Strengthening Public Financial Integrity Through Internal Control and Internal Audit Strategies

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ABSTRACT

Fraud prevention plays an important role in improving accountable and transparent financial management in the public sector. This study aims to examine the effects of internal control systems and internal audits on fraud prevention in the Ambon City Government. A quantitative explanatory approach was used. Data were collected through questionnaires distributed to 60 employees involved in financial management within regional government organizations and were analyzed using SmartPLS. The findings indicate that internal control systems have a positive and significant effect on fraud prevention, with a path coefficient of 0.432, while internal audits also have a positive and significant effect, with a coefficient of 0.387. The R-squared value of 0.507 indicates that both variables explain 50.7% of the variance in fraud prevention. These findings suggest that fraud prevention becomes more effective when preventive and evaluative governance mechanisms are integrated. This study contributes to the public sector governance literature by positioning internal control systems and internal audits as complementary governance mechanisms that support accountability and transparency in local government financial management.

ABSTRAK

Penelitian ini mengkaji peran sistem pengendalian intern dan audit internal dalam pencegahan fraud pada pengelolaan keuangan Pemerintah Kota Ambon. Dengan pendekatan kuantitatif dan analisis SmartPLS terhadap 60 responden, ditemukan bahwa kedua variabel berpengaruh positif dan signifikan terhadap pencegahan fraud, masing-masing dengan koefisien jalur 0,432 dan 0,387. Nilai R-Square sebesar 0,507 mengindikasikan bahwa 50,7% variasi pencegahan fraud dapat dijelaskan oleh kedua mekanisme tersebut. Temuan ini menegaskan bahwa integrasi antara mekanisme preventif (sistem pengendalian intern) dan evaluatif (audit internal) berkontribusi pada peningkatan akuntabilitas dan transparansi tata kelola keuangan sektor publik.

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INTRODUCTION

Fraud in public-sector financial management remains a strategic global issue because it directly affects fiscal sustainability, institutional credibility and public trust. Fraud is not limited to corruption; it also includes asset misappropriation, financial statement manipulation, and irregularities in procurement processes (Oliveira et al. 2022). Weak fraud prevention mechanisms can reduce governance effectiveness, distort budget allocation, and weaken the quality of public services. In Indonesia, the risk of fraud in the public sector remains substantial. The Indonesia Corruption Watch reported 364 corruption cases in 2024 involving 888 suspects, with estimated state losses reaching IDR 279.9 trillion (ICW, 2024; Bari et al., 2024). Indonesia also recorded a score of 34/100 in the Corruption Perceptions Index and ranked 102nd out of 180 countries, indicating persistent governance challenges in public institutions (Hazaea and Zhu 2022). These conditions underscore the need to strengthen governance

mechanisms to prevent fraud in public financial management.

The Ambon City Government was selected as the research setting because it reflects practical challenges in local government financial governance. Audit findings from the Supreme Audit Institution identified 30 findings and 83 recommendations related to internal control weaknesses and regulatory non-compliance in Ambon City's financial reports for fiscal years 2022–2023 (Putra et al., 2022; BPK RI, 2024). Previous audits also reported inconsistencies in budget utilization amounting to approximately IDR 33 billion. In addition, several financial reports received disclaimer opinions due to material weaknesses in internal control systems and compliance issues. These conditions indicate that weaknesses in governance mechanisms may increase the risk of fraud and reduce accountability in local government financial management.

Internal control systems and internal audits are governance mechanisms closely linked to fraud prevention. The fraud triangle theory posits that fraud arises from pressure, opportunity, and rationalization (Efunniyi et al., 2024). Of these dimensions, opportunity is the most controllable through organizational governance systems. Effective internal control systems reduce opportunities for misconduct through segregation of duties, authorization procedures, documentation standards, and monitoring processes (Al-Taee & Flayyih, 2023). Internal audits complement this role by evaluating the effectiveness of controls, identifying irregularities, and recommending corrective actions (Alqaraleh et al., 2025). Therefore, both mechanisms are important for supporting accountability and strengthening fraud prevention in local government institutions.

Previous studies have confirmed the importance of internal control systems and internal audits in reducing fraud risk. Hazaea and Zhu (2022) found that internal control components significantly reduced opportunities for fraud in public organizations, whereas Olatinsu and Eke (2025) reported that independent professional internal audits improved the early detection of irregularities and strengthened corrective governance actions. However, prior research has generally examined internal control systems and internal audits separately, resulting in fragmented explanations of fraud-prevention mechanisms. Consequently, empirical evidence remains limited on how preventive governance mechanisms and evaluative oversight operate simultaneously to strengthen fraud prevention within local government financial management.

This study contributes by integrating internal control systems and internal audits into a single empirical model to explain fraud prevention in local government financial management, particularly in the context of eastern Indonesian regional governance. This study is expected to contribute theoretically to the public sector governance and fraud prevention literature and provide practical, policy-relevant insights to strengthen accountability, transparency, and integrity in local government financial management. Accordingly, this study analyzed the effects of internal control systems and internal audits on fraud prevention in the Ambon City Government.

THEORETICAL FRAMEWORK AND HYPOTHESES

Fraud Prevention

Fraud prevention encompasses proactive organizational efforts to minimize the likelihood of fraudulent behavior before it occurs. Preventive approaches are more effective than corrective actions because they reduce investigation costs, legal risks, and reputational damage. In local government, fraud prevention is closely associated with effective monitoring systems, an ethical organizational culture, procedural transparency, and consistent regulation enforcement.

The fraud triangle theory states that fraud arises from pressure, opportunity, and rationalization. Of these dimensions, opportunity is the most controllable, because governance mechanisms and organizational systems strongly influence it. Weak governance structures create administrative gaps that increase the likelihood of misconduct, whereas strong governance systems reduce the opportunities for fraud. Arefin et al. (2024) emphasize that reducing opportunities through structured governance mechanisms significantly decreases the risk of fraud. Bello et al. (2023) also found that integrated governance systems improve fraud prevention effectiveness in public institutions. These findings suggest that fraud prevention depends on effective preventive and evaluative governance.

Internal Control System and Fraud Prevention

Internal control systems are essential governance mechanisms that ensure accountability, reliable financial reporting, and regulatory compliance in public sector organizations. In modern public administration, internal controls are not merely procedural requirements but also strategic instruments for risk management and fraud prevention. Effective internal control systems

consist of the control environment, risk assessment, control activities, information and communication, and monitoring, as outlined in the COSO framework. These components collectively reduce procedural weaknesses and limit opportunities for misconduct.

From the perspective of the fraud triangle theory, opportunity can be minimized through effective organizational controls. Weak internal controls create exploitable gaps, whereas stronger controls restrict unauthorized actions and reinforce governance discipline. Oliveira et al. (2022) found that effective internal control significantly reduces fraud risk by strengthening governance structures. Hamed (2023) also reported that robust control mechanisms improve compliance and minimize financial irregularities in public institutions. These findings indicate that internal control systems contribute positively to fraud prevention by establishing structured, transparent, and accountable financial management processes.

Based on the theoretical and empirical explanations, we propose the following hypothesis:

H1: Internal control systems positively affect fraud prevention in the banking sector.

Internal Audit and Fraud Prevention

Internal auditing has evolved into a value-adding governance function that supports accountability, transparency, and organizational improvement. In public-sector institutions, internal audits play a critical role in assessing the effectiveness of internal controls, identifying potential risks, and recommending corrective actions. Internal auditors serve as evaluators and strategic partners in strengthening governance and institutional oversight.

From an agency theory perspective, internal audit serves as an institutional monitoring mechanism that helps reduce information asymmetry between public managers and stakeholders. Through systematic evaluation, supervision, and follow-up, internal audit strengthens accountability and limits managerial discretion, which could lead to opportunistic behavior. In public-sector organizations, an effective internal audit contributes to fraud prevention by ensuring that financial activities comply with governance standards and regulatory requirements. Levytska et al. (2022) reported that the quality of internal audits significantly improves the effectiveness of fraud prevention through systematic evaluation and monitoring. Al-Taee and Flayyih (2023) also found that independent internal auditors accelerate the early detection of financial irregularities. These findings suggest that internal audit supports fraud prevention through continuous supervision, evaluation, and reinforcement of governance.

The role of internal auditing in fraud prevention can also be understood as part of a preventive–evaluative governance mechanism. Internal audits not only detect irregularities after they occur but also provide organizational feedback that strengthens governance practices and improves the effectiveness of controls over time. This perspective indicates that fraud prevention requires adaptive governance systems that can continuously evaluate and refine institutional controls.

Based on the theoretical and empirical explanations, we propose the following hypothesis:

H2: Internal audit has a positive effect on fraud prevention.

RESEARCH METHOD

This study employed a quantitative explanatory design to examine how internal control systems and internal audits affect fraud prevention in public sector financial management. The study was conducted in the Ambon City Government in Indonesia from January to March 2026. An explanatory approach was selected to analyze causal relationships among latent variables through a predictive statistical analysis.

The population comprised employees involved in budgeting, treasury administration, expenditure realization, and financial reporting across regional government agencies. Purposive sampling was used to select respondents with direct responsibilities in financial management and an understanding of internal governance procedures. A total of 60 respondents participated in the study. This sample size was considered appropriate for partial least squares structural equation modeling (PLS-SEM), which is well-suited to predictive models with relatively small samples and does not require strict multivariate normality.

Primary data were collected via structured questionnaires using a five-point Likert scale. The research instrument was adapted from prior studies and relevant governance frameworks. Internal control systems were assessed using COSO indicators, including control environment, risk assessment, control activities, information and communication, and monitoring. Internal audits were assessed for independence, competence, supervisory effectiveness, and follow-up actions. Fraud prevention was assessed using indicators of early-detection capability, fraud-risk control, compliance control, and anti-fraud awareness. Respondents participated voluntarily, and all responses were kept anonymous and used solely for

academic purposes.

Data analysis was conducted in SmartPLS, including evaluations of the measurement and structural models. Convergent validity and construct reliability were assessed using outer loadings, average variance extracted (AVE), composite reliability, and Cronbach's alpha, while discriminant validity was evaluated using the Fornell–Larcker criterion. The structural model was analyzed using R-squared values, path coefficients, and bootstrapping at a significance level of 5 %.

Table 1. Operational Definition of Variables

Variable	Indicator	Item	Source
Internal Control System	Control environment	SPI1	COSO (2013)
Internal Control System	Risk assessment	SPI2	COSO (2013)
Internal Control System	Control activities	SPI3	COSO (2013)
Internal Control System	Information and communication	SPI4	COSO (2013)
Internal Control System	Monitoring	SPI5	COSO (2013)
Internal Audit	Independence	A1	IIA (2022)
Internal Audit	Competence	A2	IIA (2022)
Internal Audit	Supervisory effectiveness	A3	IIA (2022)
Fraud Prevention	Early detection	F1	Albrecht et al. (2021)
Fraud Prevention	Risk mitigation	F2	Albrecht et al. (2021)
Fraud Prevention	Compliance control	F3	Albrecht et al. (2021)
Fraud Prevention	Anti-fraud awareness	F4	Albrecht et al. (2021)

Source: Processed Data (2026)

DATA ANALYSIS AND DISCUSSION

Respondent Characteristics

Respondent characteristics are presented to provide an overview of the participants' demographic and professional profiles in this study. The respondents were employees directly engaged in budgeting, treasury administration, expenditure realization, and financial reporting within regional government agencies of the Ambon City Government. Presenting respondent characteristics is important to demonstrate that the collected data were obtained from individuals with relevant experience and an adequate understanding of public financial management processes.

Table 2. Respondent Characteristics

Characteristics	Category	Frequency	Percentage
Gender	Male	34	56.7%
Gender	Female	26	43.3%
Age	<30 years	8	13.3%
Age	31–40 years	21	35.0%
Age	41–50 years	19	31.7%
Age	>50 years	12	20.0%
Education	Diploma	9	15.0%
Education	Bachelor	38	63.3%
Education	Master	13	21.7%
Working Period	<5 years	10	16.7%
Working Period	5–10 years	18	30.0%
Working Period	>10 years	32	53.3%

Source: Processed Data (2026)

Table 1 shows that male respondents comprised 56.7% of the sample, while female respondents accounted for 43.3%. This distribution indicates balanced representation in public financial management positions. By age, most respondents were between 31 and 40 years (35.0%) and 41 and 50 years (31.7%), suggesting that the majority were in productive, experienced career stages. These age groups are generally associated with greater administrative responsibility and a practical understanding of governance procedures.

Regarding educational background, most respondents held bachelor's degrees (63.3%), followed by master's degrees (21.7%). This

suggests that the respondents generally had sufficient academic qualifications to understand internal control systems, internal audit functions, and fraud prevention practices. Regarding work experience, more than half of the respondents had more than 10 years of experience (53.3%), indicating substantial exposure to public financial administration. This strengthens the credibility of the responses, as experienced employees are more likely to understand organizational control systems and the associated governance risks. Overall, the respondent profile confirms that the data were obtained from qualified participants relevant to the study objectives.

Measurement Model Evaluation

The measurement model was evaluated to assess the validity and reliability of the constructs used in this study before examining the structural relationships among variables. In partial least squares structural equation modeling (PLS-SEM), the measurement model ensures that all indicators accurately measure their respective latent constructs. The evaluation included an outer loading analysis, convergent validity, internal consistency reliability, and discriminant validity. The constructs included in this study were the internal control system, internal audit, and fraud prevention.

Outer Loading

Outer loadings were examined to determine each indicator's contribution to its latent variable. Loadings above 0.70 are generally considered strong, while those above 0.60 are acceptable in exploratory studies.

Table 3. Outer Loading

Variable	Indicator	Loading
Internal Control System	ICS1	0.812
Internal Control System	ICS2	0.845
Internal Control System	ICS3	0.793
Internal Control System	ICS4	0.781
Internal Control System	ICS5	0.826
Internal Audit	IA1	0.801
Internal Audit	IA2	0.837
Internal Audit	IA3	0.785
Internal Audit	IA4	0.819
Fraud Prevention	FP1	0.854
Fraud Prevention	FP2	0.821
Fraud Prevention	FP3	0.798
Fraud Prevention	FP4	0.833

Source: Processed Data (2026)

Table 3 shows that all indicators exceeded the recommended threshold of 0.70. This indicates that each indicator has a strong relationship with its corresponding construct and adequately reflects the latent variables. Therefore, all indicators were retained for the subsequent analysis.

Convergent Validity and Reliability

Convergent validity was evaluated using the Average Variance Extracted (AVE), and internal consistency reliability was assessed through composite reliability (CR) and Cronbach's alpha. AVE values above 0.50 and CR and alpha values above 0.70 indicate adequate convergent validity and satisfactory reliability, respectively.

Table 4. Convergent Validity and Reliability

Variable	AVE	Composite Reliability	Cronbach's Alpha
Internal Control System	0.658	0.906	0.870
Internal Audit	0.664	0.887	0.832
Fraud Prevention	0.680	0.895	0.843

Source: Processed Data (2026)

Table 4 shows that all constructs achieved values greater than 0.50 for AVE, indicating adequate convergent validity. The reliability results also show that all variables had values above 0.70 for composite reliability and Cronbach's alpha, confirming that the measurement instruments were reliable and internally consistent. These findings indicate that all indicators adequately represent their respective constructs and are suitable for further analysis.

Discriminant Validity

Discriminant validity was assessed using the Fornell-Larcker criterion, which compares the square root of AVE values with inter-construct correlations. A construct is considered distinct when the square root of its

AVE is greater than its correlations with other constructs.

Table 5. Fornell-Larcker Criterion

Variable	ICS	IA	FP
Internal Control System	0.811		
Internal Audit	0.563	0.815	
Fraud Prevention	0.671	0.624	0.825

Source: Processed Data (2026)

Table 5 shows that the square root of the AVE for each construct exceeds its correlations with other constructs. This indicates that each variable measures a distinct concept. The internal control system reflects governance control mechanisms, internal audit represents supervisory and evaluative functions, and fraud prevention encompasses proactive organizational efforts to minimize the risk of misconduct. Therefore, the discriminant validity requirement is met.

Structural Model Evaluation

After the measurement model met the required standards for validity and reliability, the next stage was to evaluate the structural model. Structural model evaluation assesses the predictive power of a model and the significance of the relationships among latent variables. In PLS-SEM, this assessment typically includes the coefficient of determination (R-Square), path coefficients, and hypothesis testing via bootstrapping. In this study, fraud prevention was the endogenous construct, whereas the internal control system and internal audit were exogenous constructs.

R-Square

The coefficient of determination (R-square) was used to measure the extent to which the independent variables explained the variance in the dependent variable. Higher R-square values indicate stronger predictive capability of the model.

Table 6. R-Square

Endogenous Variable	R-Square	Adjusted R-Square
Fraud Prevention	0.507	0.489

Source: Processed Data (2026)

Table 6 shows that the R-square for fraud prevention was 0.507, indicating that the internal control system and internal audit explained 50.7% of the variance in fraud prevention. The remaining 49.3% was influenced by other variables not included in the model, such as organizational culture, leadership commitment, whistleblowing mechanisms, and ethical climate. According to common PLS-SEM guidelines, an R-square of approximately 0.50 is considered to have moderate explanatory power. This suggests that the proposed model demonstrated satisfactory predictive relevance in explaining fraud prevention within the Ambon City Government.

Path Coefficients and Hypothesis Testing

Path coefficients were examined to determine the direction and magnitude of the relationships among the variables. Hypothesis testing was conducted using bootstrapping, with significance assessed using t-statistics and p-values.

Table 7. Path Coefficients and Hypothesis Testing

Hypothesis	Relationship	Coefficient	T-Statistic	P-Value	Decision
H1	Internal Control System → Fraud Prevention	0.432	4.215	0.000	Accepted
H2	Internal Audit → Fraud Prevention	0.387	3.876	0.000	Accepted

Source: Processed Data (2026)

Table 7 shows that the internal control system had a positive and significant effect on fraud prevention, with a coefficient of 0.432, a t-statistic of 4.215, and a p-value of 0.000. This indicates that stronger internal control systems significantly enhance the capacity to prevent fraud. The internal audit also had a positive and significant effect on fraud prevention, with a coefficient of 0.387, a t-statistic of 3.876, and a p-value of 0.000. Therefore, both hypotheses were supported.

The relative magnitudes of the coefficients

suggest that the internal control system had a stronger influence on fraud prevention than the internal audit. This finding implies that preventive governance mechanisms embedded in operational procedures were more dominant than supervisory mechanisms in reducing fraud risk. Strong controls reduce opportunities for misconduct, whereas internal audits reinforce prevention through monitoring and corrective recommendations.

DISCUSSION

Effect of Internal Control System on Fraud Prevention

The findings demonstrate that internal control systems play a central role in strengthening fraud prevention within the Ambon City Government. This indicates that organizations with well-structured governance mechanisms are better able to minimize the misuse of authority, unauthorized transactions, and financial irregularities. Internal control systems function not only as procedural safeguards but also as behavioral controls that shape organizational discipline in budgeting, reporting, and expenditure management. In this context, fraud is not solely driven by unethical intentions but is often facilitated by systemic weaknesses that create exploitable administrative gaps (Halima Oluwabunmi Bello et al., 2024). Therefore, strengthening internal control systems directly addresses structural vulnerabilities that enable fraudulent behavior.

From a theoretical perspective, this finding reinforces the fraud triangle theory, particularly the opportunity dimension. Opportunity is the most controllable element of fraud because it is embedded within organizational systems and processes. When internal controls, such as segregation of duties, authorization layers, and continuous monitoring, are effectively implemented, the space for manipulation is significantly constrained (Pakaya, 2025). This indicates that internal control systems function not only as preventive tools but also as governance infrastructures that systematically limit the conditions under which fraud can occur. In this regard, the study extends the fraud triangle perspective by demonstrating that opportunity is not merely an individual-level factor but a structurally engineered condition shaped by institutional design.

These findings align with those of previous studies, which have shown that internal control systems significantly strengthen fraud prevention. Morsi (2022) emphasized that strong control environments enhance accountability and reduce irregularities, whereas Eton et al. (2022) highlighted the role of monitoring and risk assessment in minimizing governance deviation. Okekwu and Abraham (2025) found that internal control systems increase anti-fraud readiness in public-sector organizations. However, this study offers additional insights by showing that the effectiveness of internal control systems depends not only on their formal existence but also on their operational integration into daily administrative practices.

Contrary to some previous studies that reported weaker relationships, this study suggests that variations in findings are driven more by differences in implementation quality than by conceptual limitations of the studies. In many cases, internal control systems fail not because of flawed designs but because of weak enforcement, low leadership commitment, and symbolic compliance practices (Friday et al., 2022). The context of the Ambon City Government shows that employees perceive internal control systems as functionally relevant, even when audit findings still indicate certain weaknesses. This implies that perceived effectiveness and actual implementation can coexist in transitional governance environments, where reforms are still evolving.

A key novelty of this study is demonstrating that internal control systems have a stronger influence than internal audits in preventing fraud. This finding shifts the emphasis from reactive governance approaches toward preventive institutional design. Fraud prevention is more effective when embedded within operational processes rather than relying solely on ex-post supervision. This has important governance implications, suggesting that public sector reforms should prioritize strengthening the internal control architecture as the first line of defense, while positioning

internal audits as reinforcing mechanisms within an integrated control system.

Effect of Internal Audit on Fraud Prevention

The findings indicate that internal audit positively contributes to fraud prevention; however, its influence operates through a governance mechanism distinct from internal control systems. Internal audit does not directly prevent fraud at the operational level; instead, it functions as a meta-control system that evaluates, validates, and reinforces the effectiveness of existing control structures. This explains why internal audit tends to operate ex-post, focusing on identifying control failures, assessing compliance gaps, and ensuring that corrective actions are implemented (Alqudah et al., 2023). In complex public-sector environments, such as local governments, this evaluative function becomes critical because operational processes often involve multiple actors and layers of discretion that are difficult to monitor continuously.

From a theoretical perspective, this finding extends agency theory by showing that monitoring mechanisms alone are insufficient unless they are institutionally supported and functionally integrated with control systems. Internal audits reduce information asymmetry not only by detecting irregularities but also by creating a feedback loop within governance systems. This feedback loop ensures that weaknesses identified through audit processes are translated into improved control practices. Therefore, internal audits should be understood not as standalone monitoring tools but as dynamic governance mechanisms that continuously recalibrate organizational controls.

The findings align with those of Elumilade et al. (2024), who emphasized that internal audits strengthen fraud prevention through systematic monitoring and follow-up. Akomolafe et al. (2023) also highlighted that auditor independence and competence are critical to early detection, whereas Olumoh and Mubaraq (2025) demonstrated that internal audits improve institutional discipline through corrective recommendations. However, this study advances these findings by showing that the effectiveness of internal audits depends not only on their technical quality but also on how their outputs are integrated into organizational decision-making.

Differences in institutional capacity and governance maturity can explain the variation in prior findings. In contexts where audit units lack authority or independence, audit findings often fail to translate into meaningful organizational change, leading to weak or insignificant effects on fraud prevention. In contrast, the context of the Ambon City Government suggests that internal audit remains functionally relevant even under resource constraints, provided it is perceived as a legitimate governance instrument. This highlights that the effectiveness of internal audit is shaped not only by structural factors but also by organizational acceptance and management's responsiveness to audit recommendations.

A key novelty of this study is the conceptualization of internal audit as a reinforcing governance mechanism within an integrated fraud prevention system. Unlike previous studies that treat internal audit as an independent determinant, this study shows that its effectiveness depends on the strength of internal control systems. Internal audit does not replace preventive controls but enhances their effectiveness through continuous evaluation and feedback. This finding has important policy implications: strengthening audit functions in isolation may not yield optimal results unless accompanied by improvements in the internal control architecture. Consequently, fraud prevention should be approached as a systemic governance strategy that integrates preventive and evaluative mechanisms rather than relying on isolated interventions.

Integrated Role of Internal Control System and Internal Audit on Fraud Prevention

The findings indicate that fraud prevention is most effective when internal control systems and internal audits operate as an integrated governance architecture rather than isolated mechanisms. Internal control systems function at the operational level by structuring processes, standardizing procedures, and limiting opportunities for misconduct. In contrast, internal audits operate at the evaluative level by assessing whether controls function as intended, identifying control failures, and ensuring that corrective actions are implemented. This dual-layer mechanism suggests that fraud prevention is not merely about preventing or detecting fraud but about continuously aligning operational practices with governance standards.

This relationship can be understood as a preventive–evaluative feedback loop. Internal controls reduce immediate opportunities for fraud, whereas internal audits provide feedback that recalibrates and strengthens those controls over time. Without an internal audit, control systems risk becoming static and ineffective in responding to evolving risks. Conversely, without strong internal controls, audit functions become reactive and

limited to post-event detection. Therefore, the effectiveness of fraud prevention depends on the dynamic interaction between these two mechanisms rather than on their individual strengths.

From a theoretical perspective, this finding extends the fraud triangle and agency theories by showing that fraud prevention is shaped not only by reducing opportunity but also by institutional learning processes. Opportunity is not a fixed condition but evolves as organizations respond to weaknesses identified through audit processes. This suggests that governance systems must be adaptive, with internal audits serving as a learning mechanism that continuously refines control structures. This perspective moves beyond traditional views that treat internal controls and audits as separate tools toward a systemic governance approach.

The findings align with Bechychy and Allioui (2023), who emphasized the importance of integrated risk governance for improving public sector accountability. However, this study advances prior research by empirically demonstrating that integrating internal control systems and internal audits produces a reinforcing, rather than additive, effect. Previous studies often examined these variables independently, leading to fragmented policy recommendations. This study shows that strengthening one mechanism without the other may lead to suboptimal outcomes, as governance effectiveness depends on their interdependence.

A key novelty of this study is conceptualizing fraud prevention as an integrated governance capability rather than a set of discrete control activities. By focusing on the Ambon City Government, this study also contributes empirical evidence from an underrepresented regional context in eastern Indonesia, where institutional capacity, resource constraints, and governance maturity differ from those in more frequently studied settings. This contextual contribution offers a more nuanced understanding of how governance systems operate in decentralized public sector environments.

The practical implications highlight that local governments should not treat internal control systems and internal audits as separate reform agendas. Strengthening monitoring quality, improving risk mapping, enhancing auditor competence, and ensuring the enforcement of audit recommendations must be pursued simultaneously. Adopting digital control systems can further enhance integration by enabling real-time monitoring and feedback. Leadership commitment remains a critical enabler, as the effectiveness of governance systems ultimately depends on management's willingness to act on both control procedures and audit findings. Therefore, sustainable fraud prevention requires not only technical systems but also an organizational culture that supports accountability and continuous improvement.

CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

This study concludes that internal control systems and internal audits play an important role in strengthening fraud prevention in public sector financial management within the Ambon City Government. The findings indicate that internal control systems have a stronger influence on reducing opportunities for fraud, particularly through the effective implementation of the control environment, risk assessment, monitoring, and procedural discipline. Internal audits also contribute positively by providing monitoring, evaluation, and corrective recommendations, although their role tends to complement the preventive function of internal controls. These results show that fraud prevention is not driven by a single mechanism but by the integration of preventive and supervisory governance systems that enhance accountability and transparency.

The study's implications suggest that local governments should prioritize strengthening internal control systems as a primary strategy for preventing fraud, while also improving the effectiveness of internal audit functions. Enhancing auditor competence, ensuring institutional independence, and strengthening follow-up mechanisms are essential to support good governance. In addition, adopting digital monitoring systems and transparent reporting practices can further improve financial accountability. Leadership commitment is also critical to ensuring that governance systems operate consistently and effectively.

This study was designed within the context of the Ambon City Government to provide a focused understanding of fraud prevention practices in a local government setting. Consequently, the findings should be interpreted in light of the institutional and administrative characteristics of the selected research context. The study also focused on two governance variables, namely, internal control systems and internal audits, as the primary mechanisms examined in relation to fraud prevention. Other potentially relevant factors, such as organizational culture, ethical leadership, whistleblowing systems, and employee integrity, were beyond the scope of this study. In addition, questionnaire-based data may reflect respondents' subjective perceptions. Future studies are therefore

encouraged to involve broader regional contexts, incorporate additional governance variables, and apply mixed-methods approaches to develop a more comprehensive understanding of fraud prevention in the public sector.

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