







“Unlocking budget fraud prevention: Synergistic role of budget planning, participation, and internal control through effective budgetary policy”

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UNLOCKING BUDGET FRAUD PREVENTION: SYNERGISTIC ROLE OF BUDGET PLANNING, PARTICIPATION, AND INTERNAL CONTROL THROUGH EFFECTIVE BUDGETARY POLICY

Abstract

This study examines the impact of budget planning, participation, and internal control on preventing fraud in the budget and testing the mediating role of effective budgetary policy. A quantitative research approach was carried out in which a structured survey was administered to 178 heads of work units in local government agencies of 14 districts in East Java Province, Indonesia. These respondents were purposively sampled, considering their active role in the budget preparation, to enhance data relevance and reliability. The data collection period was from February to March 2025. The study adheres to rigorous ethical standards to protect human participants and the integrity of the research process. The study found that budget participation is the most significant variable for fraud prevention ($\beta = .747, p < 0.001$), followed by budget planning ($\beta = 0.147, p = .017$). Internal control and budget policy had no direct effect on fraud prevention. Notably, budget policy had a significant mediation effect between each predictor and fraud prevention, particularly for budget planning (indirect effect $\beta = .352, p < 0.001$). The results indicate that fraud prevention can best occur using participatory practices and planning that are contained within a strong, enforceable budgetary policy. It is suggested that there should be institutionalized budget systems with integrated governance systems to facilitate financial integrity.

Keywords

budget planning, budget participation, internal control,
fraud prevention, budgetary policy

JEL Classification

H72, H83, G38

INTRODUCTION

Public expenditure fraud continues to threaten the integrity of financial systems and erode public trust in government institutions. In developing parts of the world, particularly within local government, there is also a heightened demand for transparent, accountable, and efficient management of budgets (Gotelaere & Paoli, 2025). Budget management improves decision-making processes that align financial allocation with policy priorities, reducing the potential for abuse (Afjal et al., 2023).

The local governments in East Java, Indonesia, manage a large amount of public spending, and structured planning is required for value-based expenditure. Internal control checks are another avenue for safeguarding assets while adhering to compliance, but their effectiveness relies upon their implementation (Mirzaev, 2024; COSO, n.d.; Nawawi et al., 2018; Le et al., 2021). When stakeholders (i.e., civil servants, etc.) are involved in financial decisions through participatory budgeting,

there is an increased level of transparency, which improves accountability and reduces the potential for other forms of fraud and corruption (Franklin & Ebdon, 2020; Matsoso et al., 2021; Adekoya, 2022). Budgetary policy provides the basis for formalizing budgetary planning, participation, and control, and if designed properly, may aid with fiscal discipline and possible fraud prevention (Wildavsky, 2017; Afjal et al., 2023). Budget policy must be adequately designed, for budgets must be shaped with enforceable processes. While these elements are commonplace, there is a significant gap in empirical research into how they relate to fraud prevention, particularly in the context of Indonesian local government.

1. LITERATURE REVIEW

Prevention of public sector budget fraud is grounded on a number of interrelated factors, i.e., budget planning, budget participation, internal control processes, and budget policy. Existing literature in governance, financial integrity, and institutional enforcement fields presents an all-around perspective of how these factors contribute to financial openness and fraud prevention. Budget planning is the systematic process of establishing financial goals, designing programs for their achievement, and allocating resources accordingly. Mikesell (2014) points out that a well-planned budgeting process enhances spending effectiveness, curbs wastage, and ensures that every financial expenditure is of value. Consistent with this, Wahib and Rohman (2024) discovered that the use of planning in fraud control is aligned with internal control systems. Mujahid et al. (2024) and Kharisma et al. (2021) insist that planning documents and budgeting tools should be consistent, arguing that consistency promotes accountability and that budgets are executed according to plan.

Participatory budgeting involves several stakeholders, government officials, legislators, and oversight bodies actively engaging with the process of making and executing budget decisions. Franklin and Ebdon (2020) believe that participatory budgeting enhances accountability and transparency in public finance. Matsoso et al. (2021) revealed that when stakeholders are engaged in the budgeting process, chances of fraud threats are easily noticed and handled. This is supported by Adekoya (2022), who quotes that participatory practices guarantee fair resource allocation and reduce inefficiencies and construct anti-corruption defense.

Internal control involves organizational policies and procedures aimed at asset protection, verification of compliance, and accurate finances. COSO

(n.d.), Nawawi et al. (2018), and Le et al. (2021) showed internal controls as being central to fraud avoidance and detection. Practices such as internal auditing, technology integration, and periodic reviews play pivotal roles in maintaining financial integrity. Mirzaev (2024) and Gadelha et al. (2023) confirm that soundly established internal controls not only guarantee operational effectiveness but also reduce the risk of financial abuse.

Budget policy is the institutional norms that inform preparation, implementation, and budget tracking. Effective policies are quoted by Wildavsky (2017) as the backbone of open and transparent budget systems. These include accounting practices, staff training, and performance indicators. Budget policy is also argued by Afjal et al. (2023) to be among the main planning, participation, and control systems that keep planning, participation, and control systems in check as fraud control mechanisms. Cumulative research suggests a synergistic relationship between budget elements to increase fraud resistance. Budget planning prioritizes expenditures, which in turn guides the diversion of resources in harmony with strategic goals and the prevention of wasteful misallocations that usually facilitate fraud (Chi & Gooda, 2024). Resource optimization ensured by performance-based budgeting facilitates traceability and accountability, according to Susanto et al. (2022) and Dou et al. (2024). Constant monitoring enables early detection and correction of irregularities before they grow into fraud (Saraswati & Setiyawati, 2021).

Participation improves budgetary control and builds a culture of transparency and shared responsibility, while internal controls, when placed in enforceable policy frameworks, are more effective (Awaluddin, 2024; Nadirsyah et al., 2024). Budgetary policies not only institutionalize budgetary processes but also facilitate stakeholder engagement and peer monitoring, indispensable in

the detection and prevention of fraudulent activity (Gunawan & Wardana, 2023; Milosavljević et al., 2023).

Fraud prevention in public sector budgeting depends heavily on a participatory process, internal control mechanisms, and the institutionalization of policy. The subsequent literature outlines how these factors complement one another to achieve financial integrity and accountability. High-stakes participatory involvement tends to be regarded as a major driver of transparency and fiscal responsibility. While employees, oversight organs, and managers are involved in the budget-formation process, there is a culture of shared accountability and transparency established within an organization. Franklin and Ebdon (2020) also identified that participatory budgeting promotes control and monitoring because stakeholders get to directly view and examine decisions. Sastrawan et al. (2020) also argue that maximum participation upholds mechanisms of internal control as cooperative surveillance and ethical conduct are instilled. Together, participatory budgeting and internal control are anti-fraud because of joint governance and enhanced transparency in budget formulation.

Internal control is organized procedures, e.g., audits, verification, and compliance systems, intended to safeguard assets and facilitate ethical financial reporting. Nadirsyah et al. (2024) affirm that advanced financial systems and regular auditing are essential for fraud detection. Awaluddin (2024) highlights that well-defined responsibilities make stakeholders able to act according to ethical standards and establish a culture of accountability and trust. By implementing technology and accountability features, internal controls present an effective line of defense against fraud activities.

Budget policy is the official foundation of planning, executing, and observing public expenditure. It acts as guidelines and procedures necessary for preventing fraud and budget discipline. According to Afjal et al. (2023), open documents and tight budgetary control limit possibilities for fraudulent activities. Budget policy enhances fraud resistance by way of the improvement of internal audit effectiveness and governance mechanisms (Nadirsyah et al., 2024; Milosavljević et al.,

2023). Prasad et al. (2023) further identify policies that encourage stakeholders to participate as crucial for facilitating collective monitoring and ethical budget implementation.

A major thread running throughout the literature is the role of budget policy in linking planning and anti-fraud controls. Disciplined and enforceable policies facilitate effective budgeting (Zhou et al., 2025), especially when complemented by performance targets, monitoring, and open disclosure procedures (Issah et al., 2024). As Boufounou et al. (2024) suggest, stakeholder engagement offers the foundation for trust generation and corruption prevention. Milosavljević et al. (2023) also suggest that internal audits function as a second line of defense when budget policies decisively ascertain procedural accountability. Gunawan and Wardana (2023) highlight that participatory processes for public involvement in budgetary policy, such as hearings and consensus decision-making, improve peer monitoring and timely detection of drifts. Such peer auditing lowers information asymmetry, which is often exploited in cases of fraud. Thus, literature positions participatory budgeting not only as a fraud-check mechanism but also as a well-defined part of policy frameworks that incorporate collective vigilance. Finally, budget policies dictate the exercise of internal controls by establishing auditing and monitoring standards. Nguyen et al. (2021) and Dow et al. (2021) highlight that policies must be transparent and include stakeholders to enable strict control. Amina (2021) corroborates that budget policies must involve risk management and proactive audits in order to detect and prevent irregularities. Nadirsyah et al. (2024) and Bamigboye (2020) maintain that policy structures are institutional enablers of internal controls to operate, to be assessed, and continually to be improved.

In summary, existing literature bears witness to the fact that participatory processes and budget preparation, when supported by reasonable policies and institutional checks and balances, form a multi-tiered bulwark against budget corruption. While each mechanism on its own is worthwhile, its actual power resides in coordination within a policy system open to monitoring. This study presents the theoretical underpinnings to test empirically the impact of

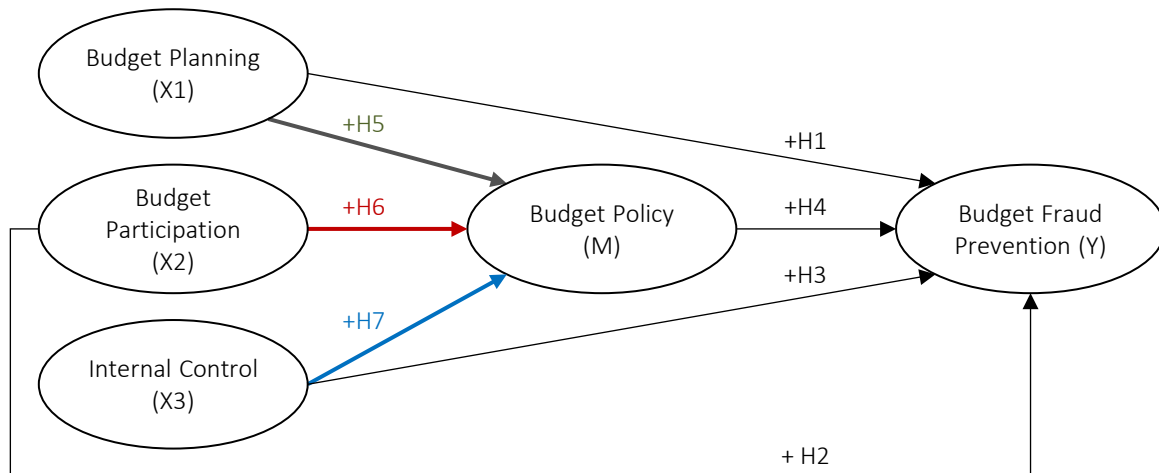


Figure 1. Research framework

such coordination on preventing fraud in local government settings. Participatory budgeting makes transparency and ethical behavior possible; internal controls offer technical and procedural safeguarding; and budgetary policy provides the institutional framework linking them together. Specifically, policies facilitate making planning and controls more effective once they are codified, enforced, and aligned with stakeholder involvement. These assumptions provide the theoretical framework for examining budget fraud prevention empirically in the context of local government agencies.

The objective of this study is to examine how budget planning, participation, and internal control affect fraud prevention and to evaluate the mediating role of effective budgetary policy. The research hypotheses are:

- H1: Efficient budget planning positively affects budget fraud prevention.*
- H2: High budget participation positively affects budget fraud prevention.*
- H3: Strong internal control positively affects budget fraud prevention.*
- H4: Budget policy positively affects budget fraud prevention.*
- H5: Effective budgetary policy mediates the link between budget planning and budget fraud prevention.*

H6: Effective budgetary policy mediates the link between budget participation and budget fraud prevention.

H7: Effective budgetary policy mediates the link between internal control and budget fraud prevention.

2. METHOD

Through a quantitative research design, the study identified relationships among budget planning, participation, internal control, and budget fraud prevention, with budgetary policy as a mediating variable. Quantitative research was selected for the ability to objectively measure constructs and statistically model causal relationships (Prasad et al., 2023; Hair & Alamer, 2022). The focus of this study was civil servants working in local government agencies in East Java Province, Indonesia. The sample consisted of 178 respondents, who were the heads of work units responsible for the budget preparation from local government organizations across 14 administrative regions in East Java Province, Indonesia. Participants were purposively sampled, as the responders were required to have applicable knowledge and authority to make decisions about budgeting (Milosavljević et al., 2023). The survey (Appendix A) occurred during February and March 2025, which was during the post-budget planning cycle to ensure that respondents' experience with the budget was accurate and current. The demographic and professional characteristics of the respondents are summarized in Table 1.

Table 1. Respondent profile

Characteristic	Category	Frequency	Percentage
Years in Public Sector	Less than 3 years	13	7.30
	3-5 years	35	19.66
	More than 5 years	130	73.04
Involvement in Budget Preparation	1-3 times a year	157	88.20
	More than 3 times a year	21	11.80
Knowledge of Budget Preparation	Limited	10	5.62
	Moderate	58	32.58
	Extensive	110	61.80

This study follows strict ethical principles to protect human participants and maintain the integrity of the research. To support informed consent, all respondents were given ample information about their participation, including the study's aims, process, and their role in the research. This information ensured that consent was carefully obtained from each individual so that they participated in the study voluntarily and were made aware of their rights and responsibilities. Participants were kept confidential and anonymous throughout the study. There was no personally identifiable information recorded or revealed, which kept the responses private and safe. Participants had the right to withdraw from the study at any time and would suffer no consequences for doing so, reiterating the maximum degree of voluntary consent. We also considered ethical principles throughout the research process with respect to academic integrity, while also protecting the rights and welfare of participants.

The variables utilized in the present study are operationalized as follows. Budget planning (X1) is a formalized strategic approach to making policies, allocating financial resources, and limiting resource use to achieve organizational objectives. Milosavljević et al. (2023) recognized that effective budget planning leads to reduced financial mismanagement, as the process improves the transparency and accountability regarding fund allocation.

Budget participation (X2) refers to the opportunity for employees to be part of the budgeting process. Employees may be actively engaged in budgeting activities through making recommendations, participating in meetings, and/or making input to allocation decisions. Sastrawan et al. (2020) observed that the act of participa-

tory budgeting improves auditability and control, since it increases transparency to lessen the risk of fraud.

Internal control (X3) consists of a collection of systems and procedures, intended to guarantee compliance with regulatory agencies, eliminate mismanagement, and/or improve efficiency. Amina (2021) recognized the usefulness of internal controls and procedures in mitigating potential financial fraud.

Budgetary policy (M) refers to the laws and procedures that local authorities enact to ensure budgets are managed through transparent accountability. Prasad et al. (2023) recognized the importance of budgetary policy definitions and coverage to strengthen internal control systems, which in turn offer an environment conducive to the mitigation of fraud.

Prevention of budget fraud (Y) depicts efforts attempting to mitigate budget fraud by incorporating transparency, consistent oversight, and internal controls. Gunawan and Wardana (2023) noted that fraud mitigation evidence flows from the integration of good governance mechanisms and internal controls.

Data analysis using partial least squares structural equation modeling (PLS-SEM) using WarpPLS software. The following are the stages in the process of analyzing data using the SEM model (Hair & Alamer, 2022). Data quality testing is carried out through convergent validity and measuring reliability using Cronbach's alpha. Measurement model testing (outer model) involves testing the relationships between indicators and latent constructs for measurement accuracy. Structural model testing (inner model) tests causality between variables, path coefficients for significance, and *R*-squared values to predict model strength (Prasad et al., 2023).

3. RESULTS

The initial stages of analysis must be carried out to ensure that the collected primary data is sound data by examining the validity of the data. Furthermore, it is mandatory to measure the reliability between the questionnaire instruments to see the consistency of the respondents' answers to this study. The following is a complete explanation of the analysis of the results of the validity and reliability test on Table 2.

The initial stage involves evaluating validity and reliability of various variables in relation to budgeting and fraud prevention, using key statistical measures to assess their strength. The loading factor represents the extent to which every indicator loads onto its respective variable, from 0.70 and upwards to represent a strong relationship. Meanwhile, average variance extracted (AVE) measures the extent to which indicators capture

the underlying construct correctly, where a value of over 0.50 is acceptable. Cronbach's alpha (CA) and composite reliability (CR) are also measures of internal consistency, ensuring the reliability of the measurements, with values over 0.70 confirming strong consistency between the indicators.

The validity and reliability test results in Table 2 disclose that budgeting planning, public participation, and internal control are strong predictors of effective financial decision-making. Budgeting planning demonstrates high internal consistency, as seen through its robust loading factors (0.75 to 0.92), AVE (0.732), CA (0.922), and CR (0.941). Public participation also reflects equally robust reliability, with loading factors of 0.78 to 0.92 and a high AVE (0.729), CA (0.921), and CR (0.941), which set well-established indicators. Internal control is next, with good construct validity (AVE: 0.703) and good reliability (CA: 0.868, CR: 0.901), suggesting it is a vital in-

Table 2. Validity and reliability

Variable	Indicator	Loading Factor	AVE	CA	CR
Budgeting Planning (BPI) (X ₁)	X ₁ - 1	0.882	0.732	0.922	0.941
	X ₁ - 2	0.918			
	X ₁ - 3	0.912			
	X ₁ - 4	0.759			
	X ₁ - 5	0.904			
	X ₁ - 6	0.902			
Public Participation (PP) (X ₂)	X ₂ - 1	0.919	0.729	0.921	0.941
	X ₂ - 2	0.878			
	X ₂ - 3	0.787			
	X ₂ - 4	0.885			
	X ₂ - 5	0.906			
	X ₂ - 6	0.901			
Internal Control (IC) (X ₃)	X ₃ - 1	0.868	0.703	0.868	0.901
	X ₃ - 2	0.748			
	X ₃ - 3	0.757			
	X ₃ - 4	0.750			
	X ₃ - 5	0.761			
	X ₃ - 6	0.771			
Budget Policy (BPo) (M)	M - 1	0.877	0.728	0.792	0.860
	M - 2	0.837			
	M - 3	0.779			
	M - 4	0.833			
	M - 5	0.821			
	M - 6	0.729			
Budget Fraud Prevention (BFP) (Y)	Y - 1	0.733	0.765	0.768	0.838
	Y - 2	0.770			
	Y - 3	0.741			
	Y - 4	0.727			
	Y - 5	0.726			
	Y - 6	0.778			

gradient to maintaining financial integrity and governance. Budget policy and budget fraud prevention are relatively weaker in reliability and hence need additional fine-tuning.

Budget policy has moderate validity (AVE: 0.728), but CA (0.792) and CR (0.860) suggest that it has worse internal consistency than other variables. While budget fraud prevention demonstrates some improvement in validity with an AVE of 0.765, loading factors remain between 0.72 and 0.77, indicating a weaker contribution from individual indicators. Additionally, its reliability scores (CA: 0.768, CR: 0.838), though good, are weaker than for the other variables. These findings indicate that all variable constructs were valid and reliable.

Table 3. Model fit

Item	Value	
Average path coefficient (APC)	0.251	p-value < 0.001
Average R-squared (ARS)	0.535	p-value < 0.001
Average Adjusted R-squared (AARS)	0.527	p-value < 0.001
Average block VIF (AVIF)	1.325	acceptable if ≤ 5
Tenenhaus GoF	0.572	large ≥ 0.36

The evaluation of the model fit in Table 3 provides initial measures of the strength and goodness of the statistical model to define the relations among variables. APC value of 0.251 with a

p -value < 0.001 signifies that relations among the variables are statistically significant. Moreover, the average R -squared (ARS) of 0.535 and average Adjusted R -squared (AARS) of 0.527 indicate that the model explains a high percentage of the variance in the dependent variable, indicating good predictive ability. The average block variance inflation factor (AVIF) of 1.325, which is significantly lower than the threshold value of ≤ 5 , confirms that multicollinearity is not present, i.e., the variables are distinct and not highly correlated. Furthermore, the Tenenhaus GoF value of 0.572, graded as “large” since it exceeds 0.36, suggests that the model has a very good overall fit and can therefore be trusted for interpretation and decision-making. To conclude, the model shows robust explanatory power and statistical significance, which guarantees its effectiveness in analyzing budget drivers and fraud protection measures.

Table 4. Latent variable coefficient

Indicators	BPo	BPFA
R^2	0.392	0.678
Adjusted R^2	0.383	0.671
Q^2	0.383	0.649

Table 4 reveals the model’s explanatory as well as predictive power. $R^2 = 0.392$ and $R^2 = 0.678$ values for budget policy (BPo) and budget fraud preven-

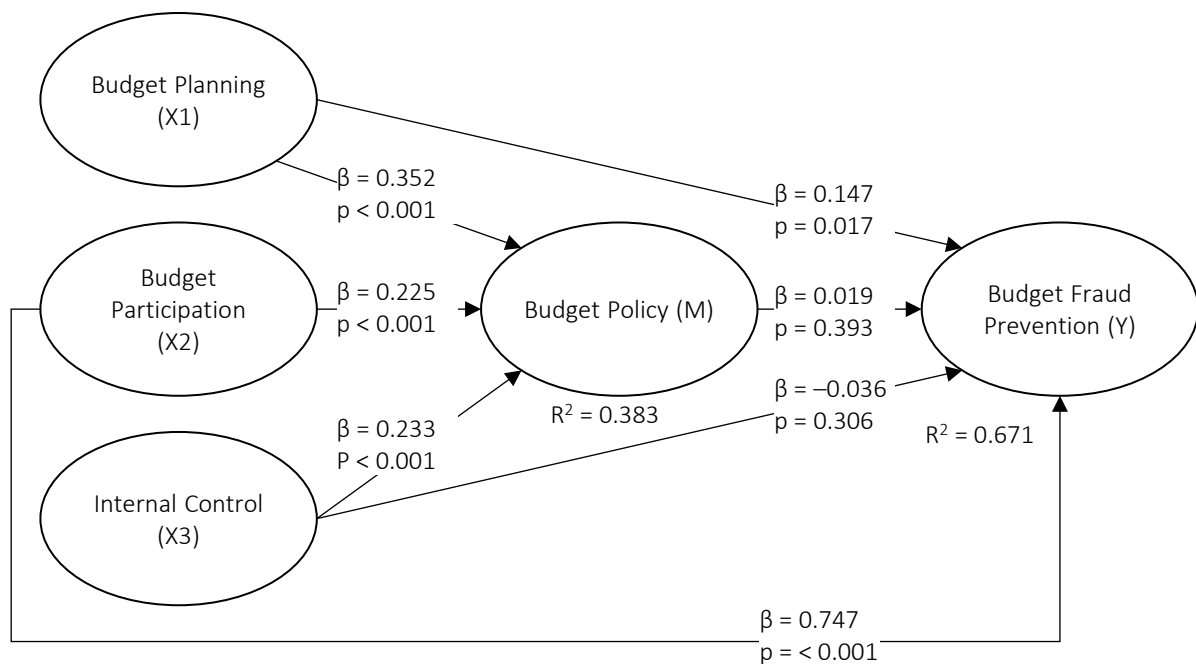


Figure 2. Outer model

Table 5. Hypothesis test result

Hypothesis	Path Coefficient	P-Value	Effect Size	Conclusion
<i>H1</i> : BPI → BFP	0.147	0.017	0.060	Accepted
<i>H2</i> : BP → BFP	0.747	< 0.001	0.599	Accepted
<i>H3</i> : IC → BFP	-0.036	0.306	0.012	Rejected
<i>H4</i> : BPO → BFP	0.019	0.393	0.007	Rejected

tion (BFP) respectively indicate variance explanation in the dependent variables by the independent variables, of which BFP explains more. Adjusted R^2 , at 0.383 for BPO and 0.671 for BFP, adjusts for model complexity and testifies to the strength of relationships. The predictive relevance (Q^2) measures of 0.383 for BPO and 0.649 for BFP indicate that BFP performs better in the prediction of future outcomes, upholding its contribution to the model. Overall, what these results reveal is that budget fraud prevention (BFP) is more explicable by the predictors than is budget policy (BPO), and therefore, there is a need to refine the budget policy framework further to enhance its predictability.

The result of the hypothesis testing in Table 5 shows a significant contribution to the research of budgeting mechanisms and fraud prevention study, evidently indicating the variables whose effect is significant on financial integrity. *H1* (budget planning affects budget fraud prevention) is supported, and it asserts that effective budget planning prevents fraud; however, a relatively low path coefficient of 0.147 and p -value of 0.017 reflect statistical significance despite its very low effect size (0.060). It indicates that formal budget planning can prevent fraudulent behavior, but it is not the most influential determinant. On the contrary, *H2* (Budget participation impacts budget fraud prevention) exhibits a high path coefficient (0.747) and p -value < 0.001, demonstrating a highly significant and strong association. The effect size is high (0.599), signifying that an effectively controlled budget process greatly reduces the likelihood of fraud and is the best predictor of fraud prevention in this model. These findings indicate that the presence of an effective and transparent budget process is fundamental in preventing financial mismanagement and fraud.

On the contrary, *H3* (internal control affects budget fraud prevention) and *H4* (budget policy affects budget fraud prevention) are rejected, which implies that these variables do not have any significant contribution to make to fraud prevention in the test model. *H3* shows a negative path coefficient of -0.036 and an insignificant p -value of 0.306, suggesting that internal control mechanisms, as presently set up in this model, cannot be effective in inhibiting fraudulent acts. This can be due to inefficiency in the application of controls or the requirement of other instruments in order to make them more effective. Concomitantly, *H4* also registers a small path coefficient of 0.019 and an insignificant p -value of 0.393, which implies that budget policy cannot possibly have an impact on preventing fraud. Minimal effect sizes by both *H3* (0.012) and *H4* (0.007) also indicate minimal effects. These findings clarify that although budgeting procedures and budget planning are essential to fraud prevention, budget policy and internal control have a role that needs to be further developed to make them more effective. Overall, enhancing the effectiveness of the internal control mechanisms and budget policy in preventing fraudulent activities and enhancing financial governance can be done by having more regulations and monitoring procedures.

Table 6 indicates that budgeting planning (BPI), budget process (BP), and internal control (IC) have a significant impact on budget fraud prevention (BFP) with budget policy (BPO) as the mediating variable. *H5* (BPI → BPO → BFP) has an indirect effect that is significant with a path coefficient of 0.352 and a p -value less than 0.001, which indicates that formal budget planning enhances

Table 6. Indirect effect result

Hypothesis	Path Coefficient	P-Value	Effect Size	Conclusion
<i>H5</i> : BPI → BPO → BFP	0.352	< 0.001	0.185	Accepted
<i>H6</i> : BP → BPO → BFP	0.225	< 0.001	0.101	Accepted
<i>H7</i> : IC → BPO → BFP	0.233	< 0.001	0.106	Accepted

the efficiency of budget policy, which further enhances fraud prevention. The effect size of 0.185 indicates a moderate effect, which supports the facilitating role of effective planning in financial management. Similarly, $H6$ ($BP \rightarrow BPo \rightarrow BFP$) is also accepted with a path coefficient of 0.225 and a statistically significant p -value of < 0.001 . While the effect size (0.101) is smaller than $H5$, it verifies that an open and transparent budgeting process imposes budget policy, which consequently reduces fraud risk. The analysis also accepted $H7$ ($IC \rightarrow BPo \rightarrow BFP$), proving that fraud prevention indirectly owes something to internal control mechanisms through budget policy.

The 0.233 path coefficient and p -value < 0.001 imply that there exists a significant relationship, and the 0.106 effect size implies a moderate effect. This implies that even though internal control may not be able to prevent fraud in the first instance (as evident in Table 4), it is very crucial when combined with effective budget policies. These findings call for an imperative to enhance budget policies in a bid to increase financial monitoring and fraud prevention measures. As a summary, budget policy is a crucial intermediary that reinforces the impact of budget planning, the budget process, and internal control in preventing fraud, with emphasis on having well-structured policies to strengthen financial governance.

4. DISCUSSION

The results provide empirical evidence about the impact of budget planning, participation, internal controls, and budget-related policy in order to reduce fraud in local governments in East Java, Indonesia.

Budget planning has a positive effect on fraud prevention, supported by the finding ($\beta = 0.147$, p -value = 0.017). The reported effect size was relatively small (0.060), indicating that even though a planning process was organizationally present and contributed to reducing instances of fraud, it surely did not represent the pinnacle of ability which one might hope to find. The results of this paper confirm Mujahid et al. (2024) indicating that planning increases accountability and reduces irregularities. It should also be noted that

the small effect size could be in response to either more organizational barriers to executing or following through the entirety of the budget planning processes, as advertised, or perhaps are better at evaluation than at implementation. There was a robust representation of experienced respondents with over 5 years of experience (73.04% of the sample) and also a robust representation of respondents with deep knowledge of the planning process (61.80%), which gave credibility to the notion that these respondents certainly perceived some nuance to the planning process, including its limitations. Therefore, there is every reason to expect that even though some organizational capacity for planning exists, it just has not been appropriate or facilitative of the organization's mandate to implement itself effectively as an independent control to prevent or reduce instances of fraud.

There is substantial evidence to support the statement in the following Hypothesis 2, ($\beta = 0.747$, $p < .001$), and a large effect size (0.599), indicating that budget participation is the most significant predictor of fraud prevention. This statement is consistent with Franklin and Ebdon (2020), Adekoya (2022), and Matsoso et al. (2021), who argue that participatory budgeting improves transparency and accountability through stakeholder involvement. The profile of respondents is also in support of these findings, with 88.20% of people participating in budget preparation actively at least three times per year, and 61.80% having some knowledge; so high levels of engagement likely support a culture of openness and shared accountability that supports budget participation as an important deterrent to fraud. The data indicate that employees who have the opportunity to actively contribute to budgeting and other decisions were also more likely to be accountable and support ethical standards, thereby reducing the likelihood of fraud.

The following statement, Hypothesis 3, is not supported by the test results of ($\beta = -0.036$, $p = 0.306$), which can be interpreted as meaning that internal control by itself does not clearly reduce fraud. This contrasts with previous studies (Nawawi et al., 2018; Amina, 2021) declaring internal control is a major consideration in preventing fraud. The disconnect may be due to action ability. Although 61.80% of respondents reference extensive knowl-

edge of budgeting, the ineffectiveness of internal control suggests these measures could have been formalized and perhaps not properly enforced. Moreover, 73.04% of respondents with long tenure may have seen systematic collapse in internal auditing or compliance measures, explaining the lack of tangible impact. This finding indicates that traditional internal controls placed on local governments could lack substance or fail to address new possible fraud opportunities. In support of action ability, maybe stronger enforcement, incorporating technology and aligning with policies wherever applicable could improve the implementation in future attempts.

The fourth hypothesis statement regarding budget policy has a positive impact on preventing budget fraud. This is also not supported by the test results ($\beta = 0.019$, $p = 0.393$), this figure indicates that budget policy alone is not sufficient to effect fraud prevention. This finding is contrary to Wildavsky (2017) and Afjal et al. (2023), who maintain that a sound policy will support fiscal discipline and transparency. The current finding may be salient at this juncture by the nature of policy implementations as it relates to use. Policy may be formally enacted but only have limited recourse and/or not necessarily engaged with operationally enabled and/or real-time tracking systems. Although a majority of respondents had considerable experience (73.04% of respondents indicated years of service greater than five), wherein 88.20% indicated their responsibilities included budgetary allocation work, the limited effect of this policy matter holds that policies still exist in a world of aspirations instead of operational resources for deterrence against fraudulent abuse. This suggests that a policy framework must be enabled to have active oversight, stakeholder engagement, and then digitally unmonitored data collection in place to make the intended fraud deterrent more objectively observable.

This indirect effect is significant ($\beta = 0.352$, $p < .001$, effect size = 0.185). This means that budget planning fosters fraud prevention when it is mediated by good budgetary policy. This supports Zhou et al. (2025) and Boufounou et al.'s (2024) assertions that the purpose of policies is to formalize strategic plans into enforceable policies

and plans. Given that 73.04% of respondents have a long history of working with fraud remediation plans and that 61.80% are all knowledgeable or extremely knowledgeable, they likely understand that informed planning that supports the policies embeds fraud controls into each stage of planning. It suggests that planning may not be enough, but so long as planning is institutionalized in the form of policy, it can make planning a powerful tool for government. This result also implies that local governments are not only allowed to make comprehensive budget plans, but that they must also have these plans put in writing as a codified policy with appropriate accountability roles and relationships. This integration of policy and planning increases the legitimacy and enforceability of planned choices and decisions made when the planning accommodates budgetary processes, reducing chances for discretionary and fraudulent actions.

This mediation is also significant ($\beta = 0.225$, $p < 0.001$, effect size = 0.101). It indicates that participation in the budget process, through participatory budgeting, strengthens the overall effectiveness of budgetary policy in reducing fraud. This corroborates the works of Prasad et al. (2023) and Gunawan and Wardana (2023), who pointed out that participation and engagement from stakeholders contribute to the enforcement of particular policies. The fact that respondents sat at a high level of participation (88.20%) and had a wide knowledge base informed this finding. Their participation likely assists in co-creating and enforcing budgetary policies, which has a greater effect on compliance/reaction, and overall effectiveness in addressing fraud. This finding would also suggest that co-constructed policies will be more successful than those without stakeholder engagement for implementation. This reinforces notions of participatory budgeting and improves policy transparency, but it also improves the legitimacy of, and policy relevance in practice, making fraudulent behavior less easy through engagement.

Although there is no direct effect in *H3*, it was significant ($\beta = 0.233$, $p < 0.001$, effect size = 0.106), which indicates the indirect effect ap-

pears to operate when controls are incorporated in the policy context. The findings supported the views of Turetken et al. (2020), where institutionalized internal controls through policy are foundational to the effectiveness of controls. The respondent profile also adds context to the findings. There may not be value in internal controls by themselves, but the experience of respondents (73.04%) and budgeting knowledge (61.80%) also suggests they recognize the importance of embedding control systems with

policies enforceable by law, where monitoring and accountability would, as a package, lower the chances of fraud occurring. This finding suggests that internal controls need to back policy and processes to deter against fraudulent action. Secondly, where policies are put in place, internal controls support measures gain credibility, ensuring consistency in the processes that would allow the lens for deterring the intentions of financial misconduct in public budgeting.

CONCLUSION

This paper examines the impact of budget planning, participation, and internal monitoring on avoiding fraud in budgets and its moderating effect on enhancing the relationship among the three variables. Employing the quantitative method in the survey form conducted among employees in the public sector of East Java Province, Indonesia, the results provide significant recommendations regarding fraud-proof initiatives in state budgeting. The results confirm that participation and budgeting are crucial in fraud prevention, supplementing previous literature highlighting the importance of formalized financial management and budgeting transparency. However, neither internal controls nor budget rules separately have a significant effect on fraud prevention, suggesting that they are less effective because of poor enforcement and implementation issues. The key discovery is the mediating role of sound budget policy, which enhances fraud prevention by strengthening the connection between budget planning, participation, and internal controls. The study highlights that procedures for budget preparation must be kept under close observation, coordinated with budget policies, and supported by regulatory measures and technology developments to successfully prevent fraudulent behavior. Lastly, these findings emphasize the need for local governments to escape traditional mechanisms of control and strict budget policies. Instead, they should adopt adaptive, transparent, and enforceable financial oversight techniques to secure accountability and checkmate fraud.

AUTHOR CONTRIBUTIONS

Conceptualization: Soni Agus Irwandi, Agus Samekto, Supriyati, Nanang Shonhadji.

Data curation: Agus Samekto, Supriyati, Nanang Shonhadji.

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Methodology: Soni Agus Irwandi, Agus Samekto, Supriyati, Nanang Shonhadji.

Project administration: Agus Samekto.

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Writing – original draft: Soni Agus Irwandi, Supriyati, Nanang Shonhadji.

Writing – review & editing: Soni Agus Irwandi, Agus Samekto.

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APPENDIX A. Questionnaire

Dear precious respondent,

The research is to explore the contribution of budget preparation, participation, internal control, and budget policy to fraud prevention in the public sector budget in East Java, Indonesia. In a way of assisting us in getting useful and reliable results, we are conducting a guided survey from professionals in budget preparation. Your feedback is supportive of our endeavor to become familiar with increasing fiscal transparency and accountability.

Confidentiality and Ethical Compliance

This study adheres to the strictest ethical guidelines offered by the Committee on Publication Ethics (COPE) and maintains the confidentiality of all participants. Your responses will be kept confidential and anonymous, and nothing will be disclosed about you. Your participation is voluntary, and you can end it at any moment without penalty.

Instructions for Completing the Questionnaire

1. The questionnaire contains a few questions that deal with budget preparation, involvement, internal control, budget policy, and anti-fraud.
2. Every statement is rated from 1 to 5: 1 = Strongly Disagree | 2 = Disagree | 3 = Neutral | 4 = Agree | 5 = Strongly Agree.
3. Read every question very carefully and mark the answer which best describes your experience and perception.
4. Ensure the responses are grounded on your professional experiences and observations with regard to budget processes within your organization.
5. In case you feel uncomfortable answering a question, you can opt out or withdraw from the study.

Your input contributes to enhancing governance, financial integrity, and fraud prevention in public sector budgets.

Appreciation for your time and cooperation.

Best Regards,
Soni Agus Irwandi.

Table A1. General information section

Question	Response Options
1. How long have you been working in the public sector?	<input type="checkbox"/> Less than 3 years <input type="checkbox"/> 3–5 years <input type="checkbox"/> More than 5 years
2. Are you actively involved in the budget preparation process?	<input type="checkbox"/> 1–3 times a year <input type="checkbox"/> More than 3 time a years
3. How would you rate your knowledge of the budget preparation process?	<input type="checkbox"/> Limited <input type="checkbox"/> Moderate <input type="checkbox"/> Extensive

Table A2. Main questionnaire

Section	Question	Scale (1–5)
B. Budget Planning (X1)	1. The organization has a formal budget planning process	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5
	2. Budget planning enhances financial transparency	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5
	3. Budget planning ensures accountability in resource allocation	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5
	4. Budget planning reduces financial mismanagement	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5
	5. Employees are well informed about the budget planning process	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5
	6. Budget implementation is well monitored by the organization	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5
C. Budget Participation (X2)	7. Employees participate in budgeting actively	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5
	8. Employees' budget suggestions are considered by the management	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5
	9. Employees frequently attend budget planning meetings	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5
	10. Employees provide inputs in resource allocation decisions	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5
	11. Participatory budgeting improves transparency	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5
	12. The employees are given power in financial decision-making	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5
D. Internal Control (X3)	13. There are effective internal control systems within the organization	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5
	14. Internal control ensures compliance with regulations	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5
	15. Internal control prevents financial irregularities	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5
	16. Internal control enhances operating efficiency	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5
	17. Fraud prevention controls are effectively implemented	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5
	18. Internal audits successfully identify risks and weaknesses	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5
E. Budgetary Policy (M)	19. Clear budgetary policies are followed by the organization	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5
	20. Budgetary policies are clear and are strictly followed	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5
	21. Budgetary policies ensure accountability in financial decision-making	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5
	22. Government policies support internal financial control	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5
	23. Budgetary policies are efficient in fraud prevention	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5
	24. Budgetary policies improve efficiency in resource allocation	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5
F. Prevention of Budget Fraud (Y)	25. Fraud prevention strategies are a priority for the organization	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5
	26. Financial transparency lowers risks of budget fraud	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5
	27. Robust internal control decreases fraud cases	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5
	28. Fraud prevention policies are known by employees	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5
	29. Proper oversight reduces fraud cases to a bare minimum	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5
	30. Accountability in financial matters is ensured by the organization	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5