

Internal Audit and Functional Supervision in Achieving Transparency in Government Financial Management: A Qualitative Literature Review Approach

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ARTICLE INFO

Keywords: Internal Audit,
Government Finance,
Functional Supervision

Received : 20 September
Revised : 20 October
Accepted: 25 November

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ABSTRACT

This study aims to determine the role of internal audit and functional supervision in government financial transparency. This study uses a qualitative literature review approach by reviewing previous research. From 5 previous research articles, it was concluded that internal audit can improve government financial transparency, and 3 pieces of literature mention that functional supervision plays an important role in government financial transparency.

INTRODUCTION

Public sector audits play an important role in ensuring that government financial management is carried out transparently and accountably. According to (Mardiasmo, 2018), public sector auditing is a systematic process of obtaining and evaluating evidence objectively regarding economic activities and events undertaken by public institutions to determine the level of compliance with established criteria. This view emphasizes the audit function as a supervisory mechanism that ensures compliance with regulations and the accountability of public fund management. (Bastian, 2019) states that public sector auditing is the examination of financial statements, activities, and performance of a public entity funded by the state budget, with the aim of adding value to government management. This means that public audits not only serve to detect errors or deviations, but also provide recommendations for improvement to enhance the effectiveness, efficiency, and value for money in government administration. In line with the views of Mardiasmo and Bastian, (INTOSAI, 2019) thru ISSAI 100 - Fundamental Principles of Public Sector Auditing emphasizes that audits in the public sector play a vital role in promoting accountability and transparency, while also improving the effectiveness of government performance. This standard views public audit as an essential tool for strengthening good governance and building public trust in government institutions thru an independent, objective, and highly integrated examination process.

Thus, all three perspectives show a similarity in meaning: public sector audits do not merely function as an administrative examination activity, but rather as a strategic instrument in creating clean, transparent, and accountable governance in the eyes of the public. Public sector auditing is one of the main pillars in the transparent and accountable administration of government. Audits not only serve as a monitoring tool but also as a means of ensuring that government financial management is conducted in accordance with the principles of efficiency, effectiveness, and compliance with laws and regulations (Husain et al., 2025). Thru independent internal audits and strong functional oversight, the government can ensure that the use of state budgets is managed appropriately and effectively.

According to (Rajafi et al., 2024), the quality of internal audits in the public sector is crucial in determining the effectiveness of oversight and the reliability of government financial statements. In their study, which used a systematic literature review of 39 empirical studies in Indonesia, it was found that factors such as auditor competence, independence, professionalism, integrity, and management support have a positive influence on the quality of public sector audits. However, time pressure, workload, and superiors' instructions often become obstacles to maintaining objectivity and the quality of audit results. Similar research by (Nugrahani, 2024) also indicates that performance audits have a significant influence on public accountability, with functional supervision as a moderating variable. This means that the effectiveness of performance audits depends not only on examination procedures, but also on the extent to which functional oversight functions within the government environment are able to

follow up on audit results to improve the quality of governance and public accountability.

Additionally, a study conducted by (Prananda et al., 2025) confirms that public sector audits play a strategic role in strengthening the transparency and accountability of public institutions. Thru a qualitative approach based on literature review, the study found that public audits are capable of providing assurance on the management of public resources and encouraging community participation in policy oversight. Public auditing is seen as a key pillar of good governance because it bridges the interests of the public with government institutions thru open and reliable financial reports. Research conducted by (Husain et al., 2025) also supports these findings. In his study, internal audit proved to play an important role in ensuring compliance with regulations and identifying financial risks in government agencies. However, the study also found that the implementation of internal audits in Indonesia still faces various obstacles, such as limited auditor competence, organizational resistance to transparency, and suboptimal utilization of audit technology.

The link between internal audit and functional supervision is becoming increasingly important amidst public demands for transparency in the management of state finances. According to Mardiasmo (2018), public accountability is the government's obligation to be responsible for the management of resources and the implementation of policies to the public. Therefore, an integrated oversight mechanism is needed so that audit results do not just remain in reports, but also lead to policy changes and improvements in internal control systems. Based on various previous studies, it can be concluded that internal audit has been proven to play a role in improving financial accountability, while functional supervision contributes to compliance and the effectiveness of public financial management. However, most previous studies still examined these two aspects separately (Husain et al., 2025; Rajafi et al., 2024; Nugrahani, 2024). There haven't been many studies that simultaneously integrate the roles of internal audit and functional supervision in the context of achieving government financial transparency, especially at the local government level in Indonesia. Additionally, there is still limited research using a literature review-based qualitative approach to conceptually describe the relationship between the two within the framework of good *governance*.

LITERATURE REVIEW

Fraud Triangle Theory (Donald R. Cressey, 1953)

Fraud or cheating is one of the crucial issues in the management of state finances. In the government sector, fraud not only results in financial losses but also erodes public trust in the integrity and accountability of state officials. Therefore, public sector auditors, both the Supreme Audit Board (BPK) and the Government Internal Oversight Apparatus (APIP), need to understand the forms and patterns of fraud that occur within government agencies.

One of the most widely used frameworks for detecting and classifying fraud is the Fraud Tree developed by the Association of Certified Fraud Examiners (ACFE). The Fraud Tree divides fraud into three main categories: (1)

Asset Misappropriation, (2) Corruption, and (3) Financial Statement Fraud (ACFE, 2022).

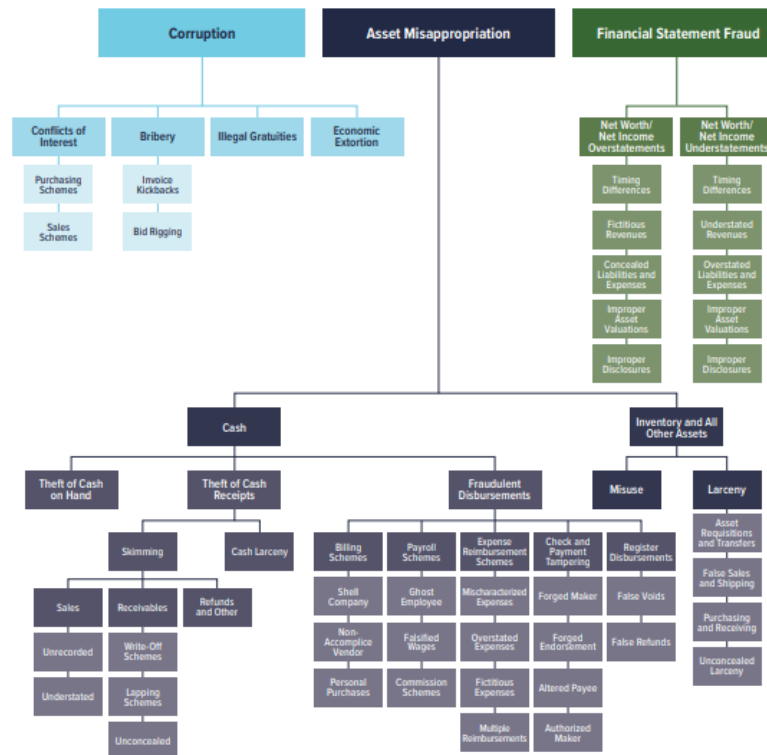


Figure 2.1. Fraud Tree Framework
Source : ACFE, 2022

Although the Fraud Tree was initially developed for the corporate or private sector context, its application is also relevant in public sector audits, with some adjustments. In the government sector, forms of fraud such as corruption, misuse of state assets, and manipulation of budget accountability reports are part of the Fraud Tree structure. For example, corruption in the context of government can take the form of conflicts of interest, bribery, illegal gratuities, or economic extortion, which often arise in the procurement of goods and services, the granting of permits, and the implementation of regional projects. Asset misappropriation in the public sector can occur in the form of embezzlement of grant funds, manipulation of official travel, use of state assets for personal gain, and so on. Meanwhile, financial statement fraud can include manipulating budget realization reports, recognizing fictitious expenses, or presenting misleading financial statements to meet specific performance targets.

In public sector audit practice, the Fraud Tree can be used as a tool to assist government auditors in identifying fraud risks (fraud risk assessment). ACFE (2022) explains that each category in the Fraud Tree can be used as a basis for tracing potential deviations in the public accountability system. By referring to the Fraud Tree, auditors can design risk-based audit procedures, focus testing on areas where fraud is likely to occur, and provide recommendations for improving internal control systems. The use of the Fraud Tree in government

audits is also aligned with the principles of SPIP (Government Internal Control System) as stipulated in Government Regulation Number 60 of 2008, which emphasizes the importance of risk assessment and control activities to prevent and detect fraud. Thus, the Fraud Tree can serve as a complementary conceptual framework for public sector auditors in strengthening the effectiveness of audits and functional oversight of government.



Figure 2.2. SPIP Framework
Source: COSO, 2013

State Financial Audit Standards

In the management of state financial governance, audits play an important role in ensuring that public funds are managed transparently, accountably, and in accordance with applicable regulations. To ensure that audits are conducted on a uniform legal and methodological basis, the Audit Board of the Republic of Indonesia (BPK) has established the State Financial Audit Standards (SPKN) as the official guidelines for auditing the management and accountability of state finances. SPKN is a set of professional principles and provisions that govern how audits of public entities are conducted. This standard covers three main types of examinations: financial examinations, performance examinations, and examinations for specific purposes. Financial audits aim to assess the fairness of government financial statement presentation, performance audits evaluate the efficiency, effectiveness, and economy of activities, while audits with specific objectives focus on particular issues or problems considered important to audit.

The existence of SPKN is very important in the context of public sector audits, because this sector has characteristics that are different from the private sector. Public financial management is not only profit-oriented, but also focused on achieving public service goals and community well-being. Therefore, public sector audits not only assess compliance with regulations, but also evaluate the extent to which the government implements good governance principles such as transparency, accountability, and integrity in every budget management process. SPKN provides a framework for auditors to systematically plan, conduct, and report the results of examinations. Auditors are required to be independent,

objective, and use sufficient and appropriate evidence to support their audit conclusions. Thru the implementation of SPKN, the examination results are expected to provide adequate assurance to stakeholders, including the government, legislature, and the public, that the management of state finances has been carried out in an orderly and responsible manner.

Overall, the SPKN serves as the foundation for professionalism and accountability in public sector auditing in Indonesia. The application of this standard ensures that the audit process adheres to international auditing norms while still considering the national legal, cultural, and bureaucratic context. With SPKN, the audit results produced have high credibility and can be used as a basis for decision-making in efforts to improve the state financial management system.

Public Sector Audit

Public sector auditing, according to (Mardiasmo, 2018), is a systematic process of obtaining and evaluating evidence objectively regarding economic activities and events undertaken by public institutions to determine the level of compliance with established criteria. Then, according to (Bastian, 2019), public sector audit is the examination of financial statements, activities, and performance of a public entity funded by the state budget, with the aim of providing added value to government management. Based on the expert's opinion, it can be concluded that public sector auditing is one way to detect errors, assess compliance with applicable regulations, and ensure that all activities carried out are accountable.

Internal audits/Public Sector Audits play a strategic role in building transparency thru three main functions: (1) assurance function, which provides confidence in the reliability of financial statements; (2) consulting function, which provides recommendations for improvement in the internal control system; and (3) prevention and detection function, which identifies potential fraud or non-compliance early on.

In the context of government, transparency is achieved thru the presentation of financial reports that are accurate, timely, and easily accessible to the public. Internal audits help ensure that every process, from budgeting and implementation to financial accountability, adheres to the principles of accountability and regulatory compliance.

METHODOLOGY

This research uses a qualitative approach with the type of research being a literature review. This approach is carried out by reviewing and analyzing various library sources relevant to the research topic. Data was collected from various references such as books, scientific journals, reports, magazines, and other documents related to the research problem.

The selection of the literature review method aims to provide an in-depth understanding of the research problem within certain boundaries, by utilizing a variety of credible information sources. The type of data used in this study is secondary data, which is data obtained indirectly from a review of previous sources.

Data collection was carried out by searching using the Google Scholar search engine (<https://scholar.google.com>) to obtain relevant literature. The data sources analyzed come from journals and scientific publications that discuss auditor independence, the application of computer-assisted audit techniques, and the effectiveness of investigative audits in detecting fraud.

RESEARCH RESULT AND DISCUSSION

Internal Audit in Realizing Government Financial Transparency

Transparency in government is crucial, especially in financial management. Internal audits play an important role in oversight, allowing for the early detection and prevention of fraud. Public sector audits play a role as a catalyst in increasing accountability and ensuring responsibility for the use of resources (Pradana et al., 2025), as well as improving the efficiency and accuracy of the audit process (Husain et al., 2025). Additionally, the quality of internal audit results can serve as a guide for external audits in assessing compliance with government financial standards (Prawit et al., 2008).

According to Rajafi et al. (2024), there are 15 factors that influence the quality of internal audits in the public sector, namely auditor competence, independence, professionalism, work experience, ethics, motivation, integrity, accountability, performance, objectivity, self-efficacy, capability, management support, supervision, and internal control. The first factor is auditor competence, which includes the auditor's knowledge, technical skills, and understanding of auditing standards, government regulations, and the risks involved in public financial management. Good competence allows auditors to conduct examinations accurately, precisely, and in-depth. Furthermore, independence and objectivity are two factors that determine the reliability of audit results, as an auditor free from intervention or pressure will be able to present findings honestly and impartially. Without independence, the audit process is potentially biased and loses legitimacy in the eyes of the public.

The next factor is professionalism, which describes the attitude and behavior of auditors in performing their duties according to professional norms. High professionalism encourages auditors to work ethically, maintain confidentiality, and adhere to audit standard guidelines. In line with this, ethics, integrity, and accountability also play an important role. An auditor with good ethics and integrity will reject practices that are not in accordance with the rules, refrain from conflicts of interest, and ensure that every step of the examination is accountable. Motivation also strengthens audit quality because auditors with high work motivation tend to be more meticulous, take initiative, and are less likely to overlook nonconformities.

Meanwhile, other personal ability factors such as work experience, self-efficacy, and capabilities influence how auditors understand systems, assess risks, and make audit decisions. Experienced auditors have better sensitivity in detecting deviations, while self-efficacy or confidence in one's abilities helps auditors complete complex audits. Capability, as a comprehensive factor, combines the technical, analytical, and communication skills needed to deliver improvement recommendations that are accepted by management.

Beside individual factors, Rajafi et al. (2024) emphasize the importance of organizational factors. Management support is a fundamental element that includes providing budgets, facilities, policies, and protection for auditor independence. Without management support, the implementation of internal audits is often hampered by limited resources or structural interventions. Supervision also plays a role in maintaining the consistency of audit quality, as oversight from senior personnel or leaders ensures that each stage of the audit follows the correct standards and methodology. Furthermore, strong internal controls within government organizations make it easier for auditors to evaluate risks and assess the efficiency and effectiveness of activity processes, resulting in more accurate and comprehensive audit findings.

Nugrahani (2024), in her research titled "Literature Review: The Influence of Performance Audit on Public Accountability with Functional Supervision as a Moderator," stated that out of the three articles reviewed, there was a relationship between audit and government financial transparency. The statement from previous research aligns with Murwanto et al. (2018) in the book titled "Public Sector Audit: An Introduction for the Development of Government Agency Accountability," which states that internal audits aim to measure compliance with policies, regulations, and accounting computer systems. Thus, internal audits can achieve transparency in government finances. This aligns with research conducted by Elvira & Nasution (2019); Suryanto and Auliya (2020), which found that internal audits directly contribute to increased accountability and the quality of local government financial information, aiding in the budget management process in accordance with regulations. Suryanto and Auliya (2020) stated that a strong internal audit unit can reduce the risk of fraud and increase public trust in government financial reports.

The findings of previous research support the idea that internal audit plays an important role as a continuous oversight mechanism in the public sector. With the increasing complexity of managing state finances and public demands for transparency, the internal audit function is becoming increasingly vital to ensure the financial integrity of the government. This literature study strengthens the argument that internal audit not only serves as a control tool but is also a driving force for achieving transparent, efficient governance free from deviant practices. Thus, this research fills a gap in understanding by analyzing in-depth how internal audit can play a strategic role in optimally promoting government financial transparency.

Functional Supervision in Realizing Government Financial Transparency

Functional supervision is one of the important elements in the state financial management system, aiming to ensure that government administration runs transparently, accountably, and in accordance with the principles of good governance. Internal government functional supervision consists of several institutions with different but complementary mandates and authorities, namely the Financial and Development Supervisory Agency (BPKP), the Inspectorate General (Itjen) within ministries and agencies, and the Regional Supervisory Agency (Bawasda/Regional Inspectorate) at the regional government level

(Murwanto et al., 2018). These three institutions form an internal oversight structure that functions to conduct audits, evaluations, reviews, and monitoring of government agencies' financial management and performance.

In addition to internal supervision, the functional supervision system also involves external supervision conducted by the Audit Board of the Republic of Indonesia (BPK). Based on Law No. 15 of 2004 concerning the Examination of the Management and Responsibility of State Finances, financial examination includes the examination of central and regional government financial statements, with the aim of providing an opinion on the fairness of the information presented in the government's financial statements. In this case, it is carried out by the Audit Board of the Republic of Indonesia (BPK). Comprehensive oversight can detect fraud and provide recommendations for improvement that enhance accountability and transparency in the management of public funds, ensuring financial resources are used efficiently and effectively (Husain et al., 2025). The opinion on the fairness of the financial information assessment and improvement recommendations are presented openly to the public. Based on this, functional supervision has a positive impact on achieving transparency in government finances. Whether the opinion is Unqualified (WTP), Qualified (WDP), Disclaimer (TMP), or Unqualified, it is publicly disclosed, making it an important instrument in achieving transparency and accountability in the management of state finances.

Comprehensive oversight from these various supervisory bodies makes a significant contribution to detecting any inconsistencies, deviations, or indications of fraud in the management of public funds. According to Husain et al. (2025), systematic supervision allows the government to detect potential fraud early, identify weaknesses in internal controls, and provide constructive improvement recommendations. Thus, supervision not only serves as a control tool but also as a learning mechanism for government agencies to improve the efficiency, effectiveness, and integrity of their financial management. The results of the supervision, whether in the form of an opinion on the fairness of financial information or improvement recommendations, are published transparently to the public. This information transparency increases public trust in the government and strengthens the culture of accountability within the bureaucracy. On the other hand, publishing the audit results encourages government agencies to be more careful in managing their budgets because any deviations could potentially attract public attention and serve as a basis for evaluating the agency's performance.

In the context of internal oversight, the role of the Government Internal Oversight Apparatus (APIP) becomes highly strategic. APIP is tasked with conducting internal audits, reviews, monitoring, and evaluations of the implementation of government programs and activities (Sanni et al., 2023). As a functional supervisory unit, APIP plays a role in ensuring that financial management processes are carried out in accordance with regulations, comply with operational standards, and support organizational goals. Adequate internal control capabilities allow for professional oversight, ensuring that the findings

and recommendations provided can enhance the transparency of government finances.

Research by Syahrul & Wijaya (2021) and Akhriani (2022) indicates that functional supervision conducted by APIP has a significant influence on the quality of local government financial reports. The stronger the role of functional supervision, the better the reliability and transparency of the resulting financial information. The research confirms that the existence of functional supervision is not merely a formality, but an instrument capable of significantly improving the quality of financial statement presentation. Consistent with (Sanni et al, 2023), functional supervision thru internal audits can minimize the risk of deviations and promote more transparent budget execution. Not only local research, but also reports from BPKP and studies by the Financial and Development Supervisory Agency confirm the same thing: strengthening functional supervision. This aligns with the SPIP (Government Internal Control System) framework, which positions APIP as the main actor in providing assurance and consultation on the efficiency and effectiveness of managing state finances.

CONCLUSIONS AND RECOMMENDATIONS

Based on analysis of several studies and literature on internal audit and internal control, they play an important role in achieving transparency in government financial management. It can be concluded that internal audit and functional supervision are the two main pillars in achieving transparency in government finances. Both work thru mechanisms of control, examination, evaluation, and recommendation that ensure the management of state finances is accountable, efficient, and in accordance with the provisions of laws and regulations.

Internal audits conducted by the Government Internal Oversight Apparatus (APIP) play a role in providing objective assurance and advisory services to government organizations (Akhriani, 2022). Thru internal audits, reviews, and evaluations, APIP ensures that the budget preparation process, activity implementation, and financial reporting are carried out transparently. Meanwhile, the functional supervision carried out by BPKP, the Inspectorate General, and Regional Inspectorates serves as an institutional control system that strengthens financial governance thru audits, monitoring, and the provision of improvement recommendations.

Various previous studies have confirmed the importance of the role of internal audit. Elvira & Nasution (2019) found that effective internal audits enhance the accountability of local financial management. Fitriani (2018) also explains that the quality of internal audits is positively correlated with the opinion on government financial statements. Additionally, Rajafi et al. (2024) state that factors such as auditor competence, independence, professionalism, and capabilities are key determinants of internal audit success in supporting financial information transparency.

Other research also reinforces the urgency of functional supervision. Syahrul & Wijaya (2021) show that the performance of the Internal Government Supervisory Apparatus (APIP) and a strong supervisory system influence the increased transparency of local government financial reports. A study by Sanni

et al. (2023) confirms that internal control can prevent and detect fraud, particularly in the procurement of goods and services. At the village level, Poeh et al. (2022) proved that audits and monitoring by APIP are able to increase the transparency of village fund management and minimize the potential for deviations. In addition to internal audits, external oversight by the Audit Board of the Republic of Indonesia (BPK) also strengthens transparency by providing an opinion on the fairness of the publicly released financial statements. The synergy between internal and external oversight forms a comprehensive control mechanism for maintaining the financial integrity of the state.

Therefore, it can be concluded that Internal Audit and Functional Supervision are the main foundations for realizing financial transparency in government - central government, regional government, and village level. Functional supervision carried out regularly and professionally will not only improve the quality of financial reports, but will also be a tool for preventing fraud and a basis for increasing public trust in the government. Thus, internal audit ensures the system functions properly, while functional supervision strengthens compliance, reduces the potential for fraud, and maintains the integrity of the use of state budget funds. The synergy of these two aspects creates a comprehensive oversight system, promotes efficiency, and enhances public trust in government financial governance.

ADVANCED RESEARCH

The limitations of this study are that it only uses two variables and there is a lack of previous studies addressing similar variables. Future research is expected to add variables such as workload, compliance pressure, organizational commitment, and individual morality. This will broaden the scope of the search for previous studies, and each variable examined can be used as a literature review.

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