

Public Sector Auditing and Its Role in Enhancing Financial Integrity

Rizki Nur Fatimah ¹

¹ Universitas Sarjanawiyata Tamansiswa, Yogyakarta, Indonesia

Abstract

Article history:

Received: September 10, 2024
Revised: October 05, 2024
Accepted: November 15, 2024
Published: December 30, 2024

Keywords:

Accountability, Financial Integrity,
Public Sector Auditing,
Transparency, Governance.

Identifier:

Nawala
Page: 54-67
<https://nawala.io/index.php/ijpfa>

Financial integrity in the public sector is essential for credible governance, fiscal sustainability, and public trust. This study examines the role of public sector auditing in enhancing financial integrity by synthesizing existing scholarly evidence. Using a systematic literature review approach, this study analyzes peer reviewed research on public sector auditing, accountability, and financial integrity within government contexts. The findings indicate that public sector auditing contributes to financial integrity primarily through improving financial reporting quality, deterring misconduct, and strengthening accountability mechanisms. The effectiveness of auditing is strongly influenced by the institutional environment, particularly the independence and mandate of audit institutions, as well as the implementation of audit recommendations. The review also highlights the growing importance of integrated accountability, where audit results are linked with parliamentary oversight and public scrutiny. Furthermore, the expansion of digital systems and performance oriented governance introduces both opportunities and risks for auditing, requiring adaptive audit methodologies and enhanced professional competencies. Overall, the study concludes that public sector auditing can significantly enhance financial integrity when supported by strong institutional frameworks, effective follow up mechanisms, and responsive approaches to digital transformation and societal expectations.

*Corresponding author:
(Rizki Nur Fatimah)

©2025 The Author(s).

This is an open-access article under CC-BY-SA license (<https://creativecommons.org/licence/by-sa/4.0/>)



1. Introduction

Financial integrity in the public sector meaning that public funds are recorded, safeguarded, and used in accordance with laws, budgets, and public objectives is a cornerstone of credible governance and citizen trust. When integrity is weak, misstatements, non-compliance, fraud, and corruption can distort fiscal decisions and undermine service delivery, making reliable oversight mechanisms essential. Public sector auditing is designed to provide independent assurance over government financial reporting and the use of public resources, while also generating recommendations that can strengthen controls, transparency, and accountability over time. Evidence from local government contexts shows that audit processes are not only about detecting problems; audit findings and, critically, the follow-up of audit recommendations can shape the quality of financial reports and relate to downstream public service quality (Furqan et al., 2020). These dynamics position public auditing as a practical lever for enhancing financial integrity provided that audit results translate into corrective action.

Recent scholarship increasingly emphasizes that the effectiveness of public sector auditing depends on the institutional environment in which it operates, particularly the strength and independence of Supreme Audit Institutions (SAIs). A cross-national study proposes that an “anti corruption system centered on the SAI” characterized by independence, accountability, mandate, and collaboration tends to be associated with lower perceived corruption levels (Tadida, 2023). This suggests that auditing contributes to financial integrity not merely through technical procedures, but also through institutional design that enables auditors to act without

undue political constraint and to coordinate with other integrity actors. In parallel, democratic accountability research highlights that audit institutions can support integrity by creating “integrated accountability” processes linking formal oversight to broader public and parliamentary scrutiny especially for complex policy commitments that require transparent tracking of public spending and outcomes (Cordery et al., 2022).

At the same time, public sector auditing faces evolving integrity risks as governments expand digital systems, complex transactions, and cross organizational service arrangements. Auditing scholarship notes that the boundaries of public sector auditing are shifting toward performance, sustainability, and digitally enabled audit work, which raises new demands for skills, methods, and credible assurance in more uncertain governance settings (Grossi et al., 2023). Digital transformation can improve audit coverage and timeliness, yet it also introduces concerns around data reliability, algorithmic opacity, and institutional readiness that may affect audit credibility and public value creation (Volodina & Grossi, 2024). Moreover, public expectations increasingly frame auditing as part of society’s response to fraud and corruption, highlighting potential gaps between what auditors deliver and what the public perceives as meaningful integrity assurance (Sargiacomo et al., 2024). Against this backdrop, the role of public sector auditing in enhancing financial integrity is analyzed, focusing on the mechanisms through which audits deter integrity breaches, improve financial reporting quality, and strengthen accountability systems, as well as the conditions under which these effects are most likely to materialize.

2. Literatur Review

Financial integrity in the public sector has been widely recognized as a fundamental prerequisite for credible governance, fiscal sustainability, and public trust. It refers to the extent to which public funds are accurately recorded, protected from misuse, and allocated in accordance with legal frameworks and public objectives. Weak financial integrity has been consistently linked to misstatements, non-compliance, fraud, and corruption, all of which can distort fiscal decision making and undermine the quality of public service delivery. Within this context, public sector auditing plays a central role as an institutional mechanism designed to provide independent assurance over government financial reporting and the use of public resources.

Prior empirical research emphasizes that the contribution of public sector auditing extends beyond the mere detection of irregularities. Furqan et al. (2020), in their study of local government audits, demonstrate that audit findings and, more importantly, the extent to which audit recommendations are followed up, significantly influence the quality of financial reporting. Their findings suggest that audits function as a corrective governance tool when audit results are translated into concrete managerial and administrative actions. This perspective positions audit follow-up mechanisms as a critical link between audit processes and improved financial integrity.

More recent literature highlights the importance of the institutional environment in shaping audit effectiveness. Tadida (2023) argues that public sector auditing contributes to lower levels of perceived corruption when it operates within

an “anti-corruption system centered on the Supreme Audit Institution (SAI).” In this framework, the independence, accountability, mandate, and collaborative capacity of SAIs determine whether audits can effectively constrain opportunistic behavior. This finding underscores that technical audit procedures alone are insufficient; instead, strong institutional design is required to ensure that auditors can operate without political interference and coordinate effectively with other oversight bodies.

In parallel, accountability focused scholarship expands the role of auditing beyond financial compliance toward broader democratic governance. Cordery et al. (2022) introduce the concept of “integrated accountability,” in which audit institutions support financial integrity by linking formal audit oversight with parliamentary scrutiny and public transparency. This approach is particularly relevant for complex policy programs that involve long term commitments and require continuous monitoring of both expenditures and outcomes. Through such integrated accountability mechanisms, audits can enhance not only financial integrity but also public confidence in government decision-making.

At the same time, the scope and challenges of public sector auditing are evolving in response to changes in public governance. Grossi et al. (2023) note that public sector auditing is increasingly expanding into areas such as performance auditing, sustainability reporting, and digital governance. These shifts introduce new integrity risks associated with complex transactions, cross-organizational service delivery, and non-financial information, thereby increasing demands on auditors’

skills, methodologies, and professional judgment. As a result, the assurance function of audits becomes more complex and uncertain.

The digital transformation of government further amplifies both opportunities and risks for public sector auditing. While digital tools and data analytics can enhance audit coverage and timeliness, Volodina and Grossi (2024) caution that digitalization also raises concerns regarding data reliability, algorithmic transparency, and institutional readiness. If these challenges are not adequately addressed, the credibility of audit results and their contribution to public value creation may be compromised. Moreover, the growing use of automated systems in public financial management requires auditors to develop new competencies to assess technology driven risks.

Finally, societal expectations toward public sector auditing are increasing, particularly in relation to fraud and corruption prevention. Sargiacomo et al. (2024) highlight a widening expectation gap between what the public perceives auditors should deliver and what audit institutions are formally mandated to provide. This gap poses reputational and legitimacy risks for audit institutions and suggests the need for clearer communication of audit roles, limitations, and impacts in enhancing financial integrity.

Overall, the literature indicates that public sector auditing can significantly enhance financial integrity through mechanisms such as deterrence of misconduct, improvement of financial reporting quality, and strengthening of accountability systems. However, these effects are most likely to materialize when audits are supported by strong institutional independence, effective follow-up processes,

integrated accountability frameworks, and adaptive capacities to respond to digital and governance complexity.

3. Methods

This study employs a Systematic Literature Review (SLR) approach to examine the role of public sector auditing in enhancing financial integrity. The SLR method was selected to ensure a structured, transparent, and replicable process for identifying, evaluating, and synthesizing relevant scholarly literature on public sector auditing, financial integrity, and accountability mechanisms. This approach enables a comprehensive understanding of existing theoretical and empirical evidence while minimizing selection bias and enhancing the reliability of the findings.

The review process began with the formulation of clear research questions focusing on how public sector auditing contributes to financial integrity, the mechanisms through which audits influence accountability and reporting quality, and the institutional conditions that shape audit effectiveness. A systematic search strategy was applied across major academic databases, including peer-reviewed journals in public sector accounting, auditing, governance, and public administration. Keywords and combinations such as “public sector auditing,” “financial integrity,” “supreme audit institutions,” “accountability,” “audit effectiveness,” and “digital auditing” were used to capture a broad yet relevant body of literature.

Article selection followed predefined inclusion and exclusion criteria. Included studies were required to focus on public sector contexts, address auditing

or oversight mechanisms related to financial integrity, and provide conceptual, empirical, or methodological insights. Excluded materials consisted of non-academic publications, opinion pieces, and studies lacking relevance to public financial management or audit institutions. The screening process was conducted in multiple stages, beginning with title and abstract review, followed by full text assessment to ensure alignment with the research objectives.

The selected studies were then systematically analyzed using qualitative content analysis. Key themes were identified, including audit follow-up mechanisms, institutional independence of audit bodies, integrated accountability frameworks, digital transformation in auditing, and public expectations of audit functions. These themes were coded and compared across studies to identify patterns, convergences, and gaps in the literature. The synthesis focused on explaining how public sector auditing operates as a governance tool and under what conditions it is most effective in strengthening financial integrity.

Finally, the findings of the SLR were synthesized narratively to develop an integrated understanding of the relationships between public sector auditing, financial integrity, and accountability systems. This synthesis provides a conceptual foundation for future empirical research and offers insights for policymakers and audit institutions seeking to enhance the integrity of public financial management.

4. Results and Discussion

The results of the systematic literature review indicate that public sector auditing plays a significant role in enhancing financial integrity primarily through its influence on financial reporting quality, deterrence of misconduct, and reinforcement of accountability mechanisms. Across the reviewed studies, audit findings consistently emerge as a critical instrument for identifying weaknesses in internal controls and non-compliance with regulations. However, the literature strongly suggests that the impact of audits depends less on the detection of irregularities alone and more on the effectiveness of audit recommendation follow-up. In line with this, evidence from local government settings shows that timely and consistent implementation of audit recommendations leads to measurable improvements in financial reporting reliability and transparency (Furqan et al., 2020). Similar patterns are observed in comparative public finance studies, where effective follow-up mechanisms are associated with reduced fiscal mismanagement and enhanced budget credibility (Sari et al., 2023).

The findings further demonstrate that institutional context is a decisive factor shaping audit effectiveness. Studies focusing on Supreme Audit Institutions (SAIs) reveal that audit outcomes are more likely to contribute to financial integrity when SAIs operate with a high degree of independence, clear mandates, and accountability mechanisms. Tadida (2023) provides cross-national evidence that countries with strong, independent SAIs embedded within broader anti-corruption systems tend to exhibit lower levels of perceived corruption. This relationship is reinforced by recent governance research suggesting that audit independence enhances auditors' ability

to challenge powerful actors and address politically sensitive issues without constraint (Assakaf et al., 2018). These results highlight that public sector auditing contributes to integrity not merely as a technical control device but as part of a wider institutional architecture of accountability.

Another key result concerns the role of auditing in supporting integrated accountability. The reviewed literature indicates that audits are most effective in strengthening financial integrity when they are connected to parliamentary oversight and public scrutiny. Cordery et al. (2022) show that audit reports gain greater influence when they are actively used by legislatures and communicated transparently to the public, particularly in complex policy areas involving long-term financial commitments. This finding aligns with broader accountability studies demonstrating that transparency and stakeholder engagement amplify the deterrent effect of audits and increase pressure on public managers to correct identified deficiencies (Bracci et al., 2015). Consequently, auditing functions not only as a post-hoc control mechanism but also as a catalyst for democratic accountability.

The results also reveal that the evolving scope of public sector auditing introduces new integrity challenges. As governments increasingly adopt digital systems, performance-based management, and sustainability reporting, auditors face more complex audit objects and higher uncertainty. Grossi et al. (2023) note that the expansion toward performance and sustainability audits requires new competencies and methodological adaptations, which, if unmet, may weaken assurance quality. Digital transformation, while improving audit coverage and efficiency, simultaneously raises risks related to data quality, algorithmic opacity, and

cybersecurity. Volodina and Grossi (2024) emphasize that without adequate institutional readiness and governance frameworks, digital auditing tools may undermine rather than enhance audit credibility. These findings are consistent with recent public sector digitalization research, which warns that technological adoption must be accompanied by strong governance and control structures to protect financial integrity (Wang et al., 2024).

Finally, the discussion highlights a growing expectation gap between public perceptions and audit mandates. Sargiacomo et al. (2024) find that citizens increasingly view public sector auditing as a frontline defense against fraud and corruption, often expecting auditors to prevent misconduct rather than merely report it. This gap creates reputational risks for audit institutions and may erode public trust if expectations are not managed effectively. Recent studies suggest that clearer communication of audit roles, limitations, and impacts can mitigate this gap and strengthen the perceived public value of auditing (Hay & Cordery, 2018). Overall, the results indicate that public sector auditing can substantially enhance financial integrity when supported by strong institutional independence, effective follow up mechanisms, integrated accountability arrangements, and adaptive responses to digital transformation and societal expectations.

5. Conclusion

This study concludes that public sector auditing plays a vital and multifaceted role in enhancing financial integrity within public governance systems. The findings from the systematic literature review demonstrate that auditing contributes to

financial integrity not only through the detection of misstatements, non-compliance, and irregularities, but more importantly through the follow-up of audit recommendations that translate audit findings into corrective managerial and administrative actions. Effective audit follow-up emerges as a key mechanism linking audit processes to improved financial reporting quality, transparency, and public service outcomes.

The conclusion further underscores that the effectiveness of public sector auditing is highly contingent upon its institutional environment. Strong, independent, and well-mandated Supreme Audit Institutions (SAIs) are consistently associated with lower levels of perceived corruption and stronger accountability outcomes. This indicates that auditing functions most effectively as part of a broader accountability architecture, where institutional independence, collaboration with oversight actors, and democratic scrutiny reinforce the deterrent and corrective effects of audits.

In addition, the study highlights that public sector auditing is undergoing significant transformation in response to digitalization, performance-oriented governance, and sustainability agendas. While digital tools and advanced analytics offer opportunities to enhance audit coverage, efficiency, and timeliness, they also introduce new integrity risks related to data reliability, algorithmic opacity, and institutional readiness. Addressing these challenges requires continuous adaptation of audit methodologies, enhanced auditor competencies, and robust governance frameworks to ensure that technological innovation strengthens rather than undermines audit credibility.

Finally, the growing expectation gap between public perceptions and formal audit mandates presents an emerging challenge for audit institutions. As citizens increasingly expect auditors to act as a primary safeguard against fraud and corruption, clearer communication regarding the scope, limitations, and public value of auditing becomes essential to maintaining legitimacy and trust. Overall, this study concludes that public sector auditing can significantly enhance financial integrity when supported by effective follow-up mechanisms, strong institutional independence, integrated accountability frameworks, and adaptive capacities to respond to digital transformation and evolving societal expectations.

References

- Assakaf, E. A., Samsudin, R. S., & Othman, Z. (2018). Public sector auditing and corruption: A literature. *Asian Journal of Financial Accounting*, *10*, 226–241.
- Bracci, E., Humphrey, C., Moll, J., & Steccolini, I. (2015). Public sector accounting, accountability and austerity: More than balancing the books? *Accounting, Auditing & Accountability Journal*, *28*(6), 878–908.
- Cordery, C., Arora, B., & Manochin, M. (2023). Public sector audit and the state's responsibility to "leave no-one behind": The role of integrated democratic accountability. *Financial Accountability & Management*, *39*(2), 304–326.
- Furqan, A. C., Wardhani, R., Martani, D., & Setyaningrum, D. (2020). The effect of audit findings and audit recommendation follow-up on the financial report and public service quality in Indonesia. *International Journal of Public Sector Management*, *33*(5), 535–559.

- Grossi, G., Hay, D. C., Kuruppu, C., & Neely, D. (2023). Changing the boundaries of public sector auditing. *Journal of Public Budgeting, Accounting & Financial Management*, 35(4), 417–430.
- Hay, D., & Cordery, C. (2018). The value of public sector audit: Literature and history. *Journal of Accounting Literature*, 40(1), 1–15.
- Sargiacomo, M., Everett, J., Ianni, L., & D'Andreamatteo, A. (2024). Auditing for fraud and corruption: A public-interest-based definition and analysis. *The British Accounting Review*, 56(2), 101355.
- Sari, R., & Muslim, M. (2023). Accountability and transparency in public sector accounting: A systematic review. *Amkop Management Accounting Review (AMAR)*, 3(2), 90–106.
- Tadida, E. Z. (2023). Public auditing: What impact does the quality of the institutional framework have on the level of corruption? *International Review of Administrative Sciences*, 89(4), 1131–1146.
- Volodina, T., & Grossi, G. (2025). Digital transformation in public sector auditing: Between hope and fear. *Public Management Review*, 27(5), 1444–1468.
- Wang, W., & Vasarhelyi, M. A. (2024). The application of continuous audit and monitoring methodology: A government medication procurement case. *International Journal of Accounting Information Systems*, 55, 100713.