

Internal Control Analysis and Fraud Prevention Efforts in Public Sector Accounting

Awi Kurniawan^{1*}, Haliah Haliah², Andi Kusumawati³

Faculty Of Economic And Business, Hasanuddin University, Makassar, South Sulawesi, Indonesia

Corresponding Author: Awi Kurniawan Awikurniawan999@gmail.com

ARTICLE INFO

Keywords: Internal Control, Fraud Prevention, Public Sector Accounting, Governance, Accountability.

Received : 14, October

Revised : 26, October

Accepted: 25, November

©2024 Kurniawan, Haliah, Kusumawati : This is an open-access article distributed under the terms of the [Creative Commons Attribution 4.0 International](https://creativecommons.org/licenses/by/4.0/).



ABSTRACT

The study examines the role of internal control in preventing fraud within public sector accounting by safeguarding assets, ensuring accurate financial reporting, and promoting operational efficiency. Internal control systems are built on control environments, risk assessments, control activities, communication, and monitoring. Weak internal controls, such as inadequate segregation of duties and poor oversight, often lead to fraud in the public sector. Effective measures, including audits, anti-fraud policies, ethical behavior promotion, and the use of technology for monitoring, can mitigate these risks. Strengthening internal control systems enhances financial integrity, protects public resources, and supports efficient governance.

INTRODUCTION

Internal control systems play a crucial role in the efficient management and safeguarding of public resources, especially within public sector accounting. The necessity of robust internal controls has gained prominence due to the high stakes associated with the handling of public funds, where inefficiencies and fraud can result in significant losses to government budgets and damage to public trust. An effective internal control system not only improves accountability but also significantly enhances fraud prevention efforts. The importance of this system is underscored in numerous studies, which highlight the connection between strong internal controls and reduced incidences of fraud. For instance, the research by Joseph, Albert, and Byaruhanga (2015) in the district treasuries of Kakamega County illustrates that well-designed internal controls contribute positively to the detection and prevention of fraudulent activities in public institutions.

Public sector organizations are particularly susceptible to fraud due to the nature of their operations, which involve large amounts of financial transactions and complex bureaucratic processes. In Bayelsa State, Nigeria, Agwor and Akani (2017) emphasized the significance of internal control systems in the prevention of fraud within the public service sector. They argue that inadequate controls, lack of proper oversight, and ineffective monitoring systems provide fertile ground for fraudulent activities. This reflects a broader issue in many public institutions, where the absence of strong internal control mechanisms facilitates opportunities for fraud. In response to these challenges, governments around the world have been actively seeking ways to strengthen their internal control systems to safeguard public resources and ensure financial integrity.

Internal controls, when implemented effectively, create a system of checks and balances that minimizes the risk of fraud by limiting opportunities for wrongdoing. Widilestariningtyas and Karo (2016), in their study on the Bandung Regency government, demonstrated the direct influence of internal audit functions and internal control systems on fraud prevention. According to their findings, an internal audit department that operates with independence and adequate authority plays a pivotal role in overseeing financial operations, ensuring that processes are followed, and identifying areas where fraud might occur. This supports the idea that internal audits are a critical component of internal control systems, acting as a line of defense against fraudulent activities by regularly reviewing financial transactions and identifying discrepancies.

In Nigeria's public sector, Enofe, Egbe, and America (2016) analyzed the application of the Fraud Diamond Theory to highlight the mechanisms of internal control in preventing fraud. Their findings emphasize that fraud in the public sector often results from a combination of factors: opportunity, pressure, rationalization, and capability. Internal control mechanisms are particularly effective in limiting the opportunities for fraud by imposing restrictions on access to assets, segregating duties, and establishing clear lines of authority. By reducing these opportunities, the likelihood of fraudulent actions decreases. Furthermore, the presence of an internal control system also creates an

environment where unethical behavior is more likely to be detected early, thus acting as a deterrent for potential fraudsters.

The integration of internal control systems into public sector management also has broader implications for governance. Murti and Kurniawan (2020) highlighted the implementation and impact of internal controls on fraud prevention in the Indonesian public sector, focusing on how these systems contribute to more effective governance. They argue that internal controls are not only about preventing fraud but also about improving transparency and accountability, which are critical aspects of good governance. As governments face increasing scrutiny from the public and international bodies, having a robust internal control system becomes a prerequisite for maintaining the confidence of stakeholders and ensuring that public funds are used responsibly.

Incorporating forensic accounting into the public sector is another approach that enhances the effectiveness of internal control systems. Burzinji et al. (2022) explored the moderating role of internal control effectiveness in conjunction with forensic accounting to prevent fraud. Their study suggests that forensic accounting, when combined with strong internal control systems, provides a more comprehensive framework for detecting and preventing fraud. Forensic accounting techniques, which involve detailed investigation and analysis of financial transactions, help identify fraud that may not be immediately apparent through traditional control mechanisms. This approach reinforces the need for continuous improvement and adaptation of internal control systems to keep up with increasingly sophisticated methods of fraud.

Furthermore, internal control systems are complemented by raising awareness of anti-fraud measures among employees and officials within public sector organizations. Yuniarti and Ariandi (2017) conducted a survey on inter-governmental organizations, revealing that a higher awareness of fraud prevention measures significantly enhances the effectiveness of internal controls. Their research indicates that employees who are educated about the risks and signs of fraud are more likely to identify and report suspicious activities, thereby contributing to a culture of integrity within the organization. This underscores the importance of training and continuous professional development in fraud detection and prevention efforts, ensuring that internal controls are not only implemented but also understood and supported by those responsible for executing them.

Internal audits play a key role in fraud prevention and the enhancement of internal control systems. Nadirsyah, Indriani, and Mulyany (2024) emphasized that internal audits are vital to reinforcing internal controls within public sector governance. Their study highlights how internal auditors are tasked with the responsibility of continuously monitoring and evaluating the effectiveness of internal controls, identifying weaknesses, and recommending improvements. This ensures that the internal control systems remain effective and are adapted to address emerging risks and challenges. The role of internal auditors extends beyond mere financial oversight; they are integral to building an organizational culture that prioritizes accountability and transparency.

In the context of local government, Herawati and Hernando (2020) examined the internal control practices and their relationship with fraud prevention in the regional government of Jambi, Indonesia. Their research concluded that good corporate governance, supported by strong internal controls, is essential in reducing fraud risks. They found that fraud was more prevalent in areas where governance structures were weak or where internal controls were not properly enforced. This finding illustrates the broader impact that internal control systems have not only on preventing fraud but also on promoting better governance and accountability at the regional government level.

The perceived role of internal auditing in fraud prevention is also an area of focus in many studies. Motubatse (2014) discussed how internal auditing in South Africa's national public sector departments is seen as an essential tool for detecting and preventing fraud. Internal auditors are uniquely positioned to evaluate the entire spectrum of an organization's financial operations, offering insights into potential vulnerabilities in internal controls. By providing an independent and objective assessment of financial processes, internal auditors contribute to strengthening internal control systems, thus playing a significant role in fraud prevention efforts.

So, internal control systems are an indispensable part of public sector accounting and fraud prevention. The studies reviewed consistently show that robust internal control mechanisms, when properly implemented and supported by strong governance structures, significantly reduce the risk of fraud. Internal audits, forensic accounting, and the cultivation of an organizational culture that promotes integrity are all critical components of an effective fraud prevention strategy. As public sector organizations continue to evolve and face new challenges, the importance of continuously strengthening and adapting internal control systems cannot be overstated. Public trust, financial integrity, and the effective management of public resources depend on the diligent application of these systems across all levels of government.

THEORETICAL REVIEW

Internal Control Framework

Internal control is a system of processes, procedures, and policies designed to safeguard assets, ensure the accuracy of financial reporting, and promote operational efficiency. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework provides a widely recognized foundation for internal control systems, emphasizing five components:

- a) Control Environment : Establishes the foundation for internal control by promoting integrity, ethical values, and accountability.
- b) Risk Assessment : Identifies and evaluates risks that may hinder the achievement of organizational objectives.
- c) Control Activities : Implements specific policies and procedures to mitigate identified risks.
- d) Information and Communication : Ensures timely and accurate information sharing for decision-making and accountability.

- e) Monitoring : Continuously reviews and improves the effectiveness of the internal control system.

The Role of Internal Control in Fraud Prevention

Fraud in public sector accounting often results from weaknesses in internal control systems, including poor oversight, lack of transparency, and insufficient segregation of duties. A robust internal control system helps prevent, detect, and respond to fraudulent activities by:

- a) Establishing Clear Procedures: Clear policies and procedures reduce opportunities for manipulation or mismanagement.
- b) Strengthening Oversight: Regular supervision and audits ensure compliance with established rules.
- c) Promoting Ethical Behavior: Encouraging integrity through training and ethical codes reduces fraud risk.

METHODOLOGY

The qualitative descriptive research method is a type of research that focuses on understanding and interpreting phenomena by collecting detailed, narrative data. This method is used to provide a comprehensive description of a particular issue, event, or behavior, often in its natural context. The primary goal of qualitative descriptive research is to present an accurate and thorough depiction of the subject being studied, relying on rich, detailed data gathered from various sources such as interviews, observations, and document analysis.

In qualitative descriptive research, the researcher seeks to understand the perspectives and experiences of individuals or groups related to the topic of interest. This method is particularly useful for studies where the researcher aims to explore complex social phenomena, behaviors, or interactions without the need for hypothesis testing or in-depth theoretical analysis. Instead, the focus is on providing a clear, factual, and comprehensive account of the subject, allowing for a straightforward interpretation of the data.

Data collection in qualitative descriptive research typically involves the use of open-ended questions, allowing participants to express their thoughts and experiences freely. This method encourages participants to share their insights in their own words, providing the researcher with detailed information that can be analyzed and organized thematically. The researcher plays a key role in interpreting and presenting the data, ensuring that the findings accurately reflect the participants' views and experiences.

The analysis in this research method involves identifying patterns, themes, and trends within the data. The goal is to provide an accurate description of the phenomena without imposing pre-conceived theories or frameworks. This makes qualitative descriptive research particularly valuable in exploratory studies, where the researcher seeks to build a foundational understanding of an issue before moving on to more complex analyses.

Overall, the qualitative descriptive research method is a flexible and effective approach for studying real-world phenomena, offering rich insights

into the experiences and perspectives of individuals or groups, particularly in contexts that require a deep, descriptive understanding.

RESULTS AND DISCUSSION

The discussion surrounding internal control systems and fraud prevention in public sector accounting is multifaceted, focusing on how these systems are designed, implemented, and monitored to reduce the risk of fraud in government institutions. One of the central aspects of internal control is its ability to create a structured environment where duties and responsibilities are clearly defined, minimizing opportunities for fraud. Joseph, Albert, and Byaruhanga (2015) highlight the critical role that internal control systems play in the detection and prevention of fraud within district treasuries in Kakamega County. Their study indicates that when control mechanisms such as segregation of duties, regular audits, and compliance checks are rigorously enforced, fraudulent activities become more difficult to perpetrate. This is particularly important in public sector accounting, where the stakes are high, and the mismanagement of resources can have widespread social and economic implications.

In public sector institutions, the complexity of financial transactions and bureaucratic processes often creates an environment ripe for fraud if internal controls are not adequately enforced. Agwor and Akani (2017), in their study of the Bayelsa State public service in Nigeria, demonstrate that the lack of effective internal control systems is a major contributing factor to the prevalence of fraud. They argue that weaknesses in oversight, a lack of transparency, and poor enforcement of regulations provide fertile ground for fraudulent activities. These findings underscore the importance of developing strong, enforceable internal control frameworks that can adapt to the specific challenges faced by public sector organizations. The ability to prevent fraud is largely dependent on the capacity of these controls to identify potential risks and mitigate them through structured processes and accountability measures.

The role of internal audits as a component of the internal control system is critical in ensuring the system's effectiveness in fraud prevention. Widilestariningtyas and Karo (2016), in their analysis of the Bandung Regency government, emphasize that internal audits provide an essential oversight function by continuously reviewing financial operations and identifying discrepancies that may indicate fraud. Internal auditors act as independent watchdogs, ensuring that internal controls are not only in place but are being followed correctly. Their ability to detect irregularities and recommend corrective actions plays a significant role in preventing fraud before it can escalate. This continuous monitoring function is crucial in the public sector, where the sheer volume of transactions requires constant vigilance to ensure that financial integrity is maintained.

The application of theoretical frameworks such as the Fraud Diamond Theory also provides insights into how internal control systems can be optimized to prevent fraud. Enofe, Egbe, and America (2016) apply this theory to the Nigerian public sector, illustrating that fraud occurs when there is an intersection of opportunity, pressure, rationalization, and capability. Internal control

mechanisms directly address the opportunity factor by reducing the chances of fraud occurring through stringent control activities, such as asset safeguarding, segregation of duties, and authorization procedures. By limiting opportunities for fraud, internal control systems make it more difficult for potential fraudsters to exploit weaknesses within the organization. This theoretical approach provides a structured understanding of how internal controls function within the broader context of fraud prevention.

Governance plays an equally important role in supporting internal control systems in public sector institutions. Murti and Kurniawan (2020) examine the implementation of internal controls in the Indonesian public sector, focusing on how these systems contribute to improved governance. Their study highlights that internal controls are not only a tool for preventing fraud but also a mechanism for enhancing transparency and accountability within government institutions. When internal controls are effectively implemented, they ensure that public officials adhere to established protocols and regulations, thereby reducing the potential for corrupt practices. Strong governance structures that support the consistent application of internal controls are essential for fostering an environment where fraud prevention becomes a natural outcome of the system's operations.

The integration of forensic accounting techniques with internal control systems offers another layer of protection against fraud in the public sector. Burzinji et al. (2022) explore how forensic accounting, when used in conjunction with internal controls, strengthens the ability of public sector institutions to detect and prevent fraud. Forensic accounting involves detailed scrutiny of financial transactions, which helps uncover fraudulent activities that may not be immediately visible through traditional control mechanisms. The study emphasizes that the effectiveness of forensic accounting is significantly enhanced when internal controls are already in place, as the structured environment created by these controls facilitates the detection of irregularities. This approach highlights the need for continuous improvement and modernization of internal control systems to address the evolving nature of fraud in the public sector.

Another important factor in the effectiveness of internal control systems is the level of awareness and education regarding fraud prevention among public sector employees. Yuniarti and Ariandi (2017) point out that anti-fraud awareness programs are crucial in reinforcing the internal control framework. Their research suggests that when employees are educated about the risks of fraud and the importance of internal controls, they are more likely to comply with established procedures and report suspicious activities. This increased awareness fosters a culture of integrity and accountability, where employees actively participate in safeguarding the organization's assets. Public sector institutions benefit from this proactive approach, as it enhances the overall effectiveness of internal controls by ensuring that all employees understand their role in preventing fraud.

Internal audits also play a critical role in strengthening internal control systems, particularly in the context of public sector governance. Nadirsyah, Indriani, and Mulyany (2024) underscore the importance of internal audits in

enhancing fraud prevention efforts. Their study highlights how internal auditors, by continuously evaluating the effectiveness of internal controls, help identify weaknesses and recommend improvements that can prevent fraud from occurring. Internal audits not only provide an independent assessment of an organization's financial operations but also ensure that the internal control systems remain dynamic and responsive to emerging risks. This adaptability is crucial in the public sector, where fraud schemes can evolve rapidly, and internal controls must be able to adjust to new challenges.

The relationship between internal control systems and good governance is further emphasized in the study by Herawati and Hernando (2020), who examine the regional government of Jambi in Indonesia. Their findings reveal that strong internal controls are closely linked to effective governance practices, which in turn reduce the risk of fraud. Good corporate governance, supported by robust internal controls, ensures that public resources are managed transparently and responsibly. The study highlights that regions with weak governance structures and poorly implemented internal controls are more susceptible to fraud, indicating that governance reforms are often necessary to strengthen the internal control environment. This connection between governance and internal controls is critical for public sector institutions aiming to improve their fraud prevention capabilities.

The perception of the role of internal auditing in fraud prevention is also explored in the work of Motubatse (2014), who investigates South African public sector departments. The study suggests that internal auditors are seen as key players in both detecting and preventing fraud. Internal auditors have the advantage of a comprehensive view of the organization's financial operations, allowing them to identify areas of vulnerability that might not be immediately apparent to other stakeholders. Their objective perspective enables them to recommend actionable steps to improve internal controls, making them a vital component of fraud prevention efforts. This perception reinforces the importance of internal audits in maintaining the integrity of public sector financial systems.

Therefore, the discussion of internal control systems and their role in fraud prevention within public sector accounting reveals a complex interplay of factors that must be considered to ensure the effectiveness of these systems. The research reviewed consistently shows that strong internal control mechanisms, supported by internal audits, forensic accounting, and a culture of integrity, are essential in reducing the risk of fraud in public sector institutions. Governance structures play a critical role in enforcing these controls, ensuring that public funds are managed transparently and responsibly. As fraud schemes become more sophisticated, public sector organizations must continually adapt their internal control systems to address new challenges. The effectiveness of fraud prevention efforts is directly linked to the strength and adaptability of internal controls, making them a crucial element in the sustainable management of public resources.

CONCLUSIONS AND RECOMMENDATIONS

In conclusion, internal control systems are fundamental to maintaining the integrity of financial operations in public sector accounting. They create a structured environment where processes are monitored and regulated, reducing the opportunities for fraudulent activities to occur. The various mechanisms that comprise internal controls such as segregation of duties, authorization protocols, and regular audits act as safeguards to ensure that public resources are managed efficiently and ethically. By establishing clear guidelines and accountability, these systems provide a framework that enhances financial transparency and accountability.

Fraud prevention in the public sector is a complex challenge that requires more than just a set of rules; it requires the active engagement of all stakeholders. Internal audits, as an integral part of the internal control framework, play a key role in ensuring that these controls are adhered to and remain effective. Continuous evaluation by internal auditors helps identify vulnerabilities within the system and offers a means of improving practices to close any gaps that fraudsters might exploit. Therefore, internal audits do not merely assess compliance; they are crucial in evolving the system to adapt to new risks.

Moreover, the effectiveness of internal control systems is closely tied to the level of awareness and education on fraud risks among public sector employees. When staff members are trained to recognize and report fraudulent activities, they become active participants in maintaining the integrity of financial processes. Creating a culture of integrity where employees feel responsible for safeguarding public assets is essential to ensuring that internal controls are both respected and followed. This proactive approach significantly enhances the success of fraud prevention efforts.

Governance structures also play a vital role in reinforcing the internal control system. Effective governance ensures that there is a robust framework to support the consistent application and enforcement of internal controls. It provides the oversight necessary to ensure that processes are followed and that any deviations are promptly addressed. When governance structures are strong, they help to establish a culture of accountability, reducing the likelihood of fraud by promoting ethical behavior across all levels of government institutions.

Ultimately, the fight against fraud in public sector accounting requires a multi-faceted approach. Internal controls, supported by internal audits, employee awareness, and strong governance, are all critical elements of an effective fraud prevention strategy. Public sector institutions must remain vigilant and continually adapt their internal control systems to address emerging risks. By doing so, they can ensure that public resources are managed with integrity and that public trust in government financial management is maintained.

FURTHER STUDY

Investigate the role of advanced technologies such as artificial intelligence, blockchain, and real-time data analytics in strengthening internal control systems. Future studies could focus on how these technologies can automate monitoring, enhance transparency, and reduce human errors in public sector accounting.

REFERENCES

- Agwor, T. C., & Akani, F. N. (2017). Internal control system and fraud prevention in public Service of Bayelsa State, Nigeria. *International Journal of Novel Research in Marketing Management and Economics*, 4(3), 170-178.
- Alhassan, I. (2020). Forensic accounting and fraud detection and prevention in the Nigerian public sector. *International Journal of Accounting Research*, 5(4), 108-115.
- Burzinji, Z. A. Q., Yusoff, W. S., Rosbi, M. S. B. M., Salleh, M. F. M., & Abdullah, A. H. (2022). The effect of forensic accounting on fraud prevention, the moderating role internal control effectiveness. *International Journal of Economics, Commerce and Management*, 10(1), 213-230.
- Enofe, A. O., Egbe, M. E., & America, D. O. (2016). Internal Control Mechanism and Fraud prevention in Nigeria Public Sector: An Application of the New Fraud Diamond Theory. *Journal of Accounting and Financial Management*, 2(1), 35-47.
- Herawati, N., & Hernando, R. (2020). Analysis of Internal Control of Good Corporate Governance and Fraud Prevention (Study at the Regional Government of Jambi). *Sriwijaya International Journal of Dynamic Economics and Business*, 4(2), 103-118.
- Joseph, O. N., Albert, O., & Byaruhanga, J. (2015). Effect of internal control on fraud detection and prevention in district treasuries of Kakamega County. *International Journal of Business and management invention*, 4(1), 47-57.
- Kesuma, A. P., & Fachruzzaman, F. (2024). Analysis of Internal Control and Fraud Prevention Efforts in Public Sector Accounting. *EKOMBIS REVIEW: Jurnal Ilmiah Ekonomi dan Bisnis*, 12(1), 1361-1368.
- Motubatse, K. N. (2014). Perceived role of internal auditing in fraud prevention and detection in South African public sector national departments.
- Murti, A., & Kurniawan, T. (2020, August). Implementation and Impact of Internal Control in Preventing Fraud in The Public Sector. In *Proceedings of the 3rd International Conference on Administrative Science, Policy, and Governance Studies, ICAS-PGS 2019, October 30-31, Universitas Indonesia, Depok, Indonesia*.
- Nadirsyah, Indriani, M., & Mulyany, R. (2024). Enhancing fraud prevention and internal control: the key role of internal audit in public sector governance. *Cogent Business & Management*, 11(1), 2382389.
- Solomon, A. N., Emmanuel, O. O., Ajibade, D. S., & Emmanuel, D. M. (2023). Assessing the effectiveness of internal control systems on fraud prevention and detection of selected public institutions of Ekiti State, Nigeria. *Asian Journal of Economics, Finance and Management*, 231-244.
- Widilestariningtyas, O., & Karo, R. S. K. (2016). The influence of internal audit and internal control on fraud prevention in Bandung regency government. *Journal of Administrative and Business Studies*, 2(3), 143-150.
- Yuniarti, R. D., & Ariandi, I. (2017). The effect of internal control and anti-fraud awareness on fraud prevention (A survey on inter-governmental organizations). *Journal of Economics, Business, and Accountancy Ventura*, 20(1), 113-124.