

Review Article

The Role of Internal Oversight Based on Fraud Risk Control in Enhancing Regional Financial Accountability

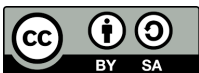
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Abstract: Regional financial accountability is a fundamental principle in good governance. However, the management of regional finances still faces various challenges, particularly related to the potential occurrence of fraud and the suboptimal functioning of internal control systems. This study aims to analyze the role of the Government Internal Supervisory Apparatus (APIP) in strengthening regional financial accountability through the implementation of internal oversight based on Fraud Risk Control. This research employs a qualitative approach using the Qualitative Secondary Analysis (QSA) method, which utilizes secondary data from various scientific literature, previous research findings, and policy documents relevant to internal oversight in the public sector. The results indicate that internal oversight is a crucial mechanism in preventing fraud in public sector financial management. The implementation of Fraud Risk Control plays a role in identifying, assessing, and controlling fraud risks, thereby enhancing the transparency and accountability of regional financial management. Furthermore, APIP has a strategic role through internal audit functions, risk-based oversight, and providing consultation to improve regional financial management systems. Strengthening APIP's capabilities, enhancing the maturity of the Government Internal Control System (SPIP), and ensuring the independence of internal supervisors are essential factors in realizing transparent and accountable regional financial governance.

Keywords: Fraud Risk Control; Internal Oversight; Regional Financial Accountability; SPIP, Qualitative Secondary Analysis.

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1. Introduction

Governance reform in Indonesia demands public financial management that is transparent, accountable, and free from corruption. The implementation of regional autonomy through Law No. 23 of 2014 concerning Regional Government grants local governments broad authority to manage financial resources to improve public welfare and the quality of public services. This authority is reinforced by Law No. 33 of 2004 on the Financial Balance between the Central Government and Regional Governments, which regulates fiscal transfers from the central government to regional governments.

The management of regional finances is a critical aspect of transparent and accountable governance. Since the enactment of regional autonomy, local governments have had greater authority in managing the Regional Revenue and Expenditure Budget (APBD) to support development and public services. However, this increased authority also comes with higher risks of irregularities, corruption, and fraud in regional financial management. Weaknesses in internal control systems and oversight mechanisms are among the factors that trigger these irregularities (Priski et al., 2023). Local governments managing significant public resources, under conditions of decentralization, fiscal complexity, and high accountability demands, are

particularly vulnerable to mismanagement and fraud. In this context, risk-based internal oversight is increasingly promoted as a governance-oriented alternative to traditional compliance-based supervision (Pratama et al., 2025).

According to reports from the Corruption Eradication Commission (KPK), local government sectors are among the most vulnerable to corrupt practices, particularly in managing regional budgets, procurement of goods and services, and handling central government transfer funds (www.kpk.go.id). Audit findings from the Audit Board of Indonesia (BPK) also indicate that many local governments still have weaknesses in their internal control systems. These weaknesses include ineffective oversight systems, poor risk control mechanisms, and low compliance with laws and regulations in financial management. This condition demonstrates that regional financial accountability continues to face challenges that require serious attention from the government and other stakeholders (Pamungkas et al., 2019).

Regional financial accountability is a key principle of good governance. The concept of accountability in the public sector emphasizes that every use of public resources must be transparently accountable to society (Bovens, 2007). In the context of local government, financial accountability is not only about preparing financial reports in accordance with government accounting standards but also about the effectiveness of internal control systems in preventing budgetary mismanagement.

One critical instrument in enhancing regional financial accountability is the strengthening of internal oversight functions. In Indonesia's governance system, internal oversight is conducted by the Government Internal Supervisory Apparatus (APIP), which is responsible for internal audits, reviews, evaluations, monitoring, and other supervisory activities concerning the administration of government. According to the Financial and Development Supervisory Agency (BPKP), internal oversight plays a strategic role in ensuring that regional financial management operates effectively, efficiently, and in accordance with the principles of accountability.

In modern supervisory practice, internal oversight has shifted from traditional compliance-based approaches to more proactive, risk-based methods. This approach, known as risk-based internal auditing, emphasizes the identification and management of organizational risks as part of the oversight process. One concept developed within this approach is fraud risk control—a control system designed to identify, assess, and mitigate fraud risks within an organization.

The concept of fraud risk control is closely linked to Donald R. Cressey's (1953) Fraud Triangle theory, which explains that fraud occurs due to three main factors: pressure, opportunity, and rationalization. In regional financial management, opportunities for fraud often arise from weak internal control systems and ineffective oversight mechanisms. Beyond the Fraud Triangle, further studies have introduced the Fraud Diamond, proposed by Wolfe and Hermanson (2004), which adds the capability of an individual as a factor enabling fraud. This shows that preventing fraud requires not only strong oversight but also control systems capable of minimizing both the opportunity and the individual's ability to commit irregularities.

Fraud in the public sector often arises from opportunity, pressure, and rationalization, as described in Cressey's Fraud Triangle. In local government, opportunities for fraud may appear due to weak oversight systems, lack of transparency, and low internal control quality. Therefore, strengthening internal oversight systems is a strategic step to prevent mismanagement in regional financial administration (Priski et al., 2023). Within Indonesia's governance oversight system, the Government Internal Supervisory Apparatus plays a crucial role in ensuring the accountability of both national and regional financial management. APIP units located in regional inspectorates carry out assurance, consultation, and supervision of local government policy implementation. Through these functions Government Internal Supervisory Apparatus is expected to detect potential irregularities early and provide recommendations for improving local government internal control systems (Poe et al., 2024).

Additionally, Government Internal Supervisory Apparatus serves as the frontline in corruption prevention and oversight of government budget use. Strengthening Government Internal Supervisory Apparatus role is considered essential because the integrity and accountability of government administration are highly influenced by the effectiveness of internal oversight systems. Without robust oversight, development programs are at risk of misuse, which can harm public finances and hinder regional development goals.

The impact of internal auditing on regional financial accountability is vital for creating a transparent and responsible financial system. Internal audits serve as proactive oversight

mechanisms, ensuring all financial activities comply with established rules and procedures. Effective internal audits minimize the potential for irregularities and fraud in budget management, thereby enhancing the integrity of regional financial reports. According to the Government Internal Supervisory Apparatus Audit Standards in Suwanda et al. (2023), internal oversight encompasses all processes, including audit, review, monitoring, evaluation, as well as other supervisory activities such as assistance, socialization, and consultation. Its purpose is to ensure that organizational tasks and functions are carried out according to established standards effectively and efficiently, providing sufficient assurance to leadership in achieving good governance. Internal audits not only verify financial reports but also evaluate existing internal control systems, enabling the identification of weaknesses and recommendations for improvements that enhance efficiency and effectiveness in financial management.

Risk-based internal oversight by Government Internal Supervisory Apparatus, using Fraud Risk Control (FRC), plays a crucial role in enhancing regional financial accountability by shifting from conventional compliance audits to proactive, risk-based approaches. This allows Government Internal Supervisory Apparatus to detect vulnerabilities early, prevent corruption in procurement, and ensure transparent financial management. Government Internal Supervisory Apparatus functions as a proactive early warning system, identifying financial irregularities in real-time, strengthening internal control, reducing fraud risks through automated data analysis, and supporting anti-corruption measures in high-risk areas such as procurement and regional budget management.

One increasingly applied approach in modern oversight is fraud risk control, which focuses on identifying, analyzing, and mitigating fraud risks in financial management. This method allows for more proactive and risk-based supervision, enabling potential fraud to be detected and prevented before causing significant losses. In practice, risk-based oversight through fraud risk control enhances internal oversight effectiveness because it focuses on areas with high-risk exposure. Therefore, the application of fraud risk control by Government Internal Supervisory Apparatus is expected to improve internal control quality and strengthen regional financial accountability.

However, in practice, risk-based internal oversight in local governments still faces various challenges. Studies show that limitations in human resources, inadequate supervisory information systems, and insufficient integration between risk management and internal oversight hinder the effectiveness of internal supervision in preventing fraud (Dito et al., 2025). Internal oversight by Government Internal Supervisory Apparatus at the local level continues to face constraints, such as limited auditor resources, low Government Internal Supervisory Apparatus capacity, and suboptimal risk-mapping systems in the supervision process. These conditions result in internal oversight being not fully effective in preventing potential losses of state or regional finances (Muhammad & Kartikasari, 2026).

Given this context, a deeper study is needed on how risk-based internal oversight by Government Internal Supervisory Apparatus, using fraud risk control, can enhance regional financial accountability. Strengthening Government Internal Supervisory Apparatus role is also critical in creating governance that is transparent, accountable, and free from corruption. Effective internal oversight functions not only as a control tool but also as a strategic instrument to improve regional financial management quality and strengthen public trust in government.

Thus, this research is relevant and important for contributing to the development of a more effective internal oversight system in local governments, particularly through the application of fraud risk control to improve regional financial accountability

2. Literature Review

Fraud Concept

Fraud is one of the common forms of irregularities in organizational financial management, both in the private and public sectors. Fraud can be defined as a deliberate act of deception carried out to gain personal or group benefits by violating applicable laws or regulations. According to the Association of Certified Fraud Examiners (ACFE), fraud is an illegal act intentionally committed by an individual or group to obtain benefits through deception or misuse of organizational assets. Fraud typically involves manipulation of financial statements, misuse of assets, and corrupt actions that harm the organization or the state (ACFE, 2022).

Meanwhile, Albrecht et al. (2012) define fraud as the deliberate act of deception to obtain unlawful benefits through abuse of trust, manipulation of information, or embezzlement of organizational assets. According to Singleton and Singleton (2010), fraud is an act of deception aimed at achieving financial gain through manipulation of information or abuse of power held by the perpetrator.

According to the Association of Certified Fraud Examiners (ACFE, 2022), fraud can generally be classified into three main categories, known as the Fraud Tree:

a. Asset Misappropriation

Asset misappropriation is the most common type of fraud in organizations. It involves the theft or misuse of organizational assets by individuals who have access to them. Examples include embezzlement of organizational funds, misuse of cash, theft of organizational assets, and forgery of payment documents.

b. Corruption

Corruption involves the abuse of power to obtain personal or group benefits. Forms of corruption include bribery, gratuities, conflicts of interest, and economic extortion. In the context of village fund management, corruption often occurs in the form of project budget mark-ups, manipulation of village fund usage reports, and non-transparent procurement of goods and services.

c. Financial Statement Fraud

This type of fraud occurs when an organization's financial statements are manipulated to present a misleading picture of its actual condition. Examples include financial statement manipulation, accounting data falsification, and omission of certain transactions from financial reports.

The Fraud Triangle theory was first introduced by Cressey (1953). It explains that fraud occurs due to three main factors:

a. Pressure

Pressure is the motivation that drives someone to commit fraud. It can stem from personal financial problems, lifestyle demands, or job-related pressures.

b. Opportunity

Opportunity arises when an organization's internal control system is weak, allowing individuals to commit fraud without detection.

c. Rationalization

Rationalization is the process by which fraud perpetrators justify their actions to convince themselves that their conduct is acceptable or not wrong.

The Fraud Triangle theory describes the factors that cause fraud. According to this theory, trusted individuals can become fraudsters when facing financial pressures they cannot resolve honestly. They recognize that their actions violate rules or policies, but rationalize their behavior by convincing themselves that it is a loan, not theft. From this, Cressey formulated the Fraud Triangle, which consists of three components: opportunity, pressure, and rationalization (Naufal et al., 2022). Pressure refers to factors driving unethical behavior, opportunity arises from ineffective organizational governance, and rationalization involves mentally justifying unethical actions before committing them (Utama & Wulandari, 2020).

The Fraud Diamond theory, developed by Wolfe and Hermanson (2004), builds on the Fraud Triangle by adding a fourth element: capability. The four elements of the Fraud Diamond are: Pressure, Opportunity, Rationalization, and Capability. Capability refers to an individual's ability to exploit available opportunities to commit fraud, including skills, position, and knowledge of organizational systems. The Fraud Hexagon theory, developed by Vousinas (2019), expands on the Fraud Diamond by adding two additional factors: ego (arrogance) and collusion. The six elements of the Fraud Hexagon are: Pressure, Opportunity, Rationalization, Capability, Ego/Arrogance, and Collusion. In public organizations such as village governments, collusion is often a primary cause of fraud because it involves cooperation between multiple parties to manipulate financial management

Fraud Prevention

Fraud prevention is a proactive effort undertaken by internal audit to identify and reduce the risk of accounting fraud through the implementation of strict internal controls, staff education and training, and periodic monitoring of financial activities. Indicators of fraud prevention include strong internal controls, training and education, competent internal

auditors, secure reporting systems, and clear policies and procedures. Fraud must be prevented by establishing a robust internal control structure, optimizing control activities, enhancing organizational culture, and strengthening the internal audit function. From this statement, it can be concluded that management must make specific decisions or policies to prevent fraud within a company (Fahmi, 2019).

Fraud detection refers to the actions taken to determine that fraud has occurred, identify the perpetrators, the affected systems or victims, and the causes. The key to fraud detection is being able to identify irregularities or errors. Fraud is inherently hidden, and perpetrators typically conceal their traces in a structured and careful manner. Therefore, fraud detection cannot rely solely on observing obvious evidence. It is conducted by identifying signs or symptoms of fraud. Every occurrence of fraud is accompanied by certain indicators or warning signs. By recognizing these signs, one can detect signals or indications of fraudulent activity.

Fraud detection is an investigative process carried out by internal audit to identify fraudulent actions or irregularities in financial reporting, including through transaction analysis, document testing, and the use of audit technology. Indicators of fraud detection include data anomalies, unusual transaction activity, suspicious documents, changes in employee lifestyle, reports, and investigations (Anto et al., 2025).

According to the Financial and Development Supervisory Agency (BPKP) (2008), fraud prevention is an integrated approach that can reduce the factors that trigger fraud, often referred to as the Fraud Triangle (Roza and Muhammad, 2020). Fraud triggers involve motive, rationalization, and opportunity. Motive and rationalization are closely related to the personal characteristics of the fraud perpetrator and act as internal drivers. Opportunity, on the other hand, is an internal organizational factor. Indirectly, fraud can be prevented through internal organizational factors such as organizational culture and internal control systems, in both the public and non-public sectors. A strong organizational culture and effective internal control systems can address or prevent the factors that trigger fraud.

Internal Control

Internal control is an important concept in organizational governance, particularly in financial management in both the public and private sectors. An internal control system functions to ensure that organizational activities are carried out in accordance with plans, regulations, and the principles of accountability and transparency. In the context of government, internal control serves as a key instrument for preventing irregularities, administrative errors, and fraudulent practices. According to the Committee of Sponsoring Organizations of the Treadway Commission (COSO, 2013), internal control is defined as: "A process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives related to operations, reporting, and compliance."

This definition explains that internal control is a process involving all organizational elements, designed to provide reasonable assurance in achieving objectives related to operational effectiveness, reliability of financial reporting, and compliance with laws and regulations. Meanwhile, the American Institute of Certified Public Accountants (AICPA) defines internal control as: "A plan of organization and all of the coordinated methods and measures adopted within a business to safeguard assets, check the accuracy and reliability of accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies." This emphasizes that internal control consists of methods and procedures applied by an organization to protect assets, ensure reliable accounting information, improve operational efficiency, and ensure compliance with management policies.

According to Hall (2011), internal control is a system comprising policies, practices, and procedures implemented by an organization to ensure management objectives are achieved effectively and efficiently. Boynton et al. (2006) further explain that internal control is a process designed and implemented by management to provide reasonable assurance that organizational objectives will be achieved, including reliability of financial reporting, operational effectiveness and efficiency, and compliance with laws and regulations. Romney and Steinbart (2015) also state that internal control is a process designed to provide reasonable assurance that organizational goals can be achieved through asset protection, accurate transaction recording, and execution of activities in accordance with management policies.

In the public sector in Indonesia, internal control is also regulated through government policy via the Government Internal Control System (SPIP). According to Government Regulation No. 60 of 2008, internal control is: "An integral process in the actions and activities continuously carried out by leaders and all employees to provide reasonable assurance regarding the achievement of organizational objectives through effective and efficient activities, reliable financial reporting, safeguarding state assets, and compliance with laws and regulations." This definition indicates that internal control in the public sector is not only related to financial oversight but also encompasses overall organizational management to ensure good governance. Therefore, based on definitions from experts and professional organizations, internal control can be concluded as a system or process designed and implemented by management and all organizational elements to provide reasonable assurance in achieving organizational objectives through asset protection, reliable financial information, operational effectiveness, and compliance with applicable regulations.

According to the framework developed by COSO (2013), internal control consists of five key components:

a. Control Environment

The control environment forms the foundation of the entire internal control system. This component includes integrity, ethical values, employee competence, and management's commitment to implementing an effective control system.

b. Risk Assessment

Risk assessment is the process of identifying and analyzing risks that may hinder the achievement of organizational objectives. In regional financial management, such risks may include recording errors, budget misuse, or fraudulent practices.

c. Control Activities

Control activities are policies and procedures designed to ensure that necessary actions to manage risks are carried out. Examples include authorization procedures, segregation of duties, and transaction verification.

d. Information and Communication

An adequate information system allows the organization to obtain accurate and timely data to support decision-making and oversight.

e. Monitoring

Monitoring is the ongoing assessment of the effectiveness of the internal control system. It can be performed through internal audits, management evaluations, and other supervisory activities.

In general, the primary purpose of internal control is to ensure that an organization can achieve its objectives effectively, efficiently, and in compliance with applicable regulations. According to Arens et al. (2017), the objectives of internal control include three main aspects:

a. Reliability of financial reporting

Internal control systems aim to ensure that the financial statements prepared by the organization are accurate, complete, and trustworthy.

b. Operational effectiveness and efficiency

Internal controls help organizations use resources optimally so that operational activities can run efficiently.

c. Compliance with laws and regulations

Organizations must ensure that all activities comply with applicable laws and regulations.

In the public sector, internal control objectives are also closely related to improving transparency and accountability in managing national or regional finances. Therefore, a strong internal control system is a key factor in realizing good governance and preventing practices such as corruption, collusion, and nepotism.

Regional Financial Accountability

In general, accountability is a core principle of good governance. Accountability requires every government official to be answerable for all activities and the use of public resources to society. In the context of local government, accountability serves as an important instrument to ensure that regional financial management is conducted transparently, effectively, and responsibly. According to Mardiasmo (2018), accountability is the obligation of a party entrusted with authority to provide explanations, report, and disclose all activities under their responsibility to the principal or granting authority. This concept emphasizes that the

government, as the manager of public resources, must be able to account for every budget allocation to society, which is the primary stakeholder. Meanwhile, Bovens (2007) defines accountability as a social relationship in which an actor has the obligation to explain and justify their actions to another party that has the right to demand such explanations. This definition shows that accountability is not only related to reporting but also involves the evaluation and supervision of actions taken by the party in authority.

Furthermore, Mahmudi (2015) states that accountability in the public sector is the government's obligation to justify the management of public resources and the implementation of policies to society through transparent and publicly accessible reporting mechanisms. Therefore, accountability can be understood as a form of public organization responsibility for the use of resources and implementation of policies to the public as stakeholders entitled to this information. Regional financial accountability is part of public accountability that specifically relates to the management of local government finances. In a decentralized governance system, local governments have broad authority to manage budgets and financial resources, making clear accountability mechanisms essential.

According to Putri (2017), accountability in regional financial management is a process that covers all stages from planning, implementation, recording, reporting, to supervision and must be reportable and justifiable to the public as well as the Regional House of Representatives (DPRD). Kurniawan and Rahayu (2019) define accountability in regional financial management as a systematic and transparent process encompassing planning, implementation, recording, reporting, and financial oversight.

Regional financial accountability represents the responsibility of local governments to manage finances honestly, openly, and in a manner that provides the public with accessible information regarding the use of public funds. Haya and Abdullah (2022) state that regional financial accountability is the local government's responsibility to manage public funds transparently and accountably through the presentation of clear financial reports to the public. The main objectives of regional financial accountability in local governance include:

- a. Increasing transparency in regional financial management
Accountability encourages local governments to provide open access to financial information for the public.
- b. Enhancing efficiency and effectiveness in budget utilization
With accountability mechanisms in place, budget use can be controlled to ensure it is efficient and targeted appropriately.
- c. Building public trust in local government
Transparent and accountable financial management strengthens the legitimacy of the government in the eyes of society.
- d. Preventing irregularities and fraud
Accountability serves as an important instrument to prevent corruption and misuse of local budgets.
- e. Supporting good governance
Accountability is a key principle in establishing a transparent, responsive, and responsible government.

3. Materials and Method

This study employs a qualitative method using a Qualitative Secondary Analysis (QSA) approach, which involves the analysis of qualitative data through the use and re-examination of existing secondary data (Greenwood, 2020). Data were collected from various sources, including previous research studies, working papers, conference proceedings, mass media, and other documents relevant to the research topic. The data collection process was conducted systematically, using clear selection criteria such as relevance to the research questions, source credibility, and completeness of the information presented.

The data analysis process was conducted in three main stages following a descriptive approach: data reduction, data presentation, and conclusion drawing (Miles and Huberman, 2009). In the data reduction stage, information from various documents was filtered and selected according to the research focus, eliminating data that were irrelevant or of lower quality. The reduced data were then presented in thematic narratives or visualizations, such as tables or diagrams, to support the analysis. The final stage involved drawing conclusions,

where the synthesized findings were used to answer the research questions in an integrated manner.

To ensure data validity in this study, source triangulation was conducted. Triangulation involved comparing information from different documents originating from diverse sources to identify consistency, gaps, or discrepancies in the data. This step aimed to reduce bias, enhance the reliability of findings, and strengthen the analytical foundation. By applying the Qualitative Secondary Analysis approach, the study focused on an in-depth evaluation of secondary data.

4. Results and Discussion

Internal Control as an Instrument for Fraud Prevention

Internal control is one of the key mechanisms in the public sector financial management system, particularly in efforts to prevent fraud. Analysis shows that most studies emphasize that a weak internal control system is a primary factor contributing to fraud in local government financial management. This occurs due to inadequate control systems, weak segregation of duties, and the limited capacity of government internal supervisory apparatus (APIP). Research findings also indicate that implementing a risk-based internal control system can enhance an organization's ability to identify potential fraud at an early stage. Thus, internal control functions not only as a detection tool but also as a preventive instrument in fraud prevention.

Internal control in public sector organizations fundamentally aims to ensure that all financial management processes are conducted transparently, accountably, and in accordance with applicable laws and regulations. According to Arens, Elder, and Beasley (2017), internal control is a process designed by management to provide reasonable assurance that organizational objectives can be achieved effectively and efficiently.

In the context of fraud prevention, internal control has several main functions:

a. Preventing financial irregularities

An effective internal control system can prevent various forms of irregularities, such as budget misuse, financial statement manipulation, and embezzlement of funds. This aligns with Singleton and Singleton (2010), who state that a strong internal control system serves as the first line of defense against organizational fraud.

b. Detecting potential fraud early

Through internal audits, monitoring, and periodic evaluations, internal control can detect signs of fraud before they result in significant losses. Albrecht et al. (2012) note that most fraud cases can be identified through an effective internal control system.

c. Strengthening financial accountability

Internal control also ensures that every use of the budget can be accounted for both administratively and substantively. This is essential for enhancing accountability in local government financial management.

To understand the role of internal control in preventing fraud, this study connects research findings with widely used fraud theories in public sector accounting, particularly Donald Cressey's Fraud Triangle Theory (1953). According to this theory, fraud occurs due to three main factors: Pressure, Opportunity, and Rationalization. In this context, internal control plays a crucial role, especially in reducing the opportunity for fraud. When the internal control system is weak, the likelihood of irregularities increases. Conversely, when an organization has a strong control system, the opportunity to commit fraud can be minimized.

Several internal control mechanisms can reduce the opportunity for fraud, including: segregation of duties, transaction authorization systems, periodic internal audits, and financial reporting and monitoring systems. Research by Tuanakotta (2013) also states that effective internal control is a primary instrument in reducing the opportunity for fraud in public sector organizations. In the context of local government, internal control is carried out by the Government Internal Supervisory Apparatus (APIP), which performs audits, reviews, evaluations, monitoring, and other supervisory activities.

Fraud Risk Control in the Internal Control System

Fraud Risk Control is an essential component of the internal control system, aimed at identifying, assessing, and mitigating the risk of fraud in organizational financial management, including in the public sector. In the context of local government, the implementation of

Fraud Risk Control serves as a strategic instrument to enhance transparency and accountability in regional financial management.

Literature reviews indicate that the practice of Fraud Risk Control within internal control systems generally includes several key components: fraud risk identification, fraud risk assessment, fraud control activities, and monitoring and evaluation of fraud controls. This concept aligns with the Committee of Sponsoring Organizations (COSO) framework, which states that internal control systems should be designed to provide reasonable assurance in achieving organizational objectives, including fraud prevention and detection (COSO, 2013). Thus, Fraud Risk Control functions not only as a supervisory mechanism but also as part of an organization's risk management strategy to maintain financial integrity.

Research findings show that the first step in implementing Fraud Risk Control is the identification of fraud risks at each stage of financial management. This process aims to map areas vulnerable to irregularities or misuse of resources. In local government financial management, fraud risks can arise in various activities such as budgeting processes, program implementation and procurement of goods/services, financial recording and reporting, as well as monitoring of budget utilization.

These findings align with Cressey's Fraud Triangle Theory (1953), which explains that fraud occurs due to three main factors: pressure, opportunity, and rationalization. In public sector organizations, weak internal control systems often create opportunities for fraud. Therefore, fraud risk identification is a critical step to detect potential gaps in internal control systems, enabling organizations to design effective preventive strategies.

After identifying fraud risks, the next stage involves assessing the level of identified fraud risks. This assessment typically considers two main aspects: the likelihood of fraud occurrence and the impact if fraud occurs. Research shows that a risk-based approach allows organizations to prioritize oversight in areas with the highest risk levels.

This is consistent with the concept of Risk-Based Internal Audit developed by Johnstone et al. (2013), which emphasizes that internal audit functions should focus on areas with the greatest risk to achieving organizational objectives. In the context of local government, applying fraud risk assessment can assist the Government Internal Supervisory Apparatus (APIP) in determining audit priorities and improving the effectiveness of oversight over public budget utilization.

The Role of the Government Internal Supervisory Apparatus in Strengthening Local Financial Accountability

Local Financial Accountability is one of the core principles in the implementation of good governance. Accountable management of local finances requires an effective oversight system to ensure that every budgetary allocation is executed transparently, efficiently, and in accordance with applicable laws and regulations. In this context, the Government Internal Supervisory Apparatus (APIP) plays a strategic role in strengthening control systems and ensuring the achievement of local financial accountability.

The Government Internal Supervisory Apparatus is an organizational unit tasked with conducting internal oversight of government administration within ministries/agencies as well as local governments. Its functions include audits, reviews, evaluations, monitoring, and other supervisory activities. Through these functions, Government Internal Supervisory Apparatus provides assurance and consulting services to enhance the effectiveness of local financial management.

Government Internal Supervisory Apparatus holds a strategic position in ensuring accountability in government performance and serves as a critical foundation for realizing good governance. Therefore, the independence and professionalism of Government Internal Supervisory Apparatus are essential for the optimal execution of oversight functions (Akhriani, 2024). Additionally, Government Internal Supervisory Apparatus plays a role in ensuring the effective implementation of the Government Internal Control System. Successful implementation of Government Internal Control System improves the quality of state and regional financial management and strengthens bureaucratic reform (Indrayono, 2012). Thus, Government Internal Supervisory Apparatus acts not only as a supervisory body that detects errors but also as a strategic partner for local governments in improving financial governance.

In practice, Government Internal Supervisory Apparatus has several main roles in strengthening local financial accountability, namely:

a. Audit and Financial Review Functions

One of Government Internal Supervisory Apparatus primary roles is to conduct internal audits and reviews of local government financial reports before they are audited by the Supreme Audit Agency . Through these activities, Government Internal Supervisory Apparatus can identify potential errors, irregularities, or weaknesses in internal control systems. Research indicates that Government Internal Supervisory Apparatus capabilities and the maturity level of the Government Internal Control System positively influence the quality of local government financial reports. This demonstrates that stronger internal oversight capacity leads to higher accountability in financial management (Andi & Wijaya, 2025). Therefore, internal audits conducted by Government Internal Supervisory Apparatus are a key mechanism to ensure that local government financial reports are accurate and comply with government accounting standards.

b. Risk-Based Oversight (Risk-Based Audit)

In modern oversight systems, Government Internal Supervisory Apparatus not only conducts routine inspections but also applies a risk-based audit approach. This approach emphasizes identifying areas with potential risk for mismanagement or fraud in local financial management. Research shows that risk-based audits conducted by regional inspectorates can enhance accountability in local revenue management through the implementation of internal control frameworks and collaboration with stakeholders (Teguh & Andi, 2025). Risk-based approaches allow APIP to focus on areas with the highest potential for financial loss, making oversight more effective and efficient.

c. Consultative Role in Strengthening Financial Governance

Besides its supervisory functions, Government Internal Supervisory Apparatus also serves as a management consultant for local government units. In this role, Government Internal Supervisory Apparatus provides recommendations for improving financial management systems, administrative procedures, and internal control systems. Studies indicate that Government Internal Supervisory Apparatus plays a strategic role in minimizing potential state financial losses through assurance and consultation functions for local government organizations (Muhammad & Kartikasari, 2026). Through this consultative function, Government Internal Supervisory Apparatus not only identifies errors but also assists local government organizations in enhancing financial management systems to be more transparent and accountable.

Strengthening the role of Government Internal Supervisory Apparatus is closely linked to the realization of good governance principles, which include transparency, accountability, effectiveness, and efficiency in public financial management. From the Agency Theory perspective, local governments act as agents managing public resources on behalf of the public as principals. This relationship carries the potential for information asymmetry, which can lead to moral hazard and budget misuse. Therefore, internal oversight through Government Internal Supervisory Apparatus is a critical mechanism to mitigate these risks.

Furthermore, within the New Public Management framework, governments are required to adopt modern, performance-oriented, and accountable management practices. Effective internal oversight by APIP can improve the quality of local financial governance, enabling local governments to account for budget use transparently to the public (Mozin et al., 2025). Consequently, Government Internal Supervisory Apparatus presence not only ensures regulatory compliance but also enhances the overall performance of local government organizations

5. Conclusion

Based on the results of the research analysis, it can be concluded that internal control is one of the essential mechanisms in public sector financial management, particularly in efforts to prevent fraud. Fraud Risk Control is a critical component of the internal control system, aimed at identifying, assessing, and mitigating the risk of fraud in organizational financial management, including in the public sector. In the context of local government, implementing Fraud Risk Control serves as a strategic instrument to enhance transparency and accountability in regional financial management.

The Government Internal Supervisory Apparatus (APIP) plays a strategic role in strengthening local financial accountability through its functions in auditing, risk-based oversight, and providing consultation to improve financial management systems. Strengthening the capabilities of APIP, increasing the maturity of the Government Internal Control System (SPIP), and ensuring the independence of internal auditors are key factors in realizing transparent and accountable local financial governance.

This study contributes significantly to the development of theory in public sector accounting and governance, particularly regarding internal control and fraud prevention in local financial management. The research reinforces the concept of internal control as outlined in the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework. According to COSO, internal control consists of five main components: control environment, risk assessment, control activities, information and communication, and monitoring. The study indicates that implementing Fraud Risk Control is an integral part of the risk assessment process within the internal control system, helping organizations identify potential fraud early.

Beyond its theoretical contribution, this study also has practical implications for local financial management, particularly for government internal supervisory institutions. The findings emphasize the importance of strengthening the role of APIP in local financial management systems. This strengthening can be achieved through enhancing the competence of internal auditors, developing risk-based oversight methods, and improving the independence of internal supervisory institutions. The implementation of Fraud Risk Control should be systematically integrated into the internal control system of local governments, through fraud risk mapping, development of risk mitigation strategies, and more effective mechanisms for fraud reporting and detection.

Although this study provides important insights into the role of internal control in enhancing local financial accountability, it has several limitations. The study uses a Qualitative Secondary Analysis (QSA) approach, which relies on secondary data from previous research and literature. This approach has limitations in directly representing empirical conditions in the field. Additionally, this research has not specifically analyzed the influence of other factors, such as organizational culture, leadership, and the utilization of digital technology in local financial oversight systems.

Based on these limitations, several recommendations can be made for future research: future studies could employ empirical or mixed-methods approaches, collecting primary data directly from local governments to gain a more comprehensive understanding of the effectiveness of APIP in enhancing local financial accountability. Subsequent studies could also explore the role of digital governance and local government financial information systems in strengthening internal control mechanisms and preventing fraud in local government financial management

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