

## The Role of Public Sector Accounting and Internal Supervision in Preventing Budget Fraud: Evidence from Jakarta Food Security, Marine and Agriculture Agency

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### ABSTRACT

This study examines the influence of public sector accounting, internal control, and financial management supervision on budget fraud prevention at the Jakarta Food Security, Marine and Agriculture Agency. Using a quantitative approach with purposive sampling, data were collected from 40 financial and procurement staff through structured questionnaires and analyzed using multiple linear regression with SPSS version 30. The results show that internal control and financial supervision significantly reduce fraud, while public sector accounting has no individual effect. However, all three variables jointly influence fraud prevention. These findings underscore the importance of integrated financial governance, emphasizing the role of supervision and internal control, alongside accounting systems, in mitigating budget fraud in the public sector.

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## INTRODUCTION

Transparency in public financial management plays a vital role in enhancing government accountability, promoting fiscal discipline, reducing corruption, and fostering public trust in government institutions (Kang & Chen, 2022). However, recent cases of financial mismanagement and misuse of public funds have exposed persistent weaknesses across various public sector institutions. Vulnerable areas include public procurement, licensing, electoral systems, the judiciary, village fund administration, and the receipt of bribes and gratuities (Prakasa et al., 2023). Notably, approximately 40% of both national and regional budgets in Indonesia are allocated to public procurement, a sector widely recognized as highly susceptible to significant budget leakage (Prasetyo, 2019).

Fraudulent practices in public procurement often begin at the budgeting and planning stages, where conflicts of interest and a lack of transparency can distort resource allocation and create opportunities for corruption. In Indonesia, approximately 98% of local government corruption cases have been linked to the budget planning phase (Rustiarini et al., 2019). Yet, existing literature has predominantly emphasized fraud during procurement implementation, rather than the earlier and arguably more vulnerable budgeting stage.

Budget fraud poses a serious threat to the sustainability of public institutions, eroding organizational performance, public trust, and institutional legitimacy (Simanjuntak et al., 2025). Expanding on Cressey's Fraud Triangle (Cressey, 1953), Wolfe & Hermanson (2004) introduced the concept of the Fraud Diamond, emphasizing that an individual's capacity to commit fraud also depends on traits such as authority, intelligence, overconfidence, and stress tolerance. Within the public sector, weaknesses in internal controls, particularly in budgeting, revenue and expenditure management, financial reporting, and organizational structure, have been identified as major drivers of corruption (Muhtar et al., 2023).

Public sector accounting plays a pivotal role in improving the quality of governance by enhancing accountability, regulatory compliance, rule of law, and corruption control (Cuadrado-Ballesteros & Bisogno, 2021). High-quality financial information also supports effective decision-making (Poljašević et al., 2021), resulting in more efficient resource allocation, and enhanced organizational performance (Tsianaka & Stavropoulos, 2023). Despite these benefits, public sector accounting practices in many institutions remain compliance-oriented, with limited strategic and analytical application. Furthermore, their effectiveness in fraud prevention is often constrained by limited human resource capacity and inadequate technological infrastructure.

Similarly, internal control and financial management supervision are indispensable tools for mitigating fraud risks. Effective internal controls facilitate early detection of irregularities, while financial supervision ensures that all stages of the budget cycle such as planning, execution, reporting, and audit follow-up, comply with applicable regulations. Ministerial Regulation No. 73 of 2020 highlights the importance of transparent, participatory, and disciplined financial management, emphasizing the need for structured and ongoing oversight.

Despite the recognized importance of these mechanisms, their implementation and effectiveness may vary across institutions. This study focuses on the Jakarta Food Security, Marine and Agriculture Agency (DKPKP) to investigate how public sector accounting, internal control, and financial management supervision influence the prevention of budget fraud. By examining these relationships, this study aims to provide insights into the factors that support or hinder fraud prevention in local government financial governance.

## **LITERATURE REVIEW**

### ***Public Sector Accounting***

Public sector accounting refers to the systematic process of recording, classifying, summarizing, and reporting financial transactions undertaken by public institutions including local and central governments, state-owned enterprises (BUMN and BUMD), and non-profit organizations (Bastian, 2019). Its primary objective is to ensure transparency, accountability, and efficiency in the management of public funds. When implemented in accordance with applicable accounting standards, it supports effective financial governance by minimizing the risk of misallocation and fraud. Mardiasmo (2018) emphasizes that effective public sector accounting not only enhances decision-making but also strengthens institutional accountability and public trust.

### ***Internal Control***

Internal control encompasses a set of processes, procedures, and mechanisms including audits, evaluations, and monitoring that designed to ensure that organizational activities comply with established regulations and operate efficiently and effectively (Government Regulation No. 60 of 2008). These controls function as a governance safeguard, helping institutions detect and prevent irregularities, ensure the reliability of financial reporting, and promote adherence to organizational goals. Strong internal control is also associated with increased ethical behavior and reduced opportunity for fraud within public organizations.

### ***Financial Reports***

Financial reporting is a critical component of public accountability. It provides stakeholders with relevant information regarding the financial position, performance, and compliance of a government entity. According to Government Regulation No. 71 of 2010, financial statements serve to compare actual revenues and expenditures with the approved budget, assess financial condition, and support evaluations of fiscal responsibility and transparency. High-quality financial reports are essential for effective decision-making, performance assessment, and adherence to good governance principles.

### ***Financial Supervision***

Financial supervision refers to systematic efforts to monitor and evaluate financial management practices to ensure alignment with legal frameworks and efficiency in government operations. Regulation of the Minister of Home Affairs No. 51 of 2010 mandates that regional financial supervision aims to ensure that local governments operate effectively, efficiently, and in compliance with applicable policies and standards. Comprehensive supervision covers all phases of budget management, including planning, implementation, and reporting.

### ***Budget Fraud***

Budget fraud involves the intentional misuse of public funds through practices such as embezzlement, budget inflation, fictitious reporting, and the manipulation of financial records. According to the Financial and Development Supervisory Agency (BPKP), such fraud often arises from abuse of authority and is exacerbated by weak internal and external controls. Cressey's Fraud Triangle theory (1953) explains that fraud occurs when three elements are present: pressure, opportunity, and rationalization. Wolfe and Hermanson (2004) later expanded this model with the Fraud Diamond, introducing the element of capability, suggesting that individuals in positions of power, equipped with technical expertise and confidence, are more likely to exploit systemic weaknesses to commit fraud

## **METHODOLOGY**

This study employs a quantitative research approach to examine the relationship between public sector accounting, internal control, and financial management supervision on the prevention of budget fraud. The sampling method used is purposive sampling, which, according to Sugiyono (2010), involves selecting respondents based on specific criteria to ensure data relevance and quality. This technique was chosen to identify respondents who possess the necessary knowledge and are directly involved in financial management processes.

The population of the study consists of employees at the Jakarta Food Security, Marine and Agriculture Agency, particularly those engaged in financial administration. The selected sample includes treasurers, financial administration staff, and officials responsible for the procurement of goods and services, individuals who are directly involved in public sector accounting, internal controls, and financial accountability practices. Data was collected through the distribution of structured questionnaires using a five-point Likert scale to measure perceptions related to the study variables: implementation of public sector accounting (X1), internal control (X2), financial reporting supervision (X3), and budget fraud prevention (Y). A total of 40 valid responses were obtained for further analysis.

## RESEARCH RESULT

### *Respondents Profile*

**Table 1. Respondents by Gender**

No	Gender	Total	Persentase
1	Male	18	45%
2	Female	22	55%
Total		40	100%

*Source: Processed primary data (2024)*

The gender distribution of respondents at the Jakarta Food Security, Marine and Agriculture Agency shows that the majority are female, totaling 22 individuals (55%). Male respondents account for 18 individuals (45%). This composition indicates a relatively balanced gender representation, with a slight predominance of female staff in the financial management division.

**Table 2. Respondents by Age Group**

No	Age	Total	Persentase
1	20-30	1	3%
2	31-40	16	40%
3	41-50	8	20%
4	>55	15	38%
Total		40	100%

*Source: Processed primary data (2024)*

The age distribution reveals that respondents aged 31–40 years constitute the largest group with 16 individuals (40%), followed by those over 50 years old with 15 individuals (38%). Respondents aged 41–50 years account for 8 individuals (20%), while only 1 respondent (3%) falls within the 20–30 years age range. This suggests that most participants are mid-career or senior staff with relevant experience in financial management and public accountability.

### *Validity Test*

According to Ghozali (2009), a validity test is conducted to ensure that the research instrument accurately measures the intended variables. An item is considered valid if the correlation coefficient (r-count) exceeds the r-table value and the significance level (p-value) is below 0.05. In this study, the r-table threshold was set at 0.312. Based on the test results, all questionnaire items produced r-count values greater than 0.312 and significance levels below 0.05, indicating that all items used in the questionnaire are valid and can be reliably used to measure the studied constructs.

### *Reliability Test*

Instrument reliability was evaluated using Cronbach's alpha, which measures internal consistency. Following Sitinjak and Sugiharto (2006), an instrument is considered reliable if the Cronbach's alpha value exceeds 0.6. The results show that all constructions meet this criterion, confirming that the questionnaire items are consistent and dependable for data collection in this study.

## DISCUSSION

This study aimed to analyze the influence of public sector accounting (X1), internal control (X2), and financial management supervision (X3) on budget fraud prevention (Y) at the Jakarta Food Security, Marine and Agriculture Agency. The results of multiple linear regression analysis indicate that only internal control and financial management supervision significantly affect the prevention of budget fraud, while public sector accounting does not show a significant individual influence.

### *Public Sector Accounting (X1)*

The analysis shows that the implementation of public sector accounting does not have a statistically significant effect on budget fraud prevention ( $p > 0.05$ ). This result suggests that although accounting systems are in place, their implementation may be limited to procedural or administrative compliance without being used as a strategic tool for financial control and fraud detection. This finding aligns with Cuadrado-Ballesteros and Bisogno (2021), who argue that the mere existence of public sector accounting standards is insufficient without institutional capacity and managerial commitment to utilize the information effectively. Possible explanations include:

- a. Lack of training for staff on public sector accounting standards.
- b. Minimal analytical use of financial reports in decision-making.
- c. Absence of digital integration or automation in accounting systems.

### *Internal Control (X2)*

Internal control was found to have a significant and positive effect on the prevention of budget fraud ( $p < 0.05$ ). This result supports the theory of the Fraud Triangle, in which reducing the “opportunity” for fraud through effective controls can minimize its occurrence (Cressey, 1953; Wolfe & Hermanson, 2004). Control mechanisms such as segregation of duties, compliance monitoring, and internal audits help detect irregularities early and prevent misuse of budget allocations. This finding is consistent with Muhtar et al. (2023), who emphasized that weak internal controls particularly in budgeting and financial reporting are strongly correlated with corruption in local governments.

### *Financial Management Supervision (X3)*

Financial management supervision also showed a significant positive relationship with budget fraud prevention ( $p < 0.05$ ). This highlights the importance of oversight mechanisms that operate throughout the entire budget cycle from planning to reporting. Active and structured supervision can ensure adherence to regulations, increase accountability, and identify deviations promptly. This finding confirms the emphasis of Regulation of the Minister of Home Affairs No. 73 of 2020, which calls for participatory and disciplined financial management practices, supported by transparent monitoring systems.

### *Simultaneous Influence*

Although public sector accounting did not show a significant individual effect, the simultaneous test (F-test) revealed that X1, X2, and X3 together have a significant effect on Y ( $p < 0.05$ ). This implies that when public sector accounting is combined with strong internal control and effective financial supervision, they collectively contribute to a robust system that deters fraud. It supports the notion that fraud prevention requires a holistic and integrated approach, rather than relying on a single mechanism.

## **CONCLUSIONS AND RECOMMENDATIONS**

This study examined the influence of public sector accounting, internal control, and financial management supervision on the prevention of budget fraud at the Jakarta Food Security, Marine and Agriculture Agency. The results of the analysis lead to the following conclusions:

- a. The implementation of public sector accounting does not have a significant individual effect on budget fraud prevention. This may indicate that the current use of accounting practices remains administrative in nature and lacks strategic application in supporting fraud mitigation.
- b. Internal control has a significant and positive effect on the prevention of budget fraud. This underscores the importance of effective control mechanisms, such as compliance monitoring, segregation of duties, and early detection systems, in reducing opportunities for fraud.
- c. Financial management supervision also significantly contributes to fraud prevention efforts. Continuous oversight throughout the budget cycle, ranging from planning to reporting and audit follow-up, is essential in ensuring budget discipline and accountability.
- d. When applied simultaneously, public sector accounting, internal control, and financial supervision significantly affect the prevention of budget fraud. This highlights the necessity of an integrated and synergistic approach to strengthen the overall public financial management system.

Based on the findings, the following recommendations are proposed:

- a. Strengthen internal control systems by enhancing risk-based monitoring, increasing employee awareness of ethical standards, and ensuring that all financial procedures are well-documented and consistently implemented.
- b. Improve the quality and strategic use of public sector accounting through training, the integration of technology, and the promotion of analytical use of financial reports as tools for decision-making and fraud detection.
- c. Enhance financial supervision mechanisms by developing a structured and participatory supervision framework, supported by clear performance indicators and regular audit evaluations at each stage of the budget cycle.
- d. Develop organizational capacity and culture that supports integrity, transparency, and accountability through continuous professional development and leadership commitment to good governance practices.

## ADVANCED RESEARCH

Future research is encouraged to incorporate a larger and more diverse sample, apply mixed-methods approaches, and explore other potential factors influencing fraud prevention, such as digitalization, institutional culture, and leadership ethics. Future researchers are encouraged to employ more diverse and comprehensive methodologies, expand the sample size, and explore other potential factors influencing fraud prevention, such as digitalization, institutional culture, and leadership ethics

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