

## Strengthening Public Sector Audit Through Risk-Based Internal Control: A Conceptual Framework for Local Governments

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### Abstract

*This conceptual paper proposes an integrated framework for enhancing governance in local governments by combining public sector auditing, risk-based internal control, and accountability mechanisms. Drawing on Agency Theory, COSO Enterprise Risk Management, and Public Accountability principles, the framework addresses a critical gap in the literature: previous studies have examined these components separately, without demonstrating their synergistic impact on governance outcomes. The framework positions auditing as the initial monitoring mechanism, risk-based internal control as a tool for proactive mitigation, and accountability mechanisms as enablers of ethical and transparent implementation. The resulting governance outcomes include improved efficiency, strategic decision-making, and enhanced public trust, creating a continuous feedback loop that fosters adaptive, resilient, and evidence-based administration. This model provides both a theoretical contribution and a practical guide for local government practitioners and sets the foundation for future empirical testing.*

**Keywords:** Public Sector Audit, Risk-Based Internal Control, Conceptual Framework, Local Governments

## INTRODUCTION

Public sector auditing is recognized as a cornerstone of good governance, promoting transparency, accountability, and efficiency in the management of public resources (Johnsen, 2019). In local government contexts, audits not only serve to verify compliance with regulations but also play a critical role in safeguarding public trust and ensuring the effective delivery of public services. However, despite significant reforms in public financial management, many auditing practices remain primarily compliance-driven, focusing on procedural verification rather than proactively addressing potential risks or supporting strategic decision-making processes (Hay & Cordery, 2018). This compliance orientation limits the ability of audits to function as proactive instruments of governance and reduces their effectiveness in enhancing both organizational performance and public accountability.

Risk-based internal control has emerged as a critical approach to address these limitations, providing a structured methodology to identify, evaluate, and mitigate risks that may compromise the achievement of organizational objectives (Moeller, 2007). By integrating risk assessment and control mechanisms into auditing processes, public sector audits can evolve from reactive compliance checks into proactive governance tools capable of anticipating challenges, preventing financial mismanagement, and supporting evidence-based decision-making (Mattei et al, 2021). This approach aligns audit functions with organizational strategy, emphasizing not only accountability but also the enhancement of operational performance.

Although numerous studies have explored public sector audits, internal control systems, and risk management independently, there is a notable gap in research concerning their

conceptual integration, particularly in the context of local governments. Existing literature tends to treat audit compliance, risk management, and accountability mechanisms as separate and disconnected domains, failing to provide a coherent framework that explains how risk-based internal control can reinforce audit effectiveness and governance simultaneously. Addressing this gap is particularly critical for local governments, where resource limitations, bureaucratic complexity, and increasing public scrutiny demand integrated and strategic governance mechanisms.

In response to this research gap, this study proposes a conceptual framework that integrates public sector auditing with risk-based internal control, emphasizing the synergies between risk management, accountability, and governance outcomes. The framework is designed to provide theoretical contributions by advancing our understanding of how audits and risk-based control can operate together to strengthen governance in local governments. Simultaneously, it offers practical insights for policymakers, auditors, and public administrators seeking to implement proactive, risk-informed, and value-adding audit practices. By bridging the current literature on audit effectiveness and risk management, this study addresses a critical need for integrated conceptual approaches in public sector governance, enhancing both academic discourse and practical applications.

## RESEARCH METHODS

This study uses a qualitative approach with a conceptual research method aimed at developing a conceptual framework for strengthening public sector audits through the implementation of risk-based internal control in local governments. This approach was chosen because the study focuses on developing integrated concepts and theories, rather than empirically testing hypotheses. The research design is descriptive-analytical, systematically examining various relevant concepts, such as public sector auditing, internal control, risk management, and good governance (Tsvetkov, 2014). Internal control frameworks, such as COSO and the Government Internal Control System (SPIP), serve as a theoretical basis for analyzing the relationship between risk-based internal control and the effectiveness of public sector audits in local governments.

The data used in this study are secondary data obtained through literature review. Data sources include reputable national and international journal articles, academic textbooks, government regulations, and reports from public sector oversight and audit institutions. Sources were selected microscopically, considering the relevance, credibility, and recency of the information.

Data analysis was conducted using content analysis and comparative context analysis methods. The analysis phase includes identifying key concepts, comparing various models of internal control and public sector auditing, and synthesizing findings to identify conceptual gaps (Järvinen & Mik-Meyer, 2020). The results of this analysis are used to construct logistic relationships between variables within an integrated conceptual framework (Gaber, 2020). To ensure validity and consistency of context, this study applies triangulation of literature sources and utilizes widely recognized theories and frameworks (Maxwell & Chmiel, 2014). The research results are a conceptual framework for strengthening public sector audits based on risk-

based internal control, which is expected to serve as a reference for local governments in improving the effectiveness of their internal audit and oversight functions.

## **RESULTS AND DISCUSSION**

### **Public Sector Auditing**

Public sector auditing serves as the foundational component of the proposed conceptual framework, acting as the primary mechanism for monitoring government activities and ensuring that public resources are managed efficiently, ethically, and in compliance with regulations. Through the lens of Agency Theory, audits mitigate principal-agent problems by reducing information asymmetry between government officials (agents) and citizens or legislative authorities (principals). By verifying financial statements, assessing procedural compliance, and evaluating performance outcomes, audits strengthen accountability and enhance public trust in local government governance.

Traditional auditing practices, however, have often been compliance-focused, emphasizing rule adherence rather than strategic oversight or risk anticipation. While such audits detect irregularities and procedural deviations, they rarely provide proactive guidance for decision-making, resource allocation, or organizational improvement. This limitation reduces the strategic value of auditing, positioning it as a reactive mechanism rather than an enabler of governance excellence.

In the context of the proposed framework, public sector auditing is re-envisioned as proactive and integrative, directly interacting with risk-based internal control mechanisms. Auditors are expected not only to verify compliance but also to identify potential risks, evaluate the effectiveness of controls, and provide recommendations that align with organizational objectives and public expectations. This integration positions auditing as a strategic governance tool that supports both operational efficiency and ethical stewardship of public resources.

The auditing process also emphasizes communication and collaboration. Audit findings are shared with relevant stakeholders, including management and oversight authorities, to ensure that identified risks and recommendations are addressed effectively. This process reinforces transparency, accountability, and participatory governance, aligning with principles of public accountability theory.

By embedding auditing as the entry point in the continuous governance cycle, findings directly inform risk-based internal control processes, guiding decisions and corrective actions. This cyclical integration ensures that audits contribute not only to compliance but also to strategic decision-making, performance improvement, and the cultivation of public trust. Public sector auditing within the proposed framework thus transcends procedural verification. It functions as a dynamic, proactive, and strategic mechanism that mitigates agency problems, supports risk-informed decision-making, and reinforces ethical and transparent governance, forming the cornerstone of the integrated conceptual framework.

### **Risk-Based Internal Control (COSO ERM)**

Risk-Based Internal Control represents the second critical component of the proposed conceptual framework, serving as the mechanism that translates audit findings into proactive governance actions. Guided by the COSO Enterprise Risk Management (ERM) framework, it emphasizes the identification, assessment, and mitigation of risks that may prevent the

organization from achieving its objectives. In local governments, this approach allows decision-makers to anticipate operational, financial, and strategic risks, transforming audits from reactive compliance tools into forward-looking governance instruments.

The integration of risk-based internal control into public sector auditing enhances the framework's strategic orientation. Audits provide information on compliance and performance gaps, while internal control mechanisms evaluate the likelihood and impact of potential risks, prioritizing responses to the most critical areas. This synergy ensures that governance decisions are informed by both historical evidence and predictive risk analysis, improving the quality and timeliness of management interventions.

Risk-based internal control also reinforces accountability by establishing clear procedures for risk management and assigning responsibility for corrective actions. Each risk is monitored and documented, allowing auditors and management to track whether controls are effectively mitigating threats and whether organizational objectives are being met. This aligns with public accountability theory, as it ensures transparency in both decision-making and the management of public resources.

In addition, risk-based internal control fosters continuous improvement within local government operations. By systematically identifying vulnerabilities and evaluating control effectiveness, the mechanism supports iterative enhancements to processes, policies, and resource allocation strategies. This proactive stance minimizes the likelihood of operational failures or mismanagement while optimizing efficiency and strategic outcomes.

Through this integration, risk-based internal control serves as the bridge between auditing and accountability. Audit findings feed into risk assessment processes, while risk mitigation measures provide evidence of responsible management to stakeholders and the public. This ensures that local governments are not only compliant but also resilient, transparent, and strategically oriented, reinforcing trust and legitimacy.

Overall, the Risk-Based Internal Control component is essential for transforming audits into actionable governance tools. It operationalizes COSO ERM principles within the public sector, enabling local governments to manage uncertainty proactively, support decision-making, and enhance accountability, thus contributing directly to improved governance outcomes within the integrated framework.

### **Accountability Mechanisms**

Accountability mechanisms form the third essential component of the proposed conceptual framework, ensuring that auditing and risk-based internal control activities translate into ethical, transparent, and responsible actions within local governments. By holding government officials (agents) answerable to citizens and legislative authorities (principals), accountability bridges the gap between administrative processes and public expectations, thereby reinforcing trust and legitimacy in governance.

These mechanisms encompass both internal and external accountability. Internal accountability refers to the oversight structures, reporting lines, and management responsibilities that ensure staff comply with policies and control measures. External accountability involves mechanisms such as performance reporting, audits accessible to the public, and compliance with regulatory standards, enabling stakeholders to evaluate whether public resources are managed effectively and transparently.

Integrating accountability mechanisms into the framework ensures that audit findings and risk assessments are actionable and monitored. Recommendations from audits and risk-based

evaluations are tracked, and responsible actors are held liable for implementation. This approach aligns with Agency Theory, reducing information asymmetry and mitigating risks associated with misaligned incentives between agents and principals.

Moreover, accountability mechanisms reinforce a culture of ethical governance by embedding transparency and responsibility into decision-making processes. By making actions visible and traceable to stakeholders, they deter misconduct, enhance procedural integrity, and encourage adherence to performance and risk management standards. This contributes to the overarching goal of the framework: enhancing governance outcomes while maintaining public trust.

Accountability also acts as a feedback loop in the integrated framework. Effective accountability processes ensure that lessons from audits and risk assessments inform future decision-making, policy adjustments, and operational improvements. This cyclical reinforcement supports continuous improvement and ensures that the governance system adapts to evolving risks and public expectations.

In essence, accountability mechanisms are not merely a supervisory layer; they are active governance enablers that operationalize audit results and risk-based controls. By linking compliance, risk mitigation, and ethical standards, they strengthen the integrity and effectiveness of local government operations, completing the chain from auditing to risk management and ultimately to governance outcomes.

### **Governance Outcomes**

Governance outcomes represent the ultimate results of integrating public sector auditing, risk-based internal control, and accountability mechanisms within local governments. These outcomes reflect the effectiveness, efficiency, and integrity of governance processes, demonstrating the tangible benefits of a structured, risk-informed, and accountable system. By linking operational mechanisms to measurable results, the framework ensures that governance activities are not merely procedural but impactful and strategically oriented.

The primary outcomes include improved efficiency, where resources are allocated and utilized optimally, and bureaucratic processes are streamlined to reduce redundancy and delays. Risk-based internal control ensures that potential operational and financial risks are anticipated and mitigated, while auditing validates that processes comply with standards and regulations. Together, these mechanisms enhance operational performance and allow local governments to meet their objectives effectively.

Another critical outcome is enhanced public trust. When audits are conducted rigorously, risks are managed proactively, and accountability mechanisms are transparent, citizens perceive the local government as ethical, responsible, and reliable. This trust is essential for sustaining the social legitimacy of governance, ensuring citizen engagement, and fostering compliance with policies and regulations.

Strategic decision-making is also strengthened through these outcomes. Audit findings, risk assessments, and accountability feedback provide evidence-based insights that guide policy formulation, budget allocations, and administrative planning. This enables local governments to respond proactively to emerging challenges, adapt to changing contexts, and optimize long-term performance.

Finally, governance outcomes create a continuous feedback loop within the framework. The results of governance activities inform future audits, refine risk management practices, and enhance accountability procedures, establishing a dynamic cycle of learning and improvement.

This cyclical nature ensures that the integrated framework remains adaptive, resilient, and effective in meeting both organizational and public expectations.

By achieving these outcomes, the framework demonstrates its novelty and practical relevance: it integrates auditing, risk-based internal control, and accountability in a cohesive model that produces measurable improvements in governance performance, public trust, and strategic decision-making. This integrated approach addresses gaps in the literature and provides actionable guidance for local government administration.

### **Integrated Conceptual Framework**

Governance outcomes represent the ultimate results of integrating public sector auditing, risk-based internal control, and accountability mechanisms within local governments. These outcomes reflect the effectiveness, efficiency, and integrity of governance processes, demonstrating the tangible benefits of a structured, risk-informed, and accountable system. By linking operational mechanisms to measurable results, the framework ensures that governance activities are not merely procedural but impactful and strategically oriented.

The proposed conceptual framework demonstrates how public sector auditing, risk-based internal control, and accountability mechanisms interact to enhance governance outcomes in local governments. Building on Agency Theory, COSO ERM, and Public Accountability principles, the framework addresses a critical research gap: prior studies have examined these components individually, but no integrated model highlights their synergistic effect on efficiency, transparency, and strategic decision-making.

Within the framework, public sector auditing acts as the initial monitoring mechanism, generating reliable information on compliance, performance, and potential issues. These findings inform risk-based internal control processes, which identify, evaluate, and mitigate operational, financial, and strategic risks proactively. By linking audits with risk assessment, local governments can make evidence-based decisions that anticipate challenges and optimize resource allocation.

Accountability mechanisms ensure that audit and risk-control activities translate into responsible, ethical, and transparent actions. By embedding both internal and external accountability, the framework reinforces stakeholder trust, mitigates principal-agent problems, and provides a feedback loop that informs subsequent governance cycles.

The governance outcomes of this integrated approach include enhanced efficiency, improved strategic decision-making, and strengthened public trust. These outcomes not only validate the effectiveness of audits and risk-based controls but also establish a continuous cycle of improvement, where lessons learned feed back into auditing, risk management, and accountability processes, making governance adaptive and resilient. Overall, the framework presents a cohesive, theoretically grounded, and operationally relevant model for local governments. It emphasizes that effective governance is not the result of isolated mechanisms but the strategic integration of auditing, risk-based controls, and accountability, producing measurable outcomes that address both organizational objectives and public expectations.

## CONCLUSION

Based on the results and discussion, it can be concluded that the internal control system for fixed assets at the North Sumatra Provincial Office of Industry, Trade, Energy, and Mineral Resources is in accordance with the internal control components specified in Government Regulation No. 60 of 2008. This conceptual paper presents an integrated framework for enhancing governance in local governments by synergizing public sector auditing, risk-based internal control, and accountability mechanisms. By linking Agency Theory, COSO ERM, and Public Accountability principles, the framework addresses a critical gap in the literature: previous studies have largely examined auditing, risk management, and accountability in isolation, without demonstrating their combined effect on governance outcomes.

The framework emphasizes that effective governance is achieved through integration, rather than isolated processes. Auditing provides reliable information and identifies areas for improvement, risk-based internal control translates these insights into proactive mitigation strategies, and accountability mechanisms ensure ethical, transparent, and responsible implementation. The resulting governance outcomes—enhanced efficiency, strategic decision-making, and increased public trust—illustrate the practical relevance of linking theory to operational mechanisms. By proposing this synergistic and cyclical model, the paper contributes a novel conceptual approach for both academics and practitioners in the public sector. It demonstrates how theory-driven frameworks can be operationalized to improve local government performance while maintaining transparency, accountability, and stakeholder trust. This framework also lays the foundation for future empirical studies, which can test, validate, and refine the integrated mechanisms in diverse local government contexts. Overall, the study highlights that governance excellence emerges from the strategic alignment of auditing, risk management, and accountability, reinforcing the importance of integrated, evidence-based approaches for enhancing public sector effectiveness.

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