



# Analysis of Internal Control and Fraud Prevention Efforts in Public Sector Accounting

Adelya Putri Kesuma <sup>1</sup>, Fachruzzaman <sup>2</sup>  
1) Universitas Bengkulu, Bengkulu, Indonesia  
Email: <sup>1)</sup> [adelyapk25@gmail.com](mailto:adelyapk25@gmail.com)

## How to Cite :

Kesuma, P.A., Fachruzzaman, F. (2024). Analysis of Internal Control and Fraud Prevention Efforts in Public Sector Accounting. EKOMBIS REVIEW: Jurnal Ilmiah Ekonomi Dan Bisnis, 12(1). doi: <https://doi.org/10.37676/ekombis.v12i1>

## ARTICLE HISTORY

Received [20 November 2023]

Revised [25 December 2023]

Accepted [31 December 2023]

## KEYWORDS

Accounting Fraud, Internal Control, Accounting Sector Public, Literature Review

*This is an open access article under the [CC-BY-SA](https://creativecommons.org/licenses/by-sa/4.0/) license*



## ABSTRACT

This study aims to analyze the effect of internal control on accounting fraud that occurs in the public sector. This research was conducted using a literature review by reviewing 10 previous articles both national and international articles. The keywords used in the iterator search include 'internal control', 'fraud', 'public sector accounting fraud'. The results of the review of 10 articles show that internal control is an effective effort in preventing accounting fraud in public sector organizations.

## INTRODUCTION

The phenomenon of cheating is one of the most worrying issues today. The issue of cheating always attracts media attention and becomes one of the most prominent both domestically and abroad. (Irwansyah & Syufriadi, 2019). Fraud is an action that has a very influential impact on an organization, especially on the scope of the organization's work. The Association of Certified Fraud Exminers (2004) defines fraud as an act of fraud or error made by a person or entity who knows that the error can result in some unfavorable benefits to individuals or entities or other parties (Tuannakota in Indella & Husaini, 2021). Fraud can occur due to weak internal control which can trigger the perpetrator to commit fraud.

Accounting fraud is one of the many causes of corruption. Corruption is the misuse of state money (companies, organizations, foundations, and so on) for personal gain or others. The impact arising from this fraud is the destruction of the organization's reputation, organizational losses, state losses, damage to employee morale and other negative impacts.

Fraud prevention is the first way to stop fraud from occurring. Fraud detection usually occurs after fraud prevention has failed (Putu et al., 2018). Fraud prevention is an important step that must be taken to reduce future losses. Improving systems that support ease of doing

business, increasing effectiveness in financial management, and law enforcement efforts against fraud are concrete steps in reducing acts of corruption or other fraud (Marciano et al., 2021).

Fraud prevention can be analogized to a disease, which is better prevented than treated. In combating the problem of fraud, control or supervision is needed. To get good supervision, effective internal control is needed, internal control plays an important role in the organization to minimize fraud (Andari & Ismatullah, 2019). If the internal control system is weak, it will cause higher fraud. Conversely, if the internal control system is strong, the possibility of fraud can be minimized. The effectiveness of this internal control has a major influence on efforts to prevent accounting fraud. (Wijayanti & Setyawan, 2022).

## LITERATURE REVIEW

The theoretical basis used in this research is:

### Fraud Triangle Theory

The Fraud Triangle is three conditions that cause someone to commit fraud (Arens in Qodari et al., 2021), namely: Opportunity, Pressure, and Rationalization, where:

- Pressure is a situation where management or other employees feel incentive or pressure to commit fraud. Pressure, namely incentives that encourage people to commit fraud due to lifestyle demands, helplessness in financial matters, gambling behavior, trying to beat the system and job dissatisfaction.
- Opportunity, namely the existence or availability of opportunities to commit fraud or situations that provide opportunities for management or employees to commit fraud. Fraud also occurs due to a lack of internal control and understanding of the rules.
- Rationalization can be interpreted as the existence or emergence of an attitude, character, or set of ethical values that allow management or employees to commit dishonest acts. Rationalization as a thought that justifies its actions as a reasonable behavior, which is morally acceptable in a normal society. Fraud Triangle Theory shows that fraud only occurs when there is opportunity, perceived fraud, motivation, especially financial pressure, and justification of fraud through the rationalization process. (Cressey in Tommy & Fenny Marietza, 2022).

According to ACPAI (2019) in Statement of Auditing Standards (SAS) No. 99, there are four types of conditions common to pressure that can lead to fraud, namely financial stability, external pressure, personal financial needs, and financial targets. Another component is opportunity which consists of three types of conditions, including the nature of the industry, ineffective monitoring, and organizational structure. The last component that causes fraud is rationalization. Rationalization causes fraudsters to justify their actions (Christian, N., Basri, 2019).

### Fraud Diamond Theory

Fraud diamond theory is a fraud theory introduced by Wolfe and Hermanson in 2004 as a refinement of the fraud triangle theory by adding one other factor that encourages fraud, namely capability. (Rasha and Andrew in (Aren & Sibindi, 2014) explains that there are four factors underlying fraud, namely (1) Pressure, namely the existence of incentives to encourage people to commit fraud; (2) Opportunity, namely circumstances that open up opportunities for fraud; (3) Rationalization, namely an attitude, a trait that allows certain parties to commit fraudulent acts; (4) Capability is the nature and ability of individuals who have a major role in allowing fraud to occur. This is a development of the Fraud Triangle theory previously developed by Cressey.

Capability has six supporting traits: positioning, intelligence, ego, compulsion, deception, and stress management. Deceivers may have all six traits or a combination of them. The first trait is positioning, which means that the individual is in a position that is not available to others, allowing them to create or capitalize on opportunities. Intelligence is an individual who is creative and sufficiently clever to understand and exploit weaknesses to his advantage. Ego means that the cheater has confidence in his ability not to get caught. Next is coercion, where individuals can influence others to help or hide the fraud that is happening. Then deception, the deceiver will most likely be able to lie or divert by convincing others (Shelton, 2014).

### **Fraud**

According to Statement of Auditing Standards (SAS) No.99, fraud is an act that is intentionally carried out in order to cause material misstatement in the financial statements to be audited. Fraud can also be defined as a representation of material facts that is false and intentionally or recklessly so that it is believed and acted upon by the victim and the victim's damage.

The Association of Certified Fraud Examiners (ACFE) defines fraud as the use of one's job for personal enrichment through the misuse or application of the resources or assets of the organization for which one works. In technological systems, fraudulent activities have occurred in many areas of daily life such as telecommunications networks, mobile communications, online banking, and E-commerce. These frauds cause huge financial losses to individuals, governments, and businesses. Therefore, fraud detection has become an important issue to explore (Kou et al., 2004).

### **Internal Control**

According to the Institute of Internal Auditors (IIA) (2017) internal control is any action taken by management, the board, and others to improve risk management and enhance the achievement of established goals and objectives. Management plans, organizes, and directs adequate performance to provide reasonable assurance that goals and objectives will be achieved. Meanwhile, according to The Committee of Sponsoring Organizations of The Treadway Commission (COSO) internal control is a process, influenced by the entity's board of directors, management, and other personnel designed to provide reasonable assurance about the achievement of objectives related to operations, reporting, and compliance. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) also introduced 5 (five) components of policies and procedures designed and implemented to provide assurance that management control objectives will be achieved. The five components of internal control are: control environment, management risk assessment, information and communication system, control activities, and monitoring (Pratiwi et al., 2021).

### **METHODS**

This research is a descriptive study with a qualitative approach. This research utilizes a literature review model of several previous research related to the relationship between intelligence control and fraud. This research data is in the form of secondary data collected through library studies. Article collection is done by searching for data on google scholar, with keywords used in the article collection process including: 'internal control', 'fraud', 'public sector accounting fraud'. This study uses English and Indonesian articles published in the last 5 years (2019-2023) both using quantitative research and qualitative research.

**Table 1 List of articles used in the literature review**

No	Penulis	Judul	Hasil
1	(Fernandhytia & Muslichah, 2020)	<i>The Effect of Internal Control, Individual Morality and Ethical Value on Accounting Fraud Tendency</i>	The results of multiple linear regression analyses show that internal control has a negative effect on accounting fraud tendency.
2	(Sari et al., 2021)	Effect of internal control, whistleblowing role and data asymmetry against fraud prevention	Internal control at PT Bank Mandiri Tbk Ratulangi Area has a positive and important effect on fraud prevention.
3	(Puryati & Febriani, 2020)	The Consequence of Whistleblowing System and Internal Control toward Fraud Prevention: A Study on Indonesian State Owned Enterprise	The research results note that the whistleblowing system has a significant effect on fraud prevention.
4	(Putra & Putra, 2021)	The Effect of Internal Control System, Locus of Control, and Accountability on Fraud Prevention	The internal control system variable partially has a positive and significant effect on preventing fraud in village financial management in Denpasar City.
5	(Dharmawati et al., 2022)	Mediation Effects of Fraud Prevention on the Relationship of Internal Control, Risk Management and Organizational Performance	Internal control and risk management have a positive and significant impact on fraud prevention, fraud prevention has a positive and significant impact on organizational performance, and internal control and risk management have a positive and significant impact on organizational performance via fraud prevention.
6	(Anggraeni Mersa et al., 2021)	The Effect of Whistleblowing System, Internal Control System, Organizational Culture, and Organizational Justice on Fraud Prevention	Based on the results of research and testing, researchers can draw conclusions that the whistleblowing system, internal control system, organizational culture, and organizational justice have a positive and significant effect on fraud prevention at the PUPR Office of East Kalimantan Province.
7	(Internal et al., 2021)	The Effect of Internal Control, Individual Morality and Organizational Culture on the Tendency of Village	(1) internal control has no effect on the tendency of accounting fraud (2) individual morality has a

		Government Accounting Fraud	positive and significant effect on the tendency of accounting fraud and (3) organizational culture has no effect on the tendency of accounting fraud.
8	(Adawiyah et al., 2023)	The Effect of Internal Control, Whistleblowing System, and Internal Audit on Fraud Prevention	Based on the analysis of the literature review that has been carried out, it can be concluded that that Internal Control, Whistleblowing System, and Internal Audit that have been implemented by auditors in preventing fraud have been carried out quite well so as to minimize fraud that could occur.
9	(Nurlia & Hermanto, 2021)	The Effect of Pressure, Opportunity, Rationalization and Internal Control on Accounting Fraud	(1) The pressure variable has a positive effect on accounting fraud at the Public Accounting Firm, (2) The opportunity variable has no effect on accounting fraud at the Public Accounting Firm, (3) The rationalization variable has a positive effect on accounting fraud at the Public Accounting Firm, (4) Internal control variables have a negative effect on accounting fraud at the Public Accounting Firm.
10	(Kuntadi et al., 2022)	Factors Affecting Fraud Prevention: Internal Control System, Human Resource Competence, Compensation Appropriateness	Internal Control System affects fraud prevention, Human Resources Competence affects fraud prevention, and Compensation suitability affects fraud prevention in.

## RESULTS

The results showed that the application of the internal control system influenced fraudulent behavior. This shows that the better the implementation of the internal control system in the public sector, it can suppress or reduce the occurrence of fraud. Internal control is designed to increase compliance with accounting rules, an effective internal control system can increase compliance with accounting rules which will reduce fraud (Husnawati et al., 2017).

The results of reviewing 10 articles show that there is a relationship between internal control and the potential for fraud in the public sector. This shows that the better the implementation of the internal control system in a government agency, it can reduce fraud. If internal control has been designed and implemented properly and effectively, it will be able to

reduce and protect against the tendency of accounting fraud both by employees who are responsible for carrying out the accounting process and preparing financial reports. This means that the high level of internal control owned by management and employees of organizational members will reduce the level of tendency of accounting fraud in activities carried out in the organization. But on the contrary, if the internal control owned by management and employees of organizational members is very low and less than optimal, it will result in the level of tendency for accounting fraud to occur more easily (Yuliani, 2018).

## DISCUSSION

According to The Committee of Sponsoring Organizations of The Treadway Commission (COSO) internal control is strongly influenced by several basic components, among others: 1) The control environment is the responsibility of top management to clearly state the values of integrity and unethical activities that cannot be tolerated; 2) The company must identify and analyze the factors that create business risks and must determine how to manage these risks; 3) To reduce the occurrence of fraud, management must design policies and procedures to identify specific risks faced by the company; 4) The internal control system must be communicated and informed to all company employees from top to bottom; 5) The internal control system must be monitored regularly. If there is a significant deficiency, it must be immediately reported to top management and to the board of commissioners. Thus, the implementation of a good internal control system is able to detect and suppress fraud. This has a positive impact on the company such as the realization of accountable financial statements, securing organizational assets and realizing the obedience of organizational members to the rules set by the organization (Marciano et al., 2021).

## CONCLUSION

Based on the results obtained, it can be concluded that the application of internal control has a positive effect on the effectiveness of accounting fraud prevention in public sector organizations. By increasing the internal control system through a good communication and information system, fraud can be avoided.

## SUGGESTION

Suggestions that can be conveyed by researchers based on the results of the research that has been carried out are that it is hoped that future researchers will not focus only on the factors in this study, namely internal control, but can add other factors that may affect fraud prevention such as internal audit factors, internal audit professionalism, risk management, implementation of audit quality, wistle blowing system and other factors.

## REFERENCES

Adawiyah, R., Kuntadi, C., & Pramukty, R. (2023). Literature Review: Pengaruh Pengendalian Internal, Whistleblowing System, Dan Audit Internal Terhadap Pencegahan Kecurangan. *Jurnal Economina*, 2(6), 1331–1342. <https://doi.org/10.55681/economina.v2i6.606>

Andari, L., & Ismatullah, I. (2019). Pengaruh Pengendalian Internal Terhadap Pencegahan Kecurangan (Studi kasus pada CV. Agung Mas Motor Kota Sukabumi). *Jurnal Ilmiah Ilmu Ekonomi*, 8(15), 75–81.

Anggraeni Mersa, N., Sailawati, S., & Elok Larasatining Malini, N. (2021). Pengaruh Whistleblowing System, Sistem Pengendalian Internal, Budaya Organisasi, dan Keadilan Organisasi Terhadap Pencegahan Kecurangan. *Jurnal Akuntansi Keuangan Dan Bisnis*, 14(Vol. 14 No. 1 (2021)), 85–92. <https://doi.org/10.35143/jakb.v14i1.4613>

Aren, A. O., & Sibindi, A. B. (2014). Risk governance & control: Financial markets and institutions. *VIRTUS Interpress*, 4(2), 85–159.

Christian, N., Basri, Y. Z. (2019). Analysis of Fraud Triangle , Theory to Detecting Corporate Fraud in Indonesia. *The International Journal of Business Management and Technology*, 3(4), ISSN 2581-3889.

Dharmawati, T., Safaruddin, Kamal, I., Cakranegara, P. A., & Revinzky, M. A. (2022). Mediation Effects of Fraud Prevention on the Relationship of Internal Control, Risk Management and Organizational Performance. *Atestasi : Jurnal Ilmiah Akuntansi*, 5(2), 540–555. <https://doi.org/10.57178/atestasi.v5i2.123>

Fernandhytia, F., & Muslichah, M. (2020). The Effect of Internal Control, Individual Morality and Ethical Value on Accounting Fraud Tendency. *Media Ekonomi Dan Manajemen*, 35(1), 112. <https://doi.org/10.24856/mem.v35i1.1343>

Husnawati, N., Handajani, L., & Irwan, M. (2017). Accounting Fraud: Determinant, Moderation of Internal Control System and the Implication To Financial Accountability. *International Conference and Call for Papers*, 60, 311–335. [www.beritasatu.com/nasional](http://www.beritasatu.com/nasional)

Indella, D. R., & Husaini, H. (2021). Efektivitas Komite Audit, Kualitas Auditor Eksternal Dan Kemungkinan Kecurangan Pelaporan Keuangan. *Jurnal Fairness*, 6(3), 201–218. <https://doi.org/10.33369/fairness.v6i3.15137>

Internal, P. P., Desa, P., & Setiawan, M. A. (2021). Pengaruh Pengendalian Internal, Moralitas Individu dan Budaya Organisasi terhadap Kecenderungan Kecurangan Akuntansi Pemerintah Desa. 3(3), 517–528.

Irwansyah, I., & Syufriadi, B. (2019). Pengaruh Efektivitas Pengendalian Internal, Kesesuaian Kompensasi, Moralitas Manajemen, Ketaatan Aturan Akuntansi, Dan Asimetri Informasi Terhadap Kecenderungan Kecurangan Akuntansi. *Jurnal Akuntansi*, 8(2), 89–100. <https://doi.org/10.33369/j.akuntansi.8.2.89-100>

Kou, Y., Lu, C. T., Sirwongwattana, S., & Huang, Y. P. (2004). Survey of fraud detection techniques. *Conference Proceeding - IEEE International Conference on Networking, Sensing and Control*, 2, 749–754. <https://doi.org/10.1109/icnsc.2004.1297040>

Kuntadi, C., Puspita, B. A., & Taufik, A. (2022). Faktor-Faktor Yang Memengaruhi Pencegahan Kecurangan: Sistem Pengendalian Internal, Kompetensi Sumber Daya Manusia, Kesesuaian Kompensasi. *Jurnal Ekonomi Manajemen Sistem Informasi*, 3(5), 530–539.

Marciano, B., Syam, A., Suyanto, & Ahmar, N. (2021). Penerapan Pengendalian Internal Terhadap Kecurangan: Sebuah Literatur Review. *WACANA EKONOMI (Jurnal Ekonomi, Bisnis Dan Akuntansi)*, 20(2), 130–137. <https://doi.org/10.22225/we.20.2.2021.130-137>

Nurlia, A. P., & Hermanto, S. B. (2021). Pengaruh Tekanan, Kesempatan, Rasionalisasi dan Pengendalian Internal terhadap Kecurangan Akuntansi. *Jurnal Ilmu Dan Riset Akuntansi*, 10(8), 1–22.

Pratiwi, W. S., Nurazi, R., & Puspita, L. M. N. (2021). Pengaruh Sistem Pengendalian Intern Dan Kompetensi Manajer Keuangan Terhadap Kualitas Laporan Keuangan Pemerintah. *Jurnal Fairness*, 8(1), 29–38. <https://doi.org/10.33369/fairness.v8i1.15193>

Puryati, D., & Febriani, S. (2020). The Consequence of Whistleblowing System and Internal Control toward Fraud Prevention: A Study on Indonesian State Owned Enterprise. *International Journal of Business and Technology Management*, 2(3), 35–48. <http://myjms.moe.gov.my/index.php/ijbtm>

Putra, G. B. Ngr. P., & Putra, W. Y. D. (2021). The Effect of Internal Control System, Locus of Control, and Accountability on Fraud Prevention. *International Journal of Multidisciplinary Research and Publications (IJMRAP)*, 4(6), 35–39.

Putu, N. L., Darmayanti, A., Sujana, E., & Kurniawan, P. S. (2018). Metode Deteksi Dan Pencegahan Fraud (Tindakan Kecurangan) Pada Inspektorat Di Bali: Persepsi Auditor Internal. *Jurnal Ilmiah Mahasiswa Akuntansi) Universitas Pendidikan Ganesha*, 9(1), 2614–1930. <https://ejournal.undiksha.ac.id/index.php/S1ak/article/view/20406>

Qodari, A., Fachruzzaman, F., & Coryanata, I. (2021). Pengaruh Motivasi, Tunjangan Kinerja Dan Komitmen Pimpinan Terhadap Tingkat Kecurangan Pegawai. *Jurnal Fairness*, 8(1), 65–88. <https://doi.org/10.33369/fairness.v8i1.15196>

Sari, R., Su'un, M., & Nurwanah, A. (2021). Point of View Research Accounting and Auditing Effect of internal control, whistleblowing role and data asymmetry against fraud prevention. *Point of View Research Accounting and Auditing*, 2(1), 92–99.

Shelton, A. M. (2014). Analysis of Capabilities Attributed to the Fraud Diamond Analysis of Capabilities Attributed to the Fraud Diamond Acct 4018- Senior Honors Seminar.

Tommy, & Fenny Marietza. (2022). Pengaruh Kesulitan Keuangan, Kondisi Industri Dan Pergantian Auditor Terhadap Kecurangan Laporan Keuangan. *JRB-Jurnal Riset Bisnis*, 5(2), 154–167. <https://doi.org/10.35814/jrb.v5i2.2802>

Wijayanti, R. P., & Setyawan, S. (2022). Litelature Review: Analisis Pengendalian Internal Dan Upaya Pencegahan Kecurangan Akuntansi Sektor Publik. *Transekonomika: Akuntansi, Bisnis Dan Keuangan*, 3(1), 1–11. <https://doi.org/10.55047/transekonomika.v3i1.334>

Yuliani, S. (2018). Pengaruh Perilaku Tidak Etis, Pengendalian Internal dan Budaya Organisasi Terhadap Kecenderungan Kecurangan Akuntansi (Studi Empiris Instansi Pemerintahan Kab. Pasaman Barat). *Jurnal Akuntansi*, Vol. 3(No. 4).