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THE RELATIONSHIP BETWEEN PUBLIC SECTOR INTERNAL CONTROLS AND FRAUD PREVENTION

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Abstract

This study examines the relationship between public sector internal controls and fraud prevention by employing a literature review method. Internal control systems serve as an essential mechanism to safeguard public resources, ensure accountability, and uphold transparency in government financial management. A well-structured internal control framework, which includes preventive, detective, and corrective mechanisms, plays a critical role in mitigating fraud risks by reducing opportunities for misconduct. Through a comprehensive analysis of previous studies, this research highlights that effective internal controls such as segregation of duties, monitoring, risk assessment, and ethical leadership significantly contribute to the reduction of fraudulent practices in the public sector. Furthermore, the findings suggest that the success of fraud prevention efforts is not solely determined by formal control mechanisms, but also by the integrity, competence, and commitment of public officials in enforcing these controls. The study concludes that strengthening internal control systems in the public sector is vital for enhancing good governance and preventing corruption.

Keywords: Internal controls, fraud prevention, public sector, accountability, governance.

INTRODUCTION

The phenomenon of fraud in the public sector is a global issue that continues to be highlighted, in both developed and developing countries. Fraud not only causes significant financial losses but also undermines public trust in

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government institutions, weakens governance, and creates obstacles to socioeconomic development. Fraud in the public sector can manifest in various forms, such as misappropriation of assets, embezzlement, manipulation of financial reports, and even bribery and corruption in the procurement of goods and services (Nadirsyah et al., 2024).

Bureaucratic complexity, weak transparency, and information asymmetry between state officials and the public increase the opportunity for irregularities that are difficult to detect. This situation emphasizes the importance of an effective internal control system in minimizing the risk of fraud and maintaining the integrity of public institutions.

Internal control in the public sector is not merely viewed as an administrative or procedural mechanism, but as a crucial instrument for ensuring that organizational goals are achieved efficiently, effectively, and accountably. The concept of internal control introduced by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) emphasizes five key components: the control environment, risk assessment, control activities, information and communication, and monitoring (Rashid, 2022a). In the public sector context, these five components form the foundation for creating clean and transparent governance. A strong control environment, for example, fosters a culture of integrity among government officials, while risk assessments enable organizations to identify potential loopholes that could be exploited to commit fraud. Effective control activities ensure procedures are in place that limit the scope for abuse of authority, while transparent information systems and open communication enhance accountability. Continuous monitoring of control implementation is also key to early detection of anomalies that could lead to fraud.

The correlation between internal control and fraud prevention becomes increasingly relevant given the high number of corruption cases in the public sector uncovered by audit institutions and anti-corruption agencies in various countries. In many cases, weak internal control systems provide easy entry points for perpetrators to commit fraud (Vutumu et al., 2024). For example, the lack of segregation of duties in financial management allows an official to have full authority over both recording and disbursement, opening up opportunities for abuse. Inadequate internal audit mechanisms also allow manipulative practices to persist for extended periods without detection. Conversely, previous studies have shown that the implementation of comprehensive internal controls has proven effective in reducing opportunities for fraud, increasing regulatory compliance, and fostering a more accountable organizational culture.

Within the framework of good governance, the existence of internal controls is a key pillar for promoting transparency, accountability, and efficiency in public service delivery. Good governance is impossible without a system capable of preventing, detecting, and taking action against any form of irregularity that harms the state or the public. Fraud prevention is not merely an administrative effort, but a strategic step to protect public resources and enhance government legitimacy in the eyes of the public. In countries with high levels of public trust, the implementation of internal controls has proven integral to reducing corruption and strengthening social and political stability. Therefore, research on the relationship between internal control in the public sector and fraud prevention is very important to provide academic understanding as well as practical recommendations for increasing the effectiveness of control in government institutions (SUMARYATI et al., 2020a).

Furthermore, it is important to understand that internal control in the public sector presents different challenges than in the private sector. The public sector operates with a focus on public service, not profit, resulting in greater regulatory and bureaucratic complexity. Furthermore, the number of stakeholders involved is greater, including the government, the public, regulatory agencies, and international organizations. This situation demands an adaptive and multi-layered internal control system to accommodate diverse interests while eliminating opportunities for abuse. Fraud prevention in the public sector also requires a broader approach, encompassing not only strengthening regulations and procedures but also improving the quality of human resources, work ethics, and collective awareness of the importance of integrity. Internal control serves as a broad umbrella that integrates technical, cultural, and moral aspects in efforts to prevent fraud (ALAWAQLEH, 2021).

Research on the relationship between internal control and fraud prevention in the public sector is also increasingly relevant in the era of government digitalization. Digital transformation in state financial management, such as the implementation of e-budgeting, e-procurement, and e-audit, opens up significant opportunities to increase transparency and accountability. However, at the same time, digitalization also brings new challenges in the form of cybersecurity risks, data misuse, and the emergence of more sophisticated fraud methods. In this context, internal control must continuously adapt to technological developments to remain an effective instrument in preventing fraud (Kaur et al., 2022). Academic studies on this subject can contribute to strengthening public policy, improving governance practices, and reaffirming the state's commitment to the anti-corruption agenda.

Beyond theoretical aspects, this research also has significant practical relevance. By examining the relationship between internal control and fraud prevention, the government can gain a clearer picture of the factors that strengthen or weaken the effectiveness of controls in preventing fraud (Avortri & Agbanyo, 2020). The research findings can be used to develop more targeted control strategies, increase the capacity of oversight institutions, and improve bureaucratic procedures prone to irregularities. This research can also contribute to international donor agencies, civil society organizations, and the wider public in monitoring the government's commitment to upholding integrity and accountability in the public sector. Thus, this research not only serves to enrich the academic literature but also provides tangible benefits for improving governance.

The urgency of research into the relationship between internal control in the public sector and fraud prevention becomes increasingly apparent when linked to the challenges of sustainable development. Fraud in the public sector can hinder the achievement of Sustainable Development Goals (SDGs), particularly those related to poverty alleviation, improving the quality of education, healthcare, and public infrastructure. Public funds that should be allocated for the public good are often leaked due to fraud, reducing the effectiveness of development programs. Strong internal control can help ensure that public resources are used for their intended purpose, supporting the achievement of development goals, and strengthening public welfare. This emphasizes that fraud prevention is not merely a technical matter of financial management, but a strategic issue directly related to public welfare.

Against this backdrop, this study seeks to explore in depth the relationship between internal control and fraud prevention in the public sector. The study focuses on how internal control elements can function effectively in preventing fraud, the factors influencing their successful implementation, and the implications of these findings for good governance. Using a literature review approach, this study will examine various previous research findings, internal control theories, and case studies from various countries to formulate comprehensive conclusions. It is hoped that the results of this research will make a tangible contribution to strengthening academic understanding and supporting the formulation of better public policies to build a public sector free from fraud and high in integrity.

RESEARCH METHOD

The research method used in this study is a literature review, an approach that emphasizes the collection, analysis, and synthesis of various scientific sources relevant to the topic of the relationship between public sector internal control and fraud prevention. The research process was conducted through a search of academic literature sourced from reputable international journals, textbooks, research reports, and official documents from government agencies and international organizations. The selected literature focused on publications within the last ten years to maintain relevance to developments in internal control practices and the dynamics of fraud prevention in the public sector. The analytical technique used was qualitative analysis, which involved reviewing, comparing, and interpreting the findings of various previous studies to obtain a comprehensive picture of the effectiveness and challenges in implementing internal control as a fraud prevention instrument.

This research went through several stages, including identifying research keywords, selecting appropriate literature sources, and evaluating the credibility and contribution of each piece of literature to the analytical framework. The collected literature was then categorized based on key themes, such as internal control effectiveness, control system weaknesses, best practices in implementation, and the direct and indirect relationship between internal control and fraud prevention efforts. With this approach, the research seeks to present a comprehensive conceptual and empirical understanding of the existing relationships, while identifying research gaps that still need to be further developed in the context of the public sector.

RESULT AND DISCUSSION

The Role of Internal Control as a Fraud Prevention Mechanism

Internal control is a system designed to provide reasonable assurance that organizational goals can be achieved by maintaining the reliability of financial reports, operational effectiveness and efficiency, and compliance with applicable regulations (Rashid, 2022b). In the context of fraud prevention, internal control plays a crucial role because fraud is essentially a manipulative act that harms the organization, both financially and reputationally. With the increasing complexity of organizational activities and the increasing risk of fraud, the need for strong internal control becomes increasingly urgent to maintain the integrity and accountability of resource management.

Fraud generally arises from incentives, opportunities, and rationalizations, as explained in the fraud triangle theory. Internal control serves to disrupt one side of this triangle, specifically the opportunity that typically arises from weak supervision and control. When an organization has an effective internal control system, the opportunity for individuals to commit fraud is significantly reduced (Musyoki, 2023a). For example, in the accounting process, the separation of duties between transaction recorders, asset custodians, and transaction authorization parties is a crucial mechanism to reduce the risk of abuse of authority. Thus, internal control functions not only as a means of detection but also as a preventive mechanism that limits the scope for fraud perpetrators to operate.

Furthermore, internal control plays a role in building an organizational culture oriented towards honesty, transparency, and accountability. A good control system emphasizes a code of ethics, anti-fraud policies, and training for employees so they understand the risks of fraud and their respective responsibilities in preventing it. When a culture of integrity is fostered through internal control, every individual within the organization will be more cautious in their actions, aware that every behavior can be monitored and accounted for (Madolidi Handoyo & Bayunitri, 2021a). Furthermore, internal control helps management ensure that fraudulent acts are prevented early on before they cause significant losses.

The role of internal control can also be seen in terms of ongoing monitoring and evaluation. Effective control goes beyond simply implementing procedures; it also requires consistent oversight to ensure the system is operating as designed. Internal audit is a crucial instrument within this control framework. Internal auditors are tasked with assessing control weaknesses, providing recommendations for improvement, and ensuring that any potential fraud is identified and addressed before it becomes a serious problem (Sudirman et al., 2021a). With ongoing monitoring mechanisms in place, organizations can adapt to changes in the business environment that may create new fraud risks.

Furthermore, internal control has legal and compliance dimensions that are closely related to fraud prevention. Many regulations require organizations, particularly those in the public sector and publicly listed companies, to implement adequate internal control systems. This is intended to protect the public interest while strengthening accountability. With compliance-based internal controls, manipulative actions such as misappropriation of funds, embezzlement of assets, or fraudulent financial reporting can be minimized. Compliance with regulations also increases stakeholder trust in the organization, ultimately strengthening legitimacy and operational sustainability.

Beyond prevention, internal control also plays a role in detecting fraud when prevention is not fully effective. These detection mechanisms include routine reconciliations, surprise audits, or technology-based data analysis. The application of technology in control systems, such as the use of accounting software with security features, data analytics to monitor suspicious transactions, or whistleblowing systems that provide secure channels for reporting, further strengthens the role of internal control as the primary guardian of organizational integrity. Technology integrated with internal controls expands the scope of fraud prevention and detection (Kaur et al., 2022b).

Overall, the role of internal control in fraud prevention cannot be underestimated. It is not simply a collection of administrative procedures, but rather a comprehensive framework that binds all organizational activities to the principles of integrity, transparency, and accountability. Weak internal controls will open the door for fraud to thrive, while strong internal controls will be the first and last line of defense in safeguarding the organization's sustainability from fraudulent practices. Therefore, organizations seeking to maintain their reputation, public trust, and operational sustainability must make internal controls a top priority in risk management and governance.

The Relationship Between Internal Control Effectiveness and the Level of Government Transparency and Accountability

Internal control is a crucial instrument in public sector governance, serving to ensure the achievement of organizational goals efficiently, effectively, transparently, and accountably (Brenya Bonsu et al., 2022). In the context of government, the effectiveness of internal control is crucial given the complexity of state financial management, the numerous parties involved, and the high public expectations for transparency and accountability from state officials. Effective internal control not only prevents and detects irregularities or fraud but also creates a clear, accountable work system that provides relevant and reliable information to the public. Therefore, the effectiveness of internal control is closely linked to the level of government transparency and accountability, both in the management of public resources and in the implementation of development programs.

Government transparency can be understood as the government's openness in providing information regarding policies, programs, and the use of the state budget to the public (Sofyani et al., 2020). Transparency requires that every decision, action, and use of public funds be accessible and understandable to the wider public, thereby fostering public trust in the government. In this regard, effective internal control serves as a foundation that ensures all information published by the government is truly accurate, relevant, and accountable. For example, when a government agency undertakes an infrastructure development project, effective internal control will ensure that project financial records are properly recorded, supporting documents are properly stored, and the procurement of goods and services is carried out in accordance with applicable regulations. The regularity and clarity of this process will facilitate the government's transparent presentation of information to the public, ensuring that no data is hidden or manipulated.

On the other hand, government accountability refers to the government's obligation to account to the public for the use of authority, management of resources, and the results of its programs. Accountability is a key pillar of good governance, requiring a clear monitoring system and reporting mechanism (Sofyani et al., 2021). Effective internal control plays a vital role in establishing government accountability, as it ensures that every government activity has complete documentation, a clear accountability chain, and a monitoring mechanism that can detect errors early (HARDININGSIH et al., 2020). For example, in regional financial management, strong internal controls will facilitate regional governments in preparing financial reports that comply with government accounting standards, are free from material errors, and can be audited by an independent body such as the Supreme Audit Agency. With clear and verified reports, the public can assess the extent to which the government is carrying out its responsibilities accountably.

The relationship between effective internal control and government transparency and accountability is mutually reinforcing. Effective internal control provides a framework that encourages information disclosure, while transparency and accountability create incentives for the government to continuously improve and enforce better internal controls (Christianah Pelumi Efunniyi et al., 2024). In practice, the implementation of strong internal control can also prevent corruption, collusion, and nepotism, as every government transaction or decision is properly recorded and can be monitored by the authorities. Transparency and accountability, in this case, are tangible indicators of effective internal control. The more effective internal control, the higher the level of government openness in disseminating information and the stronger the accountability it provides to the public.

Furthermore, the effectiveness of internal control also influences the quality of public services provided by the government. With a sound control system, the government can ensure that public services operate according to standards, are free from discrimination, and that every process is accountable (Lartey et al., 2020). This will increase public trust in the government, as they feel they have access to adequate information and are assured that every government action is accountable. In the long term, this relationship will foster a more open, professional, and accountable bureaucratic culture, ultimately contributing to strengthening democracy and national development.

However, this relationship is not always smooth sailing, as various challenges persist in its implementation. These challenges include weak human resource capacity in understanding and implementing internal control, persistent resistance to information disclosure, and the influence of political interests that can hinder accountability (Herawaty & Hernando, 2020). Therefore, strengthening internal control requires ongoing efforts through capacity building of the apparatus, utilization of information technology, and firm law enforcement against violations. Thus, the effectiveness of internal control is not merely a technical instrument, but also a mechanism rooted in the moral commitment and integrity of state administrators.

Overall, the effectiveness of internal control has a close and significant relationship with the level of government transparency and accountability. Effective internal control creates a systemic foundation that enables the government to carry out its functions honestly, openly, and responsibly. Transparency and accountability are tangible manifestations of the successful implementation of these internal controls. If well-maintained, this relationship will foster a clean government with integrity and public trust, ultimately strengthening good and sustainable governance.

Internal Control System Weaknesses and Their Impact on Fraud Vulnerability

An internal control system is a critical foundation for maintaining the reliability of financial reports, ensuring regulatory compliance, and protecting organizational assets from the risk of misuse (Musyoki, 2023b). However, not all organizations are able to establish and maintain effective internal controls. Weaknesses in internal control systems often become the gateway to fraud, which can cause both financial and non-financial harm to the organization. Fraud itself is not only a matter of asset loss but also concerns the trust, integrity, and reputation of the organization. Therefore, understanding internal control weaknesses and their impact on fraud vulnerability is crucial in governance management.

One common weakness in internal control systems is the lack of segregation of duties. When one individual has access and authority to perform multiple critical functions such as recording, authorizing, and custody of assets, the risk of fraud increases. For example, an employee who is simultaneously responsible for recording transactions and custody of cash has the opportunity to manipulate records to conceal misuse of funds. This situation creates ample room for fraud because there is no other party to cross-check their work. This situation confirms that weaknesses in the segregation of duties can create significant gaps in the internal control system, which should be able to prevent fraud (Nasir et al., 2021).

Another weakness lies in the weak authorization and approval system for every transaction (Madolidi Handoyo & Bayunitri, 2021b). In many cases, internal controls fail to ensure that every transaction has gone through the proper verification process. For example, disbursements of funds without the approval of authorized authorities, or the manipulation of digital or manual signatures, are examples of weak oversight in authorization processes. Lack of discipline in authorization procedures paves the way for individuals lacking integrity to exploit these lapses for personal gain. The impact is fraud, which not only disrupts financial stability but also damages the organization's credibility in the eyes of stakeholders.

Furthermore, weaknesses in monitoring and supervision also contribute significantly to fraud vulnerability. Monitoring that is not conducted routinely or is merely a formality causes many irregularities to escape management's attention (Koomson et al., 2020). Weak oversight often makes employees feel that their actions will go undetected, thus encouraging them to commit fraud. In fact, monitoring and supervision are key components in early detection of potential fraud. An organization's inability to establish effective monitoring mechanisms creates a work environment prone to abuse, where low employee integrity is not matched by rigorous oversight.

Weaknesses can arise not only from procedural aspects, but also from the lack of technology utilization in internal control systems. In the digital age, many organizations still use manual systems, making them more vulnerable to data manipulation, information theft, or report manipulation. Systems lacking technology-based access controls, data encryption, or robust audit trails are highly vulnerable to fraudsters (Demirović et al., 2021). Therefore, delays in adopting internal control technology can increase an organization's vulnerability to increasingly complex forms of financial crime. This demonstrates that weaknesses in keeping up with technological developments can pose a serious threat to the effectiveness of internal control.

Organizational culture is also crucial in influencing the effectiveness of internal control. When an organizational culture is permissive of minor violations, de-emphasizes work ethics, and ignores the importance of integrity, fraud becomes more likely to flourish. Weaknesses in internal control often stem not only from technical aspects but also from a weak commitment by leaders to upholding the values of transparency and accountability. Leaders who fail to set an example or even engage in abuse of authority will weaken the morale of other employees and create a fertile environment for fraud. In this context, internal control weaknesses are not only a systemic issue but also a cultural issue.

The impact of internal control weaknesses on fraud vulnerability is broad and significant. Financial losses are the most obvious, where organizations can lose significant assets due to theft, report manipulation, or fictitious expenses (Sudirman et al., 2021b). However, non-financial losses are actually more harmful in the long term. An organization's reputation tarnished by a fraud scandal will be difficult to restore, public trust will decline, and management's credibility will be questioned. In the public sector, for example, internal control weaknesses that lead to fraud will reduce public trust in the government and undermine the legitimacy of its policies. In the private sector, these weaknesses can result in a loss of investors, a decline in stock prices, and even bankruptcy.

Beyond reputation, internal control weaknesses that lead to fraud also impact the internal organizational climate. Employees who witness fraud without decisive action from management will lose motivation and a sense of fairness. The work environment becomes unhealthy because fraud is tolerated or even considered normal. This condition can reduce productivity and increase the risk of further fraud, as others feel compelled to commit the same act. Therefore, internal control weaknesses are not only a technical issue, but also relate to the organization's sustainability in maintaining internal and external trust.

Challenges to Implementing Internal Control in the Public Sector, Including Limited Resources and Organizational Culture

Challenges in implementing internal control in the public sector are a critical issue, not only related to the effectiveness of governance but also to accountability, transparency, and the prevention of corrupt practices. Internal control in the public sector plays a crucial role as an oversight mechanism that ensures that state resources are used efficiently, effectively, and in accordance with development goals (Musah et al., 2025). However, the reality on the ground shows that the implementation of internal control faces various structural and cultural challenges. Two key challenges that frequently arise are limited resources and the influence of deeply rooted organizational culture within the government bureaucracy.

Limited resources are a classic obstacle that often explains the weak implementation of internal control in the public sector. These resources are not only limited to financial aspects but also include limitations in human resources, infrastructure, and supporting technology (Boudjelka, 2025). Many government agencies, particularly in the regions, still face difficulties in providing adequate budgets to support the implementation of internal control. This has implications for minimal training, a lack of adequate information systems, and weak internal oversight due to the limited number of auditors or supervisors with appropriate competencies. This situation results in the control process being carried out primarily through administrative and formal means, without substantial oversight capable of detecting and preventing deviations early on.

Furthermore, the quality of human resources in the public sector is also a critical issue in the implementation of internal control. Many government officials still lack a thorough understanding of the concepts and principles of internal control, resulting in suboptimal implementation (Aggarwal & Agarwala, 2022). In some cases, excessively rapid employee rotation prevents the accumulation of knowledge and experience related to internal control. This contrasts with the public sector's demands for technical mastery and high moral integrity from supervisors. As a result, the internal control system, which should be the primary bulwark against budget misuse, often fails to function as intended.

Another challenge arises from the organizational culture that has developed in the public sector, particularly within the government bureaucracy. The organizational culture in many government agencies is still influenced by a paternalistic, hierarchical mindset, and a lack of openness to change (Felício et al., 2021). This culture tends to prioritize formal compliance with regulations without fostering a culture of integrity and genuine accountability. Officials often prioritize loyalty to superiors over adhering to ethical standards and transparency principles. This situation makes it difficult to implement internal control objectively, as internal supervisors can become trapped in structural pressures and conflicts of interest that undermine their oversight function.

Furthermore, an organizational culture that is resistant to change also negatively impacts the implementation of modern technology-based control systems. In the digital era, the public sector is required to integrate internal control systems with information technology to increase transparency, efficiency, and accuracy. However, employee resistance to technology adoption often arises from a lack of digital literacy, concerns about reducing the role of manual processes, or even an unwillingness to move beyond the comfort zone of traditional bureaucracy. This slows the transformation of internal control toward a more adaptive and responsive model to the challenges of the times.

The interplay between resource constraints and a rigid organizational culture further complicates the implementation of internal control in the public sector. When budgets are limited and human resources are lacking in competence, while the bureaucratic culture still emphasizes formality, the internal control system becomes merely an administrative instrument with no real effectiveness (Lasrado & Kassem, 2020). Internal control should, in fact, be part of the organization's culture itself, not simply a procedure implemented to comply with regulatory requirements. Under these conditions, the risk of fraud, corruption, and abuse of authority increases, as oversight gaps widen.

Therefore, the challenges of implementing internal control in the public sector require a comprehensive strategy that focuses not only on strengthening regulations but also on improving resource management systems and transforming organizational culture. The public sector must be able to build human resource capacity through continuous training, merit-based recruitment, and empowering independent and professional internal auditors. Furthermore, organizational culture change must also be driven by exemplary leadership, strengthening integrity values, and implementing consistent rewards and punishments. Without cultural change, no matter how well-designed an internal control system, it will struggle to be effective.

Furthermore, the use of information technology needs to be prioritized to address resource constraints and strengthen internal control systems. Digitizing the oversight process, using data analytics, and promoting transparency through online platforms can help bridge the gaps left by weak manual oversight. However, technology will not be successful without a shift in bureaucratic mindset that embraces openness, accountability, and public participation in the oversight process (Leso et al., 2023). Thus, the main challenge lies not only in the technical aspects, but also in the mutually supportive integration of resources, technology, and organizational culture.

Overall, the implementation of internal control in the public sector is inextricably linked to the challenges of limited resources and organizational culture. These two factors influence each other and, if not addressed seriously, will weaken the effectiveness of oversight and increase the risk of irregularities. Changes toward good governance will only be realized if the internal control system is understood as an integral part of an organizational culture that upholds transparency, accountability, and integrity. Therefore, despite the complex challenges faced, the implementation of internal control can still be optimized through political commitment, capacity building, and a transformation of bureaucratic culture toward a cleaner government that is more responsive to public needs.

The Impact of Government Regulations and Policies on Internal Control Systems and Fraud Prevention

Government regulations and policies play a significant role in shaping internal control systems and determining the effectiveness of fraud prevention efforts, particularly in the public sector. Internal control systems are not solely driven by an organization's internal needs but also reflect external demands stemming from legal instruments, administrative rules, and state financial management policies. Government-implemented regulations serve as a framework for governing governance, reporting mechanisms, accountability procedures, and oversight mechanisms. Therefore, these regulations are not only normative but also operational, establishing the standards and practices that every entity must adhere to in carrying out its activities (Rashid, 2022c).

The positive impact of government regulations on internal control systems is evident in the existence of clear standards regarding transparency, accountability, and integrity in organizational governance (Chan et al., 2021). For example, regulations on regional financial management, regulations on procurement of goods and services, and regulations regarding accrual-based financial reporting provide more detailed guidelines for organizations in developing and implementing appropriate internal controls. When regulations are well-designed, organizations have a strong legal basis for establishing rigorous internal procedures, such as separation of functions, authorization mechanisms, multi-layered reporting systems, and continuous internal audits. This minimizes the opportunity for fraud because every activity is recorded and can be traced accountably.

However, on the other hand, government regulations and policies can also be a hindering factor if they are designed to be too complex, bureaucratic, or inappropriate for the capacity of the organization subject to them. Many cases demonstrate that multi-layered and overly administrative regulations actually create additional burdens for organizations, leading to internal control systems being more oriented toward formal compliance than substantive effectiveness. As a result, even if a control system appears well-organized on paper, fraud prevention practices in the field are not optimal due to being bogged down in paperwork. Furthermore, regulations that are not adaptive to technological developments and risk dynamics can also create new loopholes that can be exploited by irresponsible parties (Closing the AI Accountability Gap | Proceedings of the 2020 Conference on Fairness, Accountability, and Transparency, n.d.).

Direct fraud prevention relies heavily on regulations that create an effective oversight system. Governments can, through regulations, mandate regular internal and external audits, establish a gratification control unit, and implement a whistleblowing system. These policies encourage organizations to focus not only on preventing administrative errors but also on proactively detecting and following up on indications of irregularities. For example, implementing regulations on public information disclosure provides a platform for the public to participate in overseeing government operations. The transparency ensured through these regulations serves as a preventative measure against potential fraud, as every action of public officials can be scrutinized and questioned by external parties (Klychova et al., 2021).

Furthermore, government policies supporting the digitalization of financial management and administrative processes have also had a significant impact on strengthening internal control systems. Regulations that encourage the use of information technology, such as e-budgeting, e-procurement, and financial management information systems, can reduce the scope for manipulation because data is recorded automatically and can be audited at any time. Thus, regulations function not only as binding rules but also as catalysts for the transformation of internal control mechanisms towards a more modern, transparent, and efficient system. The role of government policies in digitalization also strengthens organizations' capacity to detect fraud patterns early through technology-based data analysis.

However, the impact of government regulations on internal control systems and fraud prevention is also greatly influenced by the quality of their implementation on the ground. Even ideal regulations will be ineffective without adequate oversight and a supportive organizational culture. In some contexts, weak law enforcement results in regulations serving only as symbols without any real impact on internal control. This creates a paradox where regulations designed to prevent fraud actually open up new opportunities due to lack of seriousness in their implementation. Therefore, regulations must be balanced with a strong commitment from the government to supervise, impose strict sanctions for violations, and build integrity among officials.

Another impact that needs to be considered is the dependence of organizations on government regulations. In many cases, organizations tend to wait for instructions or guidelines from the government before taking steps to improve their internal control systems. This passive attitude can hinder innovation in fraud prevention because organizations are too focused on formal regulations. However, each organization should take its own initiative to develop control mechanisms appropriate to the context and challenges they face. Regulations ideally serve as general guidelines that provide a framework, while detailed implementation is tailored to the specific circumstances of each organization (SUMARYATI et al., 2020b).

Thus, government regulations and policies have a two-pronged impact on internal control systems and fraud prevention. On the one hand, they provide a legal basis, standards, and oversight instruments that strengthen internal control mechanisms. On the other hand, if not properly designed and implemented, regulations have the potential to create administrative burdens, open new loopholes, and hinder organizational flexibility in addressing the ever-growing risk of fraud. Therefore, it is crucial for the government to ensure that the regulations it creates are proportional, adaptable to current developments, and equipped with a firm enforcement system. This combination ensures that regulations become not only normatively binding rules but also effective instruments for creating clean, transparent, and fraud-free organizational governance.

CONCLUSION

The conclusion of this study on the relationship between public sector internal control systems and fraud prevention indicates that the existence of strong and structured control mechanisms plays a significant role in minimizing the potential for fraud. Internal controls, which encompass aspects of supervision, division of tasks, financial monitoring, and transparency of administrative processes, provide clear boundaries for each individual within the organization, effectively reducing the opportunity for data manipulation, misuse of assets, or procedural irregularities.

Furthermore, this study confirms that fraud prevention is not solely determined by the existence of formal rules but is also influenced by organizational culture and the integrity of public officials. Good internal control implementation must be supported by leadership commitment, ethical employee behavior, and the use of technology to support accountability and transparency. Therefore, the synergy between internal control systems and individual morality is a crucial foundation for building a work environment free from fraudulent practices.

Ultimately, the relationship between public sector internal control and fraud prevention is complementary, with the effectiveness of fraud prevention highly dependent on the extent to which internal controls are designed and consistently implemented. Optimal internal controls can reduce the potential for fraud, increase public trust in government institutions, and foster good governance. In other words, strengthening internal control is a strategic instrument that must be continuously improved to achieve the goal of preventing fraud in the public sector.

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