

The Effect of Internal Control System, Locus of Control, and Accountability on Fraud Prevention

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Abstract— The amount of nominal allocation of village funds disbursed will increase the risk of fraudulent financial management. The phenomenon of fraud cases against village financial management often occurs in Indonesia. Various research results were obtained, indicating that the research results were not conclusive, thus encouraging further research. The population in this study were 27 villages located in the Denpasar City Government area. The sample in this study is the Village Government involved in village financial management starting from the planning, implementation, administration, reporting and accountability stages. The respondents in this study were 108 people consisting of the Village Head, Village Secretary, Head of Village Financial Affairs, and the Badan Permusyawaratan Desa (BPD) in 27 villages located in the Denpasar City Government area. The data collection method used in this research is to use a questionnaire (questionnaire) and documentation. The hypothesis test used is multiple linear regression test. The results showed that the variables of the internal control system, locus of control, and accountability had a significant positive effect on fraud prevention.

Keywords— Internal Control System, Locus of Control, Accountability, Fraud Prevention.

I. INTRODUCTION

The Law of the Republic of Indonesia Number 6 of 2014 concerning Villages mandates the Government to allocate village funds. The delegation of authority from the central government to the regions is known as the principle of decentralization within the framework of a unitary state. The principle of decentralization is a principle that provides opportunities and flexibility for regions to carry out autonomy as widely as possible (Madea, 2017). Village financial management is based on Minister of Home Affairs Regulation Number 113 of 2014 concerning Village Financial Management, the authority of which is the Village Head. The Village Head is required to submit a realization report and accountability report for the implementation of the APBDes to the Regent/Mayor in the form of a first semester report and a year-end report, and be informed to the public in writing using information media that is easily accessible by the public. This is done to realize an orderly, transparent, accountable and quality management of Village funds.

Village funds in the 2018 State Revenue and Expenditure Budget throughout Indonesia amounted to Rp. 60 trillion for 82,505 villages. The province of Bali in 2018 received funds allocated to 716 villages for 9 districts/cities. The amount of nominal allocation of village funds disbursed will increase the risk of fraudulent financial management. The phenomenon of fraud cases against village financial management often occurs

in Indonesia. According to information from Kompas.com, the Village Head of Dukuhmojo, Mojoagung, Jombang, Prananjaya, misappropriated the Village Fund in 2018 by creating a fictitious project with a loss value of village funds disbursed of around Rp. 287 million. A similar case also occurred in 2018 in Denpasar City. Based on the findings from the Denpasar Police Tipikor Satreskim Unit, there were allegations of misuse of village finances in Pemecutan Kaja Village, North Denpasar District, which was carried out by the Village Head from January 2017 to January 2018 (Laksmi and Sujana, 2019). The village financial loss in this case reached Rp 123 million (Berita Bali, 2018).

Seeing the many cases of fraud in the management of village funds, the Corruption Eradication Commission (KPK) conducted a study that identified aspects that could trigger corruption in village financial management, such as aspects of governance, aspects of supervision and aspects of human resources. Fraud prevention can be done by increasing the competence of human resources focusing on locus of control, emphasizing a good accountability system because accountability is the main principle for realizing good governance, and implementing an internal control system.

Previous studies that examined the effect of locus of control, accountability, and internal control variables on fraud prevention obtained mixed results. Research on the effect of the internal control system on fraud prevention conducted by Atmadja and Saputra (2017) states that the internal control system has no effect on fraud prevention. However, these results are not in line with research conducted by Dewi, et. al, (2017), Laksmi and Sujana (2019), Dewi and Damayanthi (2019) which states that the internal control system has an effect on fraud prevention (fraud. Adequate internal control system). in the control environment, risk assessment, control activities, information and communication as well as internal control monitoring can prevent fraud in the management of village funds (Laksmi and Sujana, 2019).

The researcher added the locus of control and accountability variables to test their effect on the fraud prevention variable. This is based on the fraud hexagon theory where the locus of control variable is related to the ability component, and the accountability variable is related to the pressure component. Dewi and Damayanthi (2019) conducted a study on fraud prevention in villages in Denpasar City, the results showed that locus of control had a positive effect on fraud prevention, where locus of control was stated to be able to strengthen fraud prevention. Saputra, et al (2019) conducted a study on fraud prevention in villages in Bali Province, the

results showed that accountability had a positive effect on fraud prevention.

Obtaining various research results, indicating that the results of the research are not yet conclusive, thus encouraging further research. This underlies the researcher to conduct a study entitled the influence of the internal control system, locus of control, and accountability on fraud prevention.

II. LITERATURE REVIEW

Fraud Hexagon Theory

The Fraud Hexagon Theory is the latest theory of fraud put forward by Georgios L. Vousinas from the National Technical University of Athens, Athens, Greece in 2017 in his article entitled "Advancing theory of fraud: The S.C.O.R.E. Model". This theory is a development of the previous fraud theory, namely the fraud triangle theory proposed by Cressey Donald (1953), the fraud diamond theory proposed by Wolfe & Hermanson (2004), and the fraud pentagon theory proposed by Marks (2012).

Hexagon fraud consists of six components, namely stimulus (pressure), capability (ability), collusion (collusion), opportunity (opportunity), rationalization (rationalization), and arrogance (ego). There is a difference in this theory, namely in the name of the components used. Several components with different names in this theory have the same meaning as the previous theories. The pressure component in this theory is called the stimulus, which has the same meaning as the pressure described in the previous theory by Cressey Donald (1953), Wolfe & Hermanson (2004), and Marks (2012). Next is the ego component which has the same meaning as arrogance as previously described by Marks (2012) on the theory of fraud pentagon.

The component added to the fraud hexagon theory is a collusion component. According to Vousinas (2019), collusion is cooperation carried out by several parties, both by individual groups and parties outside the organization, as well as between employees within the organization. When collusive fraud occurs, honest employees will participate in committing fraud due to a dishonest organizational environment. As a result, this dishonest environment will grow and become an organizational culture that is difficult to eliminate. Vousinas also explained that someone with a persuasive personality will find it easier to persuade their environment to commit fraud. Collusion can also be done by taking advantage of the ability possessed to take the position of others.



Fig. 1. Fraud Hexagon Theory

Source: Vousinas' Fraud Hexagon (2019)

- a) Stimulus (Pressure)
Perpetrators are currently committing crimes that are driven by pressure where this can come from pressure on financial needs, declining financial targets, urgent family economy, and others, thus encouraging perpetrators to dare to steal company cash.
- b) Capabilities
This shows how much power and capacity of a party to commit fraud in the corporate environment. At this point, one example that clearly illustrates is when a change in directors occurs which is a form of conflict of interest (Sari and Nugroho, 2020). Changes in the board of directors is one of the factors driving the occurrence of financial statement fraud, because the impact of these changes is the management's efforts to improve the results of the performance of the previous directors by changing the company's organizational structure or recruiting new directors who are considered to have better abilities than the previous directors.
- c) Opportunity
If there are weaknesses in the company's internal control, weak supervision encourages someone to act in committing fraud. This loophole can invite fatal things for the company where weaknesses in the current internal control are exploited by someone. Companies with a weak internal control system will have many gaps that become opportunities for management to regulate transactions, especially financial transactions as presented in the financial statements.
- d) Rationalization
In this case the perpetrators will justify or feel that their actions are right when they commit fraud. This behavior arises when someone feels they have done more for the company, so they are encouraged to take advantage based on the thought that it is okay as long as they work properly.
- e) Ego (Arrogance)
Arrogance is an attitude of superiority that causes the greed of people who believe that internal control does not apply personally. This is because when a person feels a higher position than the other party (Desviana et al., 2020).
- f) Collusion
According to Vousinas, (2019) collusion refers to an agreement that deceives a party in which two or more people are deceived, for one party to take other actions for some unfavorable purpose, such as defrauding third parties of their rights. The fraud hexagon should be used as a development for the fraud pentagon to better identify indications of fraud, where collusion plays an important role in financial statement fraud (Vousinas, 2019).

Attribution Theory

This theory developed by Fritz Heider (1958) quoted by Lubis (2017: 129) states that a person's behavior is determined by a combination of internal forces, namely factors that come from within a person, such as the factor of business ability and external forces. External forces, namely factors that come from outside, such as difficulties in work or luck. Based on

these. A person will be motivated to understand his environment and the causes of certain events. In behavioral research, this theory is applied by using a locus of control variable (Lubis, 2017:129).

Specifically, individuals will try to analyze why certain events occur and the results of the analysis will affect their behavior in the future. The attribution process can also be important in understanding the behavior of others. The behavior of others can be examined on the basis of their consensus, consistency, and differences. Consensus is the degree to which other people in the same situation will behave in the same way. Consistency is the degree to which the same person behaves in the same way at different times. Difference is the degree to which the same person behaves in the same way in different situations (Lubis, 2017:129). The relationship between attribution theory in this study is the action or decision taken by the leader or person who is given the authority due to the causal attribute.

III. RESEARCH METHODS

This research was conducted in a village located in the Denpasar City Government area. The population in this study were 27 villages located in the Denpasar City Government area. The sample in this study is the Village Government involved in village financial management starting from the planning, implementation, administration, reporting and accountability stages. The respondents in this study were 108 people consisting of the Village Head, Village Secretary, Head of Village Financial Affairs, and the Village Consultative Body (BPD) in 27 villages located in the Denpasar City Government area. The data collection method used in this research is to use a questionnaire (questionnaire) and documentation. The hypothesis test used is multiple linear regression test.

IV. RESULTS AND DISCUSSION

Multiple Linear Regression Analysis

The results of the regression analysis using the Statistical Package of Social Science (SPSS) version 20.0 for Windows program can be seen in the following table.

TABLE 1. Multiple Linear Regression Analysis

Variabel	Unstandardized coefficient		Standardized coefficient	t	Sig.
	B	Std. Error			
Constant	5,739	3,564	-	1,610	0,110
X ₁	0,290	0,055	0,403	5,267	0,000
X ₂	0,282	0,138	0,155	2,042	0,044
X ₃	0,106	0,022	0,366	4,830	0,000
R	0,715				
Adjusted R Square	0,497				
F _{hitung}	36,223				
Sig F	0,000				

Source: primary data processed (2021)

Based on Table 1, the multiple linear regression equation can be written as follows.

$$Y = 0.290X_1 + 0.282X_2 + 0.106X_3 + e$$

Description:

Y= Fraud Prevention

X₁= Internal Control System

X₂= Locus of control

X₃= Accountability

The multiple linear regression equation shows the direction of each independent variable to the dependent variable. The multiple linear regression equation can be described as follows:

X₁ = 0.290 indicates that the internal control system for fraud prevention, if the internal control system increases, it will increase fraud prevention.

X₂ = 0.282 indicates that the locus of control on fraud prevention, if the locus of control increases it will increase the prevention of fraud.

X₃ = 0.106 indicates that accountability for fraud prevention, if accountability increases it will increase fraud prevention.

Coefficient of Determination Analysis

Determination analysis was conducted to determine the extent of the variation of independent variables, namely the internal control system (X₁), locus of control (X₂), and accountability (X₃) on the fraud prevention variable (Y). Based on Table 1, it can be seen that the value of Adjusted R square (R²) = 0.497. This means that 49.7 percent of fraud prevention (Y) is influenced by internal control system variables (X₁), locus of control (X₂), and accountability (X₃) and the remaining 50.3 percent is influenced by other variables outside this study.

Simultaneous Significance Test Results (F-test)

This analysis is to determine the effect of independent variables (internal control system, locus of control and accountability) simultaneously on the dependent variable (fraud prevention). If the annova value < a = 0.05 then there is a significant effect. The results of the F test can be seen in the table below.

The SPSS output in table 1 shows an F value of 36.223 with a significance value of 0.000 < 0.05. So it can be concluded that the internal control system, locus of control, and accountability have a significant effect on fraud prevention. Thus, the model is considered worthy of testing and proving the hypothesis can be continued.

T-test results

Partial test (t test) was used to test the effect of each independent variable (internal control system, locus of control, and accountability) on the dependent variable (fraud prevention). The SPSS output shows that:

- a) The internal control system variable has a regression coefficient of 0.290 and a significance value of 0.000 < 0.05. This means that the internal control system variable has a significant positive effect on fraud prevention, so H₀ is rejected and H₁ is accepted.

- b) The locus of control variable has a regression coefficient of 0.282 and a significance value of 0.044 <0.05. This means that the locus of control variable has a significant positive effect on fraud prevention, so H0 is rejected and H2 is accepted.
- c) The accountability variable has a regression coefficient of 0.106 and a significance value of 0.000 <0.05. This means that the accountability variable has a significant positive effect on fraud prevention, so that H0 is rejected and H3 is accepted

Discussion

Based on the results of the analysis of research conducted, the following discussion can be made:

The Effect of Internal Control System on Fraud Prevention

The effect of the internal control system on fraud prevention, the regression coefficient β_1 for the internal control system variable is 0.290 and a significance level of 0.000 <0.05, then H0 is rejected and H1 is accepted. This means that the internal control system variable partially has a positive and significant effect on preventing fraud in village financial management in Denpasar City. The more adequate the internal control system in the control environment, risk assessment, control activities, information and communication as well as internal control monitoring can prevent fraud in village financial management, and vice versa, the worse the internal control system, the less fraud prevention in village financial management (Laksmi & Sujana, 2019). The results of this study are supported by the results of previous studies conducted by Dewi, Yuniarta, and Wahyuni (2017), Laksmi & Sujana (2019) and Dewi and Damayanthi (2019) which stated that the internal control system had a positive effect on fraud prevention.

The Effect of Locus of Control on Fraud Prevention

The effect of locus of control on fraud prevention, the regression coefficient β_2 of the locus of control variable is 0.282 and a significance level of 0.044 <0.05, then H0 is rejected and H2 is accepted. This means that the locus of control variable partially has a positive and significant effect on preventing fraud in village financial management in Denpasar City. The better the locus of control owned by the employee, the better the prevention of fraud in village financial management in Denpasar City, and vice versa, the worse the locus of control owned by the employee will reduce the prevention of fraud in village financial management in Denpasar City. The results of this study are supported by the results of previous research conducted by Dewi and Damayanthi (2019) which stated that locus of control had a positive effect on fraud prevention.

The Effect of Accountability on Fraud Prevention

The effect of accountability on fraud prevention, obtained that the regression coefficient β_3 for the accountability variable is 0.106 and a significance level of 0.000 <0.05, then H0 is rejected and H3 is accepted. This shows that the accountability variable partially has a positive and significant effect on preventing fraud in village financial management in Denpasar City. The higher the accountability, the higher the fraud prevention in village financial management in Denpasar

City, and vice versa the lower the accountability, the lower the fraud prevention in the village financial management in Denpasar City. Accountability is an operation starting from planning, processes and responsibilities designed and implemented by local governments and adopted by village governments to provide adequate certainty in achieving effective and efficient government activities, reliability of financial reports, and compliance with laws and regulations. applicable. The results of this study are supported by previous research conducted by Saputra et al. (2019) which stated that accountability has a positive effect on fraud prevention.

V. SUGGESTION

Future researchers are expected to use other factors that can affect fraud prevention in village financial management such as motivation, compensation suitability and whistleblowing system and expand research samples not only in villages in Denpasar City but in other regencies in Bali to obtain a comparison of results.

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