency in the management of state finances. Unlike private accounting, which is profit-oriented, public accounting focuses on how public resources are effectively allocated for the wider community interest. According to Ningtyas et al. (2019), the government accounting system functions as a control mechanism that ensures every financial activity is recorded, monitored, and can be accounted for to the public. Public sector accountability can be defined as the obligation of government entities to explain and account for decisions, actions, and the management of public funds to stakeholders. Majid et al. (2022) emphasize that the transparency of financial reports is an important instrument in preventing the abuse of authority and ensuring budget sustainability. Furthermore, the consistent application of government accounting standards is able to strengthen public trust in the performance of public institutions.

In addition, the accurate application of public sector accounting in accordance with international standards also strengthens the government's ability to conduct performance evaluations. Amalia (2023) state that the application of transparent accounting principles directly plays a role in improving the quality of decision-making and performance accountability of government institutions. Thus, public sector accounting is not just a technical recording tool, but also a moral and political means of realizing clean governance.

2.2. Internal Control as an Instrument for Fraud Prevention

The internal control system is a crucial component in the public governance architecture. Its main function is to detect, prevent, and minimize the risk of deviations in financial reporting and budget execution. According to Fauziyah and Setyawan (2023), the positive relationship between internal control effectiveness and fraud prevention indicates that organizations with strong control systems tend to have lower levels of fraud. Internal control encompasses various elements such as the control environment, risk assessment, control activities, information and communication, and monitoring activities. Illiyyien et al. (2023) explain that the application of reinventing government, which emphasizes bureaucratic efficiency and public participation, is proven to strengthen the internal control system in government institutions. This approach not only builds structural mechanisms but also increases the moral awareness of apparatus regarding the importance of integrity in their work. Aulia et al. (2023) adds that weaknesses in the internal oversight system, such as a lack of segregation of duties and weak internal audit, create opportunities for individuals to commit fraud.

In this context, the effectiveness of internal control is determined not only by the system design but also by the organizational culture and the commitment of leadership to ethical values. When the organizational culture supports transparency, any violation of integrity will be quickly detected and followed up. Meanwhile, research by Rizal et al. (2022) emphasizes that the success of internal control is highly influenced by the competence and professionalism of the apparatus. Technology-based supervision, digital audits, and regular training are proven to increase the reliability of internal control systems in government agencies. The human factor becomes a crucial aspect because even though the system has been well-designed, its implementation heavily depends on the morality and responsibility of the individual.

2.3. Determining Factors and Fraud Prevention Model in the Public Sector

Fraud prevention in the public sector cannot be achieved through a single approach. According to Putra et al. (2022), the main determinants of fraud include financial pressure, opportunity, and rationalization, as explained in the *fraud triangle* theory. These three factors explain that individuals tend to commit fraud when there is financial pressure, opportunity due to weak control, and moral justification for their actions. A study by Illiyyien et al. (2023) shows that strengthening an organizational culture oriented towards transparency and public accountability is able to reduce the opportunity for fraud. In the Indonesian context, the existence of the SPIP is a strategic instrument in ensuring government activities comply with regulations and policy objectives. Effective SPIP not only detects deviations but also creates an organizational climate that rejects manipulative practices. In addition to internal factors, the involvement of the public and external supervisory bodies also plays a significant role in maintaining the integrity of the public sector.

Majid et al. (2022) highlight the importance of public oversight as a social control mechanism against deviations by state apparatus. Budget transparency and public access to information are key to strengthening external control over bureaucratic behavior. From various empirical studies, it can be concluded that fraud prevention requires synergy between a transparent accounting system, effective internal control, individual integrity, and public participation. This multi-dimensional approach reflects that internal control is not just an administrative procedure, but an integral part of governance oriented towards justice and public responsibility.

3. Methods

This study uses a literature review approach aimed at analyzing the correlation between the application of public sector accounting, the effectiveness of internal control, and efforts to prevent accounting fraud (fraud) in government institutions. This approach was chosen because it allows researchers to identify, evaluate, and synthesize the results of previous research to obtain a comprehensive understanding of the phenomenon under study. This method is also relevant for examining theoretical and empirical concepts that have been developed in the context of public accounting reform in Indonesia. The literature sources used come from scientific journals indexed in Google Scholar with a publication period in last five years.

The selection of this time frame is based on the relevance of the latest empirical data reflecting the dynamics of internal control system implementation in the public sector after the national implementation of the SPIP. Ten articles meeting the inclusion criteria were reviewed in depth. The review stages include four main processes. First, literature identification, which is tracing articles discussing the main variables such as public sector accounting, internal control system, and fraud prevention. Second, source credibility evaluation, by reviewing the validity of the methodology, the reputation of the journal, and the relevance of the research context to the Indonesian public sector. Third, thematic analysis, which is grouping the research results based on the focus of the findings, such as internal control effectiveness, apparatus integrity, and implementation of accounting standards. Fourth, conceptual synthesis, where all research results are integrated to form a broader theoretical understanding of the relationship between variables.

The analytical approach used is descriptive-comparative, which is comparing the results of various studies to identify common patterns and differences in findings. This analysis not only aims to confirm the causal relationship between variables but also to explain the contextual factors that influence the implementation of public accounting policies. Thus, the results of this study are expected to contribute to the academic literature and serve as a conceptual basis for formulating strategies to strengthen transparent government financial governance free from fraudulent practices.

4. Results

The results of the literature review show that the application of public sector accounting and the effectiveness of the internal control system have a significant relationship with efforts to prevent accounting fraud in government institutions. The findings from various studies indicate that good governance, transparent financial reporting, and adequate internal oversight are key factors in maintaining public accountability. Furthermore, the integrity of the apparatus and an organizational culture that supports ethical behavior are also important elements that determine the effectiveness of the control system in preventing fraud.

The research by Ningtyas et al. (2019) highlights that the application of a government accounting system accompanied by strong internal control can enhance the performance accountability of institutions. This system helps ensure that financial statements are prepared reliably, relevantly, and in accordance with the principles of transparency. The implementation of internal control in this context covers various aspects, such as segregation of duties, restriction of authority, and layered audit procedures. With effective oversight, errors or fraud can be detected earlier before having a significant impact on public finances.

In addition to structural aspects, the success of public sector accounting in preventing fraud is also highly dependent on the ethical awareness and moral responsibility of civil servants. The study by Rizal et al. (2022) shows that the competence and integrity of public apparatus have a positive influence on the effectiveness of the control system. Apparatus who understand the principles of professional ethics and public accounting standards are better able to carry out their duties accountably and avoid manipulative behavior. This human factor often becomes the greatest challenge because not all individuals have the same moral commitment in carrying out public responsibilities.

The findings of Fauziyah and Setyawan (2023) strengthen the view that the public sector accounting model accompanied by an effective internal control system genuinely contributes to fraud prevention. The research shows that the application of transparent financial procedures can reduce the risk of budget deviation. Increased financial accountability is achieved through the integration of planning, execution, and financial reporting based on government accounting standards. When the control system works well, the opportunity for individuals to manipulate reports becomes smaller because every transaction can be traced.

Furthermore, Illiyyien et al. (2023) found that the application of the reinventing government paradigm in public institutions plays an important role in strengthening the internal control system. This paradigm emphasizes bureaucratic efficiency, decentralization of responsibility, and innovation in the oversight process. The results show that institutions applying the reinventing government principles are better able to build a work culture based on transparency and public participation. This creates an organizational environment that not only prioritizes efficiency but also strengthens the value of integrity. This strengthening has a positive impact on reducing cases of budget deviation and manipulation of financial statements in government agencies.

The findings of Majid et al. (2022) affirm that public oversight and community participation have a role that is equally important as formal internal control. This research reveals that community involvement in monitoring the use of local budgets is able to increase transparency and reduce the practice of public fund misuse. When the public has access to financial information and the budget process, the accountability of government institutions increases significantly. Public oversight functions as a social control mechanism that complements the internal and external audit functions.

Research by Aulia et al. (2023) adds another dimension in the context of the relationship between internal control and fraud prevention. The results show that weaknesses in internal oversight often occur not because of the absence of a system, but because the existing system is not implemented consistently. Many agencies have formal control procedures, but their implementation is not continuously monitored. As a result, the opportunity for deviations remains open. The research emphasizes the importance of periodic monitoring and evaluation to ensure that internal control truly functions as intended.

Meanwhile, Putra et al. (2022) explain that fraud prevention in the public sector is heavily influenced by three main factors: pressure, opportunity, and rationalization. The pressure factor arises from demands for performance targets or personal financial needs, while opportunity arises due to weak oversight and internal control. Rationalization occurs when individuals try to justify their unethical actions based on personal or organizational interests. This fraud triangle model remains relevant in explaining corrupt behavior in the Indonesian public sector. Therefore, internal control policies need to be designed to close the opportunity for fraud through segregation of duties, increased transparency, and the establishment of an ethics-based organizational culture.

In addition to individual aspects, research also highlights the influence of institutional structure on the effectiveness of internal control. Amalia (2023) assert that the success of public sector accounting application depends on the commitment of top management to implementing the principles of accountability and good governance. If institutional leaders do not show commitment to integrity, internal control policies tend to be administrative and ineffective. Conversely, when leaders actively participate in monitoring financial processes and setting an ethical example, employee compliance with rules increases.

This review also finds that the existence of the Government Internal Control System (SPIP) is an important factor in strengthening public governance in Indonesia. Since the implementation of SPIP by the Financial and Development Supervisory Agency (*Badan Pengawasan Keuangan dan Pembangunan*/BPKP), there has been an increase in awareness among government agencies about the importance of transparent financial reporting. The study by Fauziyah and Setyawan (2023) shows that effective implementation of SPIP can reduce the risk of corruption and improve regional budget governance. The implementation of this system allows internal audits to run more structured and strengthens coordination between oversight and activity implementation units.

Furthermore, the results of the review indicate a paradigm shift in public financial oversight. Internal control, which was previously reactive, is now evolving into a preventive system based on technology and data analytics. The use of digital reporting applications, electronic-based accounting systems, and computer-assisted audits increases the efficiency of detecting transaction anomalies. The study by Prayitno (2023) suggests that the digitalization of public accounting processes helps accelerate transparency and minimize the opportunity for data manipulation. Thus, technology functions as a catalyst in strengthening the integrity of financial reporting.

In general, the results of the review show that the success of preventing fraud in the public sector is determined by the synergy between the system, human resources, and organizational culture. A well-designed internal control system will be effective if executed by individuals who possess integrity and are supported by an organizational culture that rejects all forms of deviation. The research by Bandiyono (2021) emphasizes the importance of collaboration between supervisory bodies, the public, and the government in creating a holistic oversight ecosystem.

Thus, this literature review demonstrates that fraud prevention in the public sector is not only a technical accounting issue but also involves moral and institutional governance. The stronger the synergy between public sector accounting, the internal control system, and individual integrity, the higher the level of accountability of public institutions (Said et al., 2020). The empirical studies collected from the last five years affirm that public accounting reform must continue to be directed towards strengthening integrity and transparency so that the management of state finances can proceed cleanly, efficiently, and sustainably.

5. Discussion

The results of the study indicate that the internal control system and the application of public sector accounting serve as two main pillars in creating accountable and fraud-free financial governance. Both have a complementary relationship: public accounting provides a framework for transparent recording and reporting, while internal control ensures the process runs in accordance with legitimate and auditable procedures. The integration of these two aspects forms the basis for building public trust in government institutions.

The research by Prayitno (2023) shows that the application of the reinventing government concept encourages public institutions to adopt control systems based on results and transparency. In this context, managerial innovation and public participation not only increase bureaucratic efficiency but also reduce the potential for budget misuse. This aligns with the results of Bandiyono (2021), which confirm that public oversight can function as an external control mechanism that strengthens the government's internal audit function.

From the perspective of individual behavior, the integrity and competence of the apparatus play a central role in the effectiveness of internal control. Rizal et al. (2022) revealed that ethics training and increasing the professional capacity of employees contribute directly to fraud prevention. When employees have a strong moral awareness, the internal control system is not only carried out administratively but also becomes part of the ethical commitment to serve the public. This factor strengthens the findings of Aulia et al. (2023), which highlights that implementation weaknesses in control are more often caused by the indiscipline of the implementers, rather than the system design itself.

Furthermore, the research by Fauziyah and Setyawan (2023) confirms that a public accounting system integrated with internal controls can minimize the risk of corruption and enhance the accountability of financial reporting. The use of technology in digital reporting and auditing becomes an important element in ensuring the traceability of every financial transaction. This digitalization not only reduces the potential for data manipulation but also increases the speed of detecting anomalies in financial reports. However, the effectiveness of the internal control system cannot be separated from the institutional context and bureaucratic culture.

The study by Ningtyas et al. (2019) shows that the success of internal control highly depends on the commitment of leadership and the organizational environment. When the organizational culture does not tolerate deviations, every form of fraud can be minimized. Conversely, if the leadership is permissive of violations, even the best system will struggle to achieve effectiveness. From all the results outlined, it can be concluded that fraud prevention in the public sector requires a multi-dimensional approach. The synergy between the public accounting system, internal control, individual integrity, and community participation forms the foundation of clean governance. Public accounting reform is not just about technical updates, but a sustained ethical and institutional transformation. Therefore, the government needs to continue strengthening the capacity of the apparatus, expanding the application of SPIP, and increasing technology-based transparency to close loopholes for financial deviations in the public sector.

6. Conclusion

Based on the results of the literature review, it can be concluded that the application of public sector accounting and the effectiveness of the internal control system are the main foundations for preventing accounting fraud in government institutions. Public sector accounting serves not only as a financial reporting instrument but also as a means of strengthening public accountability and transparency. Meanwhile, the internal control system functions as a monitoring mechanism that ensures all financial processes run according to regulations and prevents potential deviations.

The review shows that the success of internal control is strongly influenced by the integrity of the apparatus, leadership support, and an organizational culture oriented towards ethical values. The effective implementation of the SPIP is proven to increase the transparency and efficiency of public financial reporting. In addition, community participation, the utilization of digital technology, and external oversight also reinforce the public control mechanism over government financial governance. Thus, fraud prevention in the public sector requires synergy between accounting policies, a comprehensive control system, and the ethical behavior of stakeholders. Public accounting reform should be directed not only at technical aspects but also at the formation of apparatus character with integrity. This effort is expected to create governance that is clean, transparent, and sustainably accountable.

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