

Research Article

The Effect of Internal Auditor Independence and Internal Control Systems on Fraud Prevention, with Institutional Environment as a Moderating Variable: A Study of Internal Auditors at the Buol Regency Inspectorate

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ABSTRACT

This study aims to analyze the effect of internal auditor independence and internal control systems on fraud prevention with institutional environment as a moderating variable. This study uses a quantitative approach with an explanatory research design. Data were obtained from internal auditors of the Buol Regency Inspectorate through an online questionnaire using Google Forms. The sampling technique used was census sampling. Data analysis was performed using the Partial Least Squares Structural Equation Modeling (PLS-SEM) method using SmartPLS software, which included testing the measurement model, structural model, and significance testing through the bootstrapping procedure. The results showed that the independence of internal auditors and internal control systems had a positive and significant effect on fraud prevention. However, the institutional environment was not proven to moderate the effect of internal auditor independence on fraud prevention, and was proven to negatively moderate the relationship between internal control systems and fraud prevention. These findings indicate that the effectiveness of internal audit and internal control systems in preventing fraud does not only depend on technical aspects, but is also greatly influenced by institutional environmental conditions. Therefore, strengthening a culture of integrity and institutional governance is important to improve the effectiveness of fraud prevention in the public sector.

Keywords: Internal Auditor Independence; Internal Control Systems; Institutional Environment; Fraud Prevention

1. INTRODUCTION

The problem of fraud in state financial management remains a serious issue in Indonesia, including at the local government level. The Corruption Eradication Commission (KPK) and the Supreme Audit Agency (BPK) regularly report findings of irregularities in the public sector, particularly related to budget misuse, procurement of goods and services, and financial statement manipulation. The (KPK, 2025) highlights the procurement of goods and services (PBJ) as one of the sectors most vulnerable to fraudulent practices. Meanwhile, the (BPK RI, 2021) revealed 8,483 findings containing 14,501 problems amounting to Rp8.37 trillion. These findings include 6,617 (46%) problems related to weaknesses in internal control systems (SPI), 7,512 (52%) problems related to non-compliance with laws and regulations, and 372 (2%) problems related to wastefulness, inefficiency, and ineffectiveness.

Fraud prevention is a top priority in public sector financial management. One of the efforts undertaken by the government is to strengthen the internal audit function through the Regional Inspectorate. However, challenges remain, including the potential for external intervention that could compromise auditor independence and weak internal controls. The BPK RI (2025) states that in the last two years, internal controls in government have remained very weak or have declined compared to three years ago. This is despite the fact that internal controls are part of risk measurement. Fraud in the public domain remains an important issue that directly affects the quality of governance. The Report to the Nations (ACFE, 2024) reveals that government agencies face losses due to fraud with a fairly large average amount, and most of these incidents are not identified until months later.

The internal audit function is an important tool in fraud prevention. The independence of internal auditors is a crucial element because without independence, the objectivity and effectiveness of audits can be distorted. According to research (Islamiati et al., 2024), the results show that the independence of internal auditors has a positive effect on fraud prevention at Rural Credit Banks in Badung Regency. In addition to independence, a strong internal control system has also been proven to have a positive correlation with a decrease in fraud rates. COSO (2023) in its revised framework emphasizes the

importance of monitoring and risk management as an integral part of an internal control system that is adaptive to the dynamics of modern organizations. Research by Husain et al (2025) reinforces this by stating that internal audits are effective in preventing fraud in local government environments. Therefore, the independence of internal auditors is an absolute requirement for auditors to carry out their duties professionally and not be influenced by pressure from interested parties. A number of previous studies have found that the independence of internal auditors is an important factor in fraud prevention efforts. Research by Safitri et al, (2024) found that of the 16 articles mapped, 14 stated that internal audits play a role in fraud prevention, while two articles stated that internal audits have no significant effect on fraud prevention efforts. In addition to internal auditor independence, the results of previous studies focusing on internal control systems as variables that influence fraud prevention are also varied. The results of research by Yulfani et al, (2025) found that internal audits and internal control systems do not have a significant effect on fraud prevention in the public sector. Other studies have found that effective internal controls significantly reduce the risk of fraud in organizations, especially in the public sector (Asmapane et al., 2024).

Based on previous research, it appears that the relationship between internal auditor independence and internal control systems in preventing fraud still shows mixed findings. Research by Safitri et al, (2024) and Asmapane et al, (2024) concluded that there is a positive influence between these factors on fraud prevention, but there are also studies that found different or insignificant results, namely research by (Yulfani et al., 2025). This inconsistency in results indicates that there may be other factors that moderate this relationship. Therefore, this study adds the institutional environment variable as a moderating variable. The institutional environment is considered to influence the effectiveness of the implementation of internal auditor independence and internal control systems in preventing fraud. Regulatory pressure, institutional norms, and structural and cultural support within an organization are part of the institutional environment that can strengthen or weaken the influence of these two variables on fraud prevention efforts. Thus, the presence of these moderating variables is expected to provide a more comprehensive understanding of the conditions and contexts that make internal control and internal auditor independence truly effective in preventing fraud, especially in public sector organizations.

Although the independence of internal auditors and the strength of internal control systems are important factors in preventing fraud, neither will be effective without the support of a healthy institutional environment (Sari et al., 2025). In the context of public sector organizations, the institutional environment includes bureaucratic work culture, leadership commitment, and local political pressures that can influence the behavior and integrity of officials. Even independent internal auditors can lose their effectiveness if they are in an environment that is permissive of irregularities or lacks accountability. Similarly, a strong internal control system will not be optimal if institutional norms and values do not support consistent implementation of oversight. Therefore, the institutional environment becomes a crucial moderating variable because it can strengthen or weaken the influence of internal auditor independence and internal control systems on fraud prevention. The institutional environment in question includes organizational values, managerial commitment to integrity, work culture, and the existence of regulations and external supervision that strengthen accountability systems.

According to previous research cited by Yulia et al, (2021), the influence of auditor independence and internal control systems on fraud prevention will be more effective when supported by a conducive and highly ethical institutional environment. The results of research by Efendi et al, (2024) confirm that a strong organizational culture as a form of a positive institutional environment can strengthen the integrity of internal auditors and the effectiveness of internal controls in preventing fraud. Other studies have found that organizational culture has a significant positive influence on fraud prevention, which means that a work culture that prioritizes integrity and openness is part of an institutional environment that strengthens the implementation of internal control systems (Wulandari & Syaiful, 2024).

In the local context, the Regional Inspectorate in Buol Regency plays an important role as the front line in internal auditing and oversight of public policy implementation in the region. However, challenges such as limited resources, structural pressures, and a permissive bureaucratic culture often hamper the effectiveness of oversight. Therefore, it is important to examine how auditor independence and internal control systems affect fraud prevention in this region, as well as whether the institutional environment strengthens or weakens this relationship. Thus, this study is important to determine whether and to what extent these factors influence fraud prevention within the Buol Regency Inspectorate. This study aims to analyze: (1) The influence of internal auditor independence on fraud prevention; (2) The influence of internal control systems on fraud prevention; and (3) The role of the institutional environment as a moderating variable in strengthening the influence of internal auditor independence and internal control systems on fraud prevention.

2. LITERATUR REVIEW

Fraud Triangle Theory

The Fraud Triangle theory was developed by Donald R. Cressey in Yunida & Wilasittha, (2021), which explains that a person can commit fraud due to three main elements, namely pressure, opportunity, and rationalization. In the context of public sector organizations, this theory explains that fraud can occur when individuals are under pressure to meet certain targets, there are opportunities due to weak internal control systems, and there is self-justification for fraudulent actions. In this study, the independence of internal auditors (X1) and internal control systems (X2) play a role in reducing the

chances of fraud occurring. Independent internal auditors are usually more objective in detecting irregularities, while strong internal control systems can reduce opportunities for fraud. Thus, these two variables are directly related to the opportunity dimension of the Fraud Triangle, which is the key to fraud prevention (Safitri et al., 2024).

Institutional Theory

Institutional Theory was proposed by Meyer and Rowan in 1977 and developed by DiMaggio and Powell in 1983. This theory explains that organizational behavior is not only influenced by internal technical factors, but also by the institutional environment such as culture, norms, regulations, and social pressures that shape organizational behavior patterns. In this study, the institutional environment (Z) acts as a moderating variable that strengthens or weakens the relationship between internal auditor independence and internal control systems in preventing fraud. When the institutional environment is supportive (e.g., through a culture of integrity, committed leadership, and good governance), the role of internal auditors and the effectiveness of internal control systems will be optimized. Conversely, a weak institutional environment can reduce the effectiveness of both factors (Efendi et al., 2024; Sari et al., 2025).

Internal Auditor Independence

Independence is one of the basic principles of internal auditing that allows auditors to work objectively, free from internal and external pressures. Independent auditors are more likely to identify fraud early on. Ginting et al (2025) state that a high level of independence, supported by strong professionalism, will increase the effectiveness of auditors in detecting indications of fraud. The professionalism of internal auditors is demonstrated through technical knowledge, work ethics, experience, and commitment to audit standards. Herawaty et al., (2021) also emphasize that the quality of audit results is greatly influenced by the independence and professionalism of auditors, especially when facing pressure from management or parties outside the organization. Internal Auditor Independence Indicators (X1). Internal auditor independence has the following indicators according to (Hartono et al., 2022):

- a Internal auditors are free from interference from any party.
- b Auditors can report audit results objectively.
- c Auditors have no personal relationships with the parties being audited.
- d Auditors are not involved in operational decision-making.
- e Auditors can refuse requests that violate professional ethics.

Internal Control System

Internal control systems are policies and procedures implemented by organizations to ensure the efficient and effective achievement of objectives, the reliability of financial reporting, and compliance with applicable laws and regulations. A good ICS can not only prevent fraud, but also detect potential irregularities at an early stage. According to Kurniawan et al (2024), strong internal control must include five main components in the COSO framework, namely: control environment, risk assessment, control activities, information and communication, and monitoring. Prabowo et al, (2025) emphasize that the main obstacle in implementing SPI to prevent fraud in the Dana Bos program is the lack of understanding among employees regarding the functions and mechanisms of control itself. In a research study (Prabowo et al., 2025) on preventing fraud in the Dana Bos program, it was found that many APIP employees did not adequately understand the role of SPI, resulting in the early fraud detection system not functioning optimally. Internal Control System Indicators (X2). The Internal Control System has the following indicators according to (Asril et al., 2024; Hartono et al., 2022):

- a The availability of control policies and procedures.
- b The existence of periodic risk assessments.
- c The internal audit function is carried out routinely.
- d The existence of an accurate financial reporting system.
- e Supervision of organizational activities is carried out effectively.

Fraud Prevention

Fraud is an intentional act to obtain personal or group gain through unlawful or illegal means that harm others, including organizations or the government. In the public sector, fraud has more complex dimensions because it involves public funds, public trust, and its impact on public services. According to Amri & Putri (2024), fraud in government organizations often occurs due to weak internal controls, lack of supervision, and low individual integrity in the bureaucracy. In a study conducted by Haurissa & Dewi (2021), it was found that fraud in the public sector in Indonesia is not only triggered by internal organizational factors, but also by external pressures such as political and social demands. A recent study by (Supriadi et al., 2024) shows that fraud prevention in public organizations can be done through three main approaches, namely: strengthening internal control systems, increasing employee integrity through ethics training, and implementing

surveillance technology that can provide early warnings of suspicious transactions.

Fraud Prevention Indicators (Y)

Fraud prevention has the following indicators according to (Damayanti & Primastiwi, 2021):

Availability of reporting channels (whistleblowing system).

- a The existence of anti-fraud policies in the workplace.
- b Employees receive anti-fraud training.
- c Preventive measures are taken before fraud occurs.
- d Strict sanctions are imposed on perpetrators of fraud.

Institutional Environment

The institutional environment encompasses all norms, values, regulations, and structures that influence individual and organizational behavior. In the context of fraud control, the institutional environment can serve as a supporting or inhibiting factor for the effectiveness of internal control and internal audit systems. Haurissa & Dewi, (2021) state that a strong organizational culture that upholds integrity, transparency, and accountability will strengthen the effect of SPI and the role of internal auditors in fraud prevention. Conversely, an institutional environment that is permissive of irregularities will weaken the effectiveness of both instruments.

Institutional Environment Indicators (Z)

According to (Jaeni et al., 2023), the institutional environment has the following indicators:

- a The organizational culture supports integrity and transparency.
- b The existence of government rules or regulations that support oversight.
- c The existence of an organizational ethics and compliance system.
- d The organization accepts oversight from external institutions.
- e Management is committed to good governance.

Hypothesis Development

The Effect of Internal Auditor Independence on Fraud Prevention

Various studies show that the independence of internal auditors plays an important role in fraud prevention. Research by Maiviza & Kusumah, (2025) found that internal audits have a significant influence on fraud prevention. Another study by Noch et al, (2022) found that the competence and independence of auditors have a positive and significant effect on the ability of auditors to detect fraud. In addition, Lukman & Chariri, (2023) also proved that the role of internal auditors, including the element of independence in carrying out their duties, significantly improves the ability of institutions to prevent and detect fraud. Thus, a healthy and open organizational culture strengthens the relationship between internal auditing and fraud prevention. These studies support the hypothesis that the independence of internal auditors has a positive effect on fraud prevention (H1).

H1: The independence of internal auditors has a positive effect on fraud prevention.

The Effect of Internal Control System on Fraud Prevention

Various studies show that internal control systems have a positive effect on fraud prevention. Previous research by Sari et al, (2025) found that internal control systems (X2) have a positive and significant effect on fraud prevention (Y). This study confirms that the implementation of effective internal controls will be more optimal if supported by a strong institutional environment, characterized by transparency, accountability, and integrity in organizational governance. These results are in line with Suryani et al, (2025), who found that internal control systems function as a mechanism to prevent fraud by strengthening organizational supervision and compliance with rules.

H2: Internal control systems have a positive effect on fraud prevention.

The Role of Institutional Environment Moderation on The Effect of Internal Auditor Independence and Internal Control Systems on Fraud Prevention

Usman, (2024) found in his research that a strong local culture as part of the institutional environment can strengthen the influence of internal auditors on fraud prevention in the local government sector. It can therefore be concluded that the institutional environment acts as a moderating variable that strengthens the relationship between internal auditor independence and fraud prevention.

H3: The institutional environment strengthens the effect of internal auditor independence on fraud prevention.

The results of research by Hakki et al, (2025) suggest that internal control systems have a significant effect on fraud prevention. In addition, Maulani et al, (2024) also state that organizational governance principles can moderate the

relationship between internal control and fraud prevention. Based on this evidence, the institutional environment is expected to strengthen the effectiveness of internal control systems in reducing the opportunity for fraud. An institutional environment based on good governance increases the effectiveness of internal control because it strengthens compliance, increases transparency, and reduces the opportunity for misconduct.

H4: The institutional environment strengthens the effect of internal control systems on fraud prevention.

3. RESEARCH METHOD

This study is a quantitative study with a causal associative approach, which is to determine the influence between two or more variables. The main objective is to examine the relationship between internal auditor independence and internal control systems on fraud prevention, with the institutional environment as a moderating variable. The research was conducted at the Buol Regency Inspectorate, Central Sulawesi. The research period was from August to September 2025, which included the preparation of instruments, distribution of questionnaires, and data processing. The population in this study was all internal auditors working at the Buol Regency Inspectorate. The sampling technique used was census sampling, in which all members of the population were sampled because the number was limited.

The data used in this study was primary data, which was obtained directly from respondents through the distribution of Google Form questionnaires. This questionnaire contained statements related to the research variables measured using a 1–5 Likert scale. According to Sugiyono (2019), this Likert scale can be used by researchers when measuring the attitudes, opinions, and perceptions of an individual or group of people regarding a social phenomenon. Data collection was conducted through the distribution of questionnaires based on Google Forms. The questionnaire link was distributed via email, WhatsApp, or the official communication media of the Buol Regency Inspectorate, and the data will be processed using the Smart PLS 4 program. Meanwhile, the analysis used by the researcher is multiple linear regression analysis to test the direct effect of internal auditor independence (X1) and internal control systems (X2) on fraud prevention (Y). followed by Moderated Regression Analysis (MRA) to test whether the institutional environment (Z) strengthens or weakens the relationship between the independent and dependent variables.

4. RESULTS AND DISCUSSION

Multiple Linear Regression Analysis Results

Multicollinearity Test

Multicollinearity testing of data has a threshold that can be considered acceptable if the VIF value is < 10 .

Table 1. Multicollinearity Test Results

| | VIF |
|----|-------|
| X1 | 1.162 |
| X2 | 1.162 |

The results of the test in this study show that the multicollinearity test values for variables X1 and X2 are less than 10, which indicates that the research data does not experience multicollinearity and is therefore suitable for testing at the next stage.

Heteroscedasticity Test

The data passes if the P-Value is > 0.05

Table 2. Heteroscedasticity Test Results

| | Test-Statistic | df | P value |
|---------------------------|----------------|----|---------|
| Breusch-Pagan Test | 4.693 | 2 | 0.096 |

The heteroscedasticity test results pass because the P-Value (0.096) > 0.05

T Test

The T test results have the following rules:

If P Values < 0.05 , then the relationship between variables is significantly influential. However, if P Values > 0.05 , then it can be said that the variables are not significantly influential.

Table 3. T Test Results

| | Unstandardized coefficients | Standardized coefficients | SE | T value | P value |
|------------------|-----------------------------|---------------------------|-------|---------|---------|
| X1 | 0.333 | 0.377 | 0.100 | 3.342 | 0.002 |
| X2 | 0.301 | 0.453 | 0.075 | 4.022 | 0.000 |
| Intercept | 1.738 | 0.000 | 0.401 | 4.336 | 0.000 |

The test results show that the T-test results are significantly influential, where the overall P-Value is < 0.05.

F Test

In examining the F test results, if < 0.05, it is said that the variables have a simultaneous effect. However, if > 0.05, it is said that the variables do not have a simultaneous effect.

Table 4. F Test Results

| | Sum square | df | Mean square | F | P value |
|-------------------|------------|----|-------------|--------|---------|
| Total | 15.362 | 50 | 0.000 | 0.000 | 0.000 |
| Error | 8.065 | 48 | 0.168 | 0.000 | 0.000 |
| Regression | 7.297 | 2 | 3.648 | 21.715 | 0.000 |

The F test results indicate a simultaneous effect where the overall P-Value < 0.05.

Determinan Coefficient Test

Table 5. R-Square Test Results

| | Y |
|---------------------------|-------|
| R-square | 0.453 |
| Durbin-Watson test | 2.064 |

The adjusted R-square value is 0.453, which means that the contribution of independent variables X1 and X2 to variable Y simultaneously is 45.3%.

Based on the t-test results, the variables of Internal Auditor Independence (X1) and Internal Control System (X2) show a positive and significant effect on fraud prevention (Y). These results are shown in the regression coefficient values and p-values as follows:

1. X1 → Y has a coefficient of 0.333 with a p-value of 0.002 < 0.05, so it can be concluded that internal auditor independence has a positive and significant effect on fraud prevention. This means that the higher the independence of internal auditors in carrying out their supervisory duties, the more effective the efforts to prevent fraud in the organization.
2. X2 → Y has a coefficient value of 0.301 with a p-value of 0.000 < 0.05, which means that the internal control system also has a positive and significant effect on fraud prevention. Thus, the better the implementation of the internal control system, the higher the level of fraud prevention that can be achieved.
3. In addition, the R-square value of 0.453 shows that the contribution of X1 and X2 in explaining variable Y is 45.3%, which means that the model is able to explain fraud prevention in the moderate category, while the remaining 54.7% is influenced by other factors outside this study.

Moderation analysis using Smart-PLS was conducted to examine the role of the Institutional Environment (Z) in strengthening or weakening the relationship between X1 and X2 on Y. The test results are as follows:

Moderated Regression Analysis Results - PLS SEM

Determinan Coefficient Test

Review of the test results based on the coefficient of determination value. If the R-Square value is 0.25, the research model is classified as weak. However, if the R-Square value is 0.50, the research model is classified as moderate, and if the R-Square value is 0.75, the research model is classified as strong.

Table 6. R-Square Test Results [MRA Analysis]

| | R-square adjusted |
|----------|-------------------|
| Y | 0.708 |

Based on the adjusted R-Square value of 0.708, which is > 0.50 but < 0.75, it can be concluded that the model in this test is classified as moderate.

Effect Size Test

Table 7. F-Square Test Results

| | X1 | X2 | Y | Z | Z x X1 | Z x X2 |
|--------|----|----|-------|---|--------|--------|
| X1 | | | 0.424 | | | |
| X2 | | | 0.168 | | | |
| Y | | | | | | |
| Z | | | 0.137 | | | |
| Z x X1 | | | 0.055 | | | |
| Z x X2 | | | 0.169 | | | |

A simple explanation of the measurement of the magnitude of influence refers to the recommendation that 0.02 is a category of small/low influence, a value of 0.15 has an influence that falls into the medium/moderate category, and a value of 0.35 is a category of large/strong test results.

Hypothesis Test

Table 8. Path Coefficient Result

| | P values |
|-------------|----------|
| X1 -> Y | 0.000 |
| X2 -> Y | 0.045 |
| Z -> Y | 0.093 |
| Z x X1 -> Y | 0.201 |
| Z x X2 -> Y | 0.033 |

If p value < 0.05 = significantly effective

If p value > 0.05 = not significantly effective

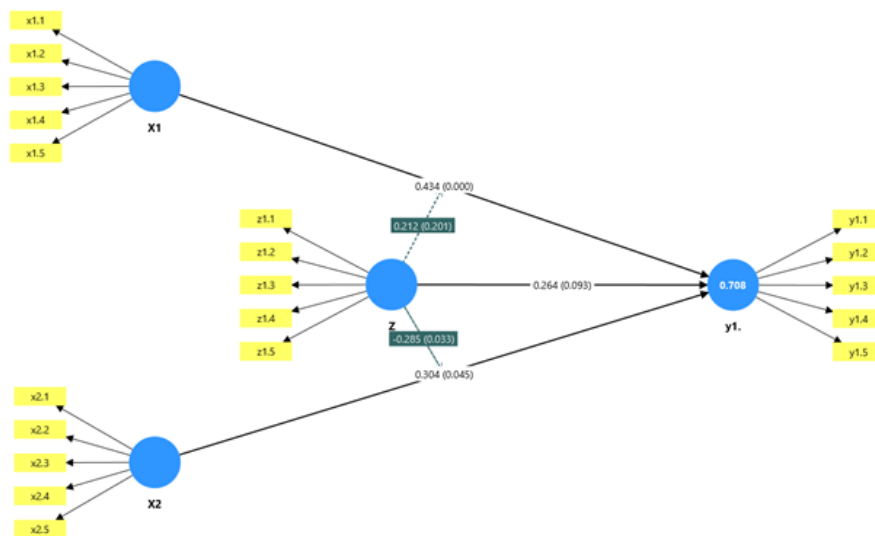


Figure 1. MRA Model Test

The adjusted R² value of 0.708 indicates that the independent and moderating variables are able to explain 70.8% of the variation in fraud prevention, which means that the model is in the strong category. This shows that fraud prevention is quite dominantly influenced by auditor independence, SPI, and institutional environmental conditions. However, the SRMR value of 0.122 (> 0.10) indicates that the model does not fit perfectly, so improvements to the model structure or the addition of indicators are still needed in further research.

The Effect of Internal Auditor Independence on Fraud Prevention

The results show that internal auditor independence has a positive and significant effect on fraud prevention ($\beta = 0.333$; $p = 0.002$). This finding explains that the higher the level of auditor independence in carrying out supervisory functions, the more effective the fraud prevention measures that can be implemented by the Buol Regency Inspectorate.

This result is in line with the Fraud Triangle theory, which emphasizes that fraud can be minimized if opportunity can

be controlled. Independent internal auditors are able to act objectively and are not influenced by external pressures, thereby closing loopholes for fraud. This finding reinforces previous research by Maiviza & Kusumah (2025) and Noch et al. (2022), which both state that auditor independence plays a significant role in detecting and preventing fraud.

In practical terms, these results show that Buol Inspectorate auditors have a strategic role in strengthening the integrity of regional financial management, especially when their independence is maintained and supported institutionally.

The Effect of Internal Control Systems on Fraud Prevention

The test results show that internal control systems have a positive and significant effect on fraud prevention ($\beta = 0.301$; $p = 0.000$). This means that the better the implementation of internal policies, procedures, and oversight mechanisms, the lower the chance of fraud occurring. These results are consistent with the COSO (2023) framework, which emphasizes that effective internal control can minimize the risk of irregularities through layered supervision, risk monitoring, and strong reporting mechanisms. Research by Sari et al. (2025) and Asmapane et al. (2024) also shows similar results.

The Role of Institutional Environment Moderation on the Influence of Internal Auditor Independence on Fraud Prevention

The interaction analysis results show that the institutional environment moderation variable does not have a significant effect on the relationship between internal auditor independence and fraud prevention ($\beta = 0.212$; $p = 0.201$). This finding indicates that the institutional environment—including work culture, leadership commitment, regulations, and organizational norms—has not been able to strengthen this relationship. In other words, independent auditors still rely solely on their personal professionalism, without the support of a conducive organizational environment. These results indicate that even though auditors are independent, weaknesses in organizational culture, such as permissiveness towards irregularities, low leadership integrity, or internal political pressure, prevent the effect of independence from increasing significantly. This condition is similar to the findings of Efendi et al. (2024), who stated that organizational integrity plays an important role in strengthening the performance of internal auditors.

The Role of Institutional Environment Moderation on the Influence of Internal Control Systems on Fraud Prevention

The results show that the institutional environment has a significant but negative effect as a moderating variable between internal control systems and fraud prevention ($\beta = -0.285$; $p = 0.033$). This means that an unhealthy institutional environment actually weakens the effectiveness of internal control systems. This finding is interesting because it shows that even though procedures, controls, and monitoring instruments are good, they cannot work optimally when:

1. The organizational culture is permissive of violations,
2. Leadership commitment is low,
3. Political pressure is high,
4. Compliance with SOPs is only administrative in nature.

These results support the findings of Maulani et al. (2024), who state that weak organizational governance reduces the effectiveness of internal controls in preventing fraud. In practical terms, this shows that the Buol Regency Inspectorate still faces institutional challenges that need to be addressed in order for the internal control system to function optimally.

5. CONCLUSION

This study concludes that the independence of internal auditors and internal control systems have a positive and significant effect on fraud prevention at the Buol Regency Inspectorate, indicating that auditor objectivity and the implementation of effective controls can reduce the likelihood of fraud. However, the institutional environment was not found to strengthen the influence of internal auditor independence on fraud prevention, meaning that the role of auditor independence still depends more on individual professionalism than institutional support. In addition, the institutional environment actually negatively moderates the relationship between internal control systems and fraud prevention, indicating that internal control systems will not function optimally without the support of organizational culture, leadership commitment, and institutional governance with integrity. These findings confirm that fraud prevention in the public sector is the result of the interaction between the strength of the supervisory system and the quality of the institutional environment in which the system is implemented.

Based on the conclusions of the research findings, the following points are recommended:

1. The Buol Regency Inspectorate needs to strengthen the institutional environment by improving the culture of integrity, leadership commitment, and the implementation of good governance so that the independence of internal auditors and

internal control systems can function optimally in preventing fraud.

2. Internal auditors are expected to maintain professionalism and independence in carrying out their supervisory duties, as well as improve their ability to detect and anticipate potential fraud despite facing structural pressures and certain interests.
3. Local governments are advised to ensure that internal control systems are not only administrative in nature, but are actually implemented consistently and supported by policies and strict supervision of their implementation.
4. Future researchers are encouraged to develop research by adding other variables such as good governance, organizational ethical culture, or violation reporting systems as moderating or mediating variables, as well as expanding the research object to obtain a more comprehensive understanding of fraud prevention in the public sector.

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