

Internal Control Systems, Morality, Integrity, and Their Influence on the Prevention of Fraud in Village Financial Management

I Gst. B Ngr. P. Putra¹, I Ketut Puja Wirya Sanjaya², Ida Bagus Made Putra Manuaba³

^{1,2,3}Faculty of Economics and Business, Warmadewa University, Denpasar, Bali, Indonesia

Email address: ngurahpanji.putra@gmail.com

Abstract— The amount of nominal allocation of village funds distributed will increase the risk of financial management fraud. The phenomenon of fraud cases of village financial management often occurs in Indonesia. Various research results were obtained, showing that the results of the study were not yet conclusive, thereby encouraging further research. The population in this study were 27 villages in the Denpasar City Government. The sample in this study was the village government involved in village financial management starting from the planning, implementation, administration, reporting and accountability stages. Respondents in this study numbered 108 people consisting of village heads, village secretaries, heads of village financial affairs, and village deliberation agencies (BPD) in 27 villages in the Denpasar City Government area. The data collection method used in this study is to use questionnaires and documentation. The hypothesis test used is a multiple linear regression test. The results showed that the variable system of internal control, morality, and integrity had a positive and significant effect on the prevention of fraud on village financial management in Denpasar City.

Keywords— Internal control systems, morality, integrity, fraud prevention.

I. INTRODUCTION

Law of the Republic of Indonesia Number 6 of 2014 concerning Villages provides a mandate to the government to allocate village funds. The delegation of authority from the central government to the regions is known as the principle of decentralization in the frame of the Unitary State. The principle of decentralization is the principle that provides opportunities and freedom to the regions to carry out the widest possible autonomy (Madea, 2017). Village Financial Management Based on the Minister of Home Affairs Regulation Number 113 of 2014 concerning Village Financial Management, the authorized is the Village Head. The village head is required to submit a realization report and accountability report on the implementation of the APBDes to the Regent/Mayor in the form of the first semester report and year -end report, and is informed to the public in writing with information media that is easily accessed by the community. This was done to realize the management of village funds that are orderly, transparent, accountable, and quality.

The distribution of village funds allocation received by each village in each region of Bali Province varies. The difference is because the provision of village fund allocations is based on the population, poverty rate, village area and

village difficulty level. Village funds in the 2021 state budget in 2021 throughout Indonesia amounted to Rp 72 trillion for 82,505 villages. Bali Province in 2021 received funds allocated to 716 villages for 9 regencies/cities as shown in Table 1 below:

TABLE 1. Village Fund for 2021 Fiscal Year in Bali Province

No	Kabupaten/Kota	Dana Desa
1	Kabupaten Badung	Rp 58.486.546.000
2	Kabupaten Bangli	Rp 65.113.263.000
3	Kabupaten Buleleng	Rp 30.380.171.000
4	Kabupaten Gianyar	Rp 65.196.455.000
5	Kabupaten Jembrana	Rp 54.539.683.000
6	Kabupaten Karangasem	Rp 85.289.248.000
7	Kabupaten Klungkung	Rp 55.854.813.000
8	Kabupaten Tabanan	Rp 124.114.971.000
9	Kota Denpasar	Rp 40.148.467.000

Source: Directorate General of Tax of the Ministry of Finance, 2021.

The amount of nominal allocations of village funds distributed will increase the risk of financial management fraud. The phenomenon of fraud cases of village financial management is common in Indonesia. One of the fraud cases that occurred according to information from Kompas.com, the Head of Dukuhmojo Village, Mojoagung, Jombang, Prananjaya, misused the village funds in 2018 by making a fictitious project with the value of village funds losses disbursed around Rp 287 million. A similar case also occurred in 2018 occurred in Denpasar City. Based on the findings from the Denpasar Police Corruption Unit Unit, there were allegations of misuse of village finance in Pemecutan Kaja Village, North Denpasar District conducted by the Village Head from January 2017 to January 2018 (Laksmi and Sujana., 2019). Village financial losses in the case reached Rp 123 million (News Bali, 2018).

Seeing the number of cases that occurred on the fraudulent management of village funds, the Corruption Eradication Commission (KPK) conducted a study that identified aspects that could trigger corruption in the management of village finances such as aspects of supervision and aspects of human resources. Supervision aspects are represented by the variable application of the internal control system, while the aspects of human resources are represented by the level of individual morality. Furthermore, prevention of fraud can be done by instilling moral values of morality to each individual, as well

as the implementation of the extensive internal control system. In this study the author tries to test the effect of integrity variables. The reason for the added integrity variable is because it is based on the Grand Theory Fraud Hexagon which explains the six factors driving the emergence of fraud, namely pressure, ability, opportunity, rationalization, ego, and collusion. From the six driving factors of fraud can be prevented if the individual has integrity in carrying out his duties. Integrity requires someone to be honest and transparent, brave, wise and responsible.

Previous research that tests the effect of variables of internal control systems, morality, and integrity on preventing fraud obtaining various results. Research on the Effect of Internal Control Systems on Fraud Prevention (Fraud) conducted by Atmadja and Saputra (2017) states that the internal control system does not affect the prevention of fraud (fraud). 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 affects the prevention of fraud. Adequate internal control system in the environment of control, risk assessment, control activities, information and communication as well as monitoring internal control can prevent fraud in managing village funds (Laksmi and Sujana, 2019).

In research on the effect of morality on the prevention of fraud (fraud) conducted by Dewi, et al (2017) states that morality has no significant effect on the prevention of fraud (fraud). The results of the study show that the level of morality that is owned does not affect the level of fraud that a person will do, but the results are not in line with research conducted by Laksmi and Sujana (2019) which states that morality has a positive effect on preventing fraud (fraud) in village financial management. Good morality in village financial management, supported by good performance, is not concerned with personal interests and the use of village finances considering the principle of community welfare can prevent fraud (fraud).

Dewi, et al (2017) conducted research on the prevention of fraud in villages in Buleleng Regency, where the results of this study show that the integrity and commitment of the organization is positive to prevent fraud. The results of this study state that integrity requires a person to be honest and frank and organizational commitment is built on employee trust in organizational values in realizing organizational goals. The high level of integrity and organizational commitment that individuals have can prevent fraud in every agency or organization.

Obtained various research results, indicating that the results of the study were not yet conclusive, so as to encourage further research. This underlies researchers to conduct research entitled "Internal Control System, Morality, Integrity, and Its Effects on Prevention of Fraud in Village Financial Management".

II. LITERATURE REVIEW

Fraud Hexagon Theory

Fraud Hexagon Theory is the latest theory of fraud expressed by Georgios L. Vousinas of the National Technical University of Athens, Athens, Greece in 2017 in his writings

entitled "Advancing Theory of Fraud: The S.C.O.R.E. Model". This theory is the development of the previous fraud theory, namely the Fraud Triangle theory put forward by Cressey Donald (1953), the Fraud Diamond theory put forward by Wolfe & Hermanson (2004), and the Fraud Pentagon theory put forward by Marks (2012).

Fraud Hexagon 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 that is in the name of the component used. Some components with different names in this theory have the same meaning as previous theories. The pressure component in this theory is called a stimulus, which has the same meaning as the pressure (pressure) that has been explained in the previous theory by Cressey Donald (1953), Wolfe & Hermanson (2004), and Marks (2011). Next is the ego component that has the same meaning as arrogance (arrogance) has been explained earlier by Marks (2012) in the Fraud Pentagon theory.

Components added to the Hexagon fraud theory are collusion components. According to Vousinas (2019), collusion is a collaboration carried out by several parties both by individual groups and those outside the organization, as well as between employees within the organization. At the time of cheating collusion occurs, honest employees will participate in cheating because of the 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 persuasive personality will be easier to invite his environment to commit fraud. Collusion can also be done by utilizing the ability possessed to take the position of others.



Source: Vousinas' *Fraud Hexagon* (2019)

1) *Stimulus (pressure)*

The perpetrators at this time committed crimes driven by pressure where this could come from pressure on financial needs, declining financial targets, urgent family economy, and others, thus encouraging the perpetrators to dare to commit company cash theft.

2) *Capability*

This shows how much power and capacity of a party to commit fraud in the company's environment. At this point, one example that clearly illustrates is the time of changes in the directors which is the creation of the form of conflict of

interest (Sari and Nugroho, 2020). Changes in the Board of Directors are one of the factors driving the occurrence of financial statement fraud, because the impact of these changes is the existence of management efforts in improving the results of the previous directors' performance by changing the company's organizational structure or recruiting new directors that are considered more better capabilities than previous directors.

3) *Opportunity*

If there are weaknesses in the company's internal control, weakening supervision encourages a person to act in fraud. This gap can invite fatal things for companies where weaknesses in internal control that are used by someone. Companies with weak internal control systems will have many gaps that are an opportunity for management to make transactions, especially financial transactions as presented in the financial statements.

4) *Rationalization*

In this case the perpetrators will justify or feel that their actions are true when they commit fraud. The behavior arises when someone feels that they have done more for the company, so they are encouraged to take advantage based on the thought that it is legitimate as long as they work properly.

5) *Ego (Arrogance)*

Arrogance is a superiority that causes the greed of people who believe that internal control does not apply personally. This is because when someone feels higher position than other parties (Desviana et al., 2020).

6) *Collusion*

According to Vousinas, (2019) the collusion refers to an agreement that deceives a party where the party who is deceived as many as two or more people, for one party aimed at taking other actions for several bad objectives, such as deceiving a third party from the rights they have. Fraud Hexagon must be used as a development for pentagon fraud to better know the indication of fraud, where collusion plays an important role in the fraud of financial statements (Vousinas, 2019).

Attribution Theory

This theory was 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 originating from within a person (External Forces), namely factors originating from outside, such as difficulties in work or luck. Based on these. Someone will be motivated to understand their environment and causes of certain events. In behavior research, this theory is applied using the Locus of Control Variable (Lubis, 2017: 129).

Specifically, individuals will try to analyze why certain events arise and from 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 checked on the basis of its condenses, consistency, and its differences. Consensus is a level in which other people in the same situation will behave in the same way. Consistency is a degree in which the same person behaves in the same way at different times. Difference

is the level where the same person behaves in the same way in different situations (Lubis, 2017: 129). The relationship between attribution theory in this study is an action or decision taken by the leader or the person given the authority due to the attributes of the cause.

III. RESEARCH METHODS

This research was conducted in villages in the area of Denpasar City Government. The population in this study were 27 villages in the Denpasar City Government. The sampling procedure is carried out in the study, namely the non - probability sampling technique with the saturated sampling method, which is a sample determination technique if all members of the population are used as samples (Sugiyono, 2019: 133). The sample in this study was the village government involved in the management of village finances starting from the planning, implementation, administration, reporting and accountability stages. Respondents in this study were 108 people consisting of village heads, village secretaries, heads of village financial affairs, and village deliberation agencies (BPD) in 27 villages in the Denpasar City Government area. The scope of this study is limited to the influence of the internal control system (X1), morality (X2), and integrity (X3) on the prevention of fraud in village financial management (Y). The data collection technique used in this study is through the distribution of questionnaires. The data analysis technique used is multiple linear regression analysis.

IV. RESULTS AND DISCUSSION

TABLE 2. The results of the coefficient determination analysis

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.751 ^a	.564	.551	5.871	1.768

a. Predictors: (Constant), Integritas, Moralitas, SPI

b. Dependent Variable: Pencegahan_Kecurangan

Based on these results it is known that the value of R2 = 55.1 percent, which means that 55.1 percent prevention of fraud (Y) is influenced by the internal control system variable (X1), morality (X2), and integrity and the remaining 44.9 percent is influenced by other variables outside Research Model.

TABLE 3. F-Test Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4635.904	3	1545.301	44.832	.000 ^b
	Residual	3584.763	104	34.469		
	Total	8220.667	107			

a. Dependent Variable: Pencegahan_Kecurangan

b. Predictors: (Constant), Integritas, Moralitas, SPI

Based on (test F) in Table 3 shows the F value of 44.832 with a significance value of 0,000 <0.05. So it can be concluded that the internal control system, morality and integrity affect simultaneously on the prevention of fraud. Thus, the model is considered feasible to test and proof of

hypotheses can be continued.

TABLE 4. T-Test Results
Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	2.607	3.383		.770	.443
Sistem Pengendalian Internal	.121	.054	.169	2.252	.026
Moralitas	.799	.152	.392	5.254	.000
Integritas	.343	.060	.406	5.735	.000

Based on Table 4 the t test results are as follows:

- a) The internal control system variable has a regression coefficient of 0.169 and a significance value of 0.026 < 0.05. This means that the internal control system variable has a significant positive effect on the prevention of fraud, so that H0 is rejected and H1 is accepted.
- b) The morality variable has a regression coefficient of 0.392 and a significance value of 0.000 < 0.05. This means that morality variables have a significant positive effect on the prevention of fraud, so that H0 is rejected and H2 is accepted.
- c) The integrity variable has a regression coefficient of 0.406 and a significance value of 0.000 < 0.05. This means that the integrity variable has a significant positive effect on the prevention of fraud, so that H0 is rejected and H3 is accepted.

Discussion.

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

a) The Effect of Internal Control Systems on Prevention of Fraud in Village Financial Management in Denpasar City

The effect of the internal control system on fraud prevention, the β_1 regression coefficient is obtained by the internal control system variable of 0.169 and the significance level of 0.026 < 0.05, the H0 is rejected and H1 is received. This means that the internal control system variable has a positive and significant effect on the prevention of fraud in the management of village finances in Denpasar City. The more adequate internal control systems in the environment of control, risk assessment, control activities, information and communication and monitoring of internal control can prevent fraud in village financial management. Vice versa if the worse the internal control system it will reduce the prevention of fraud in village financial management (Laksmi & Sujana, 2019).

Internal control consists of policies and procedures used in achieving goals or providing reliable financial information, as well as guaranteeing the approach of applicable laws and regulations. Internal control includes the organizational structure, methods, and measurements coordinated to maintain the organization's wealth, check the accuracy and reliability of accounting data, encourage efficiency, and obey leadership policies (Rahmani, 2020). Internal control can be a guide and supervisor of the work system that has been arranged. This is reflected in the company's daily operational activities and can

prevent fraud. For example there is integrity and ethical value in supporting the achievement of the goals set by the institution, there is an organizational structure that explains the duties and authority clearly and appropriately, there is authorization and supervision from the related leadership for the activities carried out by employees in the company, there is an evaluation of the work employees, there is a separation of tasks and functions that are clear between parts of the company to avoid mistakes and risk of fraud, can take into account the amount of risk in the event of negligence in carrying out tasks so that problems related to work can be resolved properly, have complete documents and notes for each transaction What has been done, classifies information in accordance with what is needed, understand the physical control procedures for assets or goods in the institution, the company implements an anti-fraud control program based on the values adopted by the Perus Ahaan, vigilance training on fraud in accordance with employee work responsibilities is well implemented, and the company applies sanctions on violations of the code of ethics and company values. The results of this study were 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 preventing fraud.

b) The influence of morality on the prevention of fraud in village financial management in Denpasar City

The effect of morality on fraud prevention, obtained the coefficient of β_2 regression morality variables of 0.392 and a significance level of 0,000 < 0.05, then H0 is rejected and H2 is accepted. This means that morality variables have a positive and significant effect on the prevention of fraud in village financial management in Denpasar City. This means that individuals who have a high level of morality will be able to prevent fraud because the individual will tend to obey the rules in accordance with existing principles. Vice versa, where individuals with low morality will tend to make decisions based on things that are desired by themselves and do not heed existing rules. Someone who has a high level of morals will be able to avoid the emergence of fraud because someone who has high morals will comply with rules based on the rules of the general ethics of Rahimah, et al (2018). Morality is very necessary to prevent fraud actions carried out as in village financial management. That is because if someone has good morality, the use and management of village funds will run according to the priority needs, so that the prevention of fraud will be better. The higher the level of individual moral reasoning, the more tend to not commit accounting fraud (Suardika, 2020). With that, the better the morality of the individual possessed, it is also followed by the high prevention of fraud (fraud). This is in line with research conducted by Sumendap., Et al (2019) and Anandya and Werastuti (2020) get results if individual morality has a positive effect on preventing fraud (fraud).

c) The effect of integrity on the prevention of fraud in village financial management in Denpasar City

Effect of Integrity on Fraud Prevention, Obtained β regression coefficient of integrity variables of 0.406 and a significance level of $0.000 < 0.05$, then H_0 is rejected and H_3 is received. This means that the integrity variable has a positive and significant effect on the prevention of fraud in the management of village finances in Denpasar City. This means that the high level of integrity possessed by individuals, the better the prevention of fraud (fraud) in the management of village finances in Denpasar City. Integrity is measured in what form is true and fair which is used to maintain and increase public trust and each individual must fulfill his professional responsibility with the highest possible integrity (Mulyadi, 2017: 56). Integrity is a personal commitment that is firm to the principle of ethical ideology and becomes part of the self -concept that is displayed through his behavior. The high level of integrity possessed by individuals can prevent fraud (fraud) because integrity requires someone to be honest, transparent, brave, wise and responsible (Dewi et al, 2017; Yogi Anggara & Bambang Suprasto, 2020). The results of this study were supported by previous research conducted by Dewi, Yuniarta, and Wahyuni (2017) who stated that integrity had a positive effect on preventing fraud.

V. SUGGESTIONS

In an effort to increase the prevention of fraud in village financial management, it is recommended to the village government in Denpasar City as follows:

- a) For the Village Government in Denpasar City
Based on the results of village research in Denpasar City, it is expected to remain consistent in implementing internal control in the management of village finances, increasing morality and integrity in managing village finances.
- b) For further researchers
For further researchers, it is expected to be able to use other factors that can affect the prevention of fraud in village financial management such as motivation, compensation suitability and whistleblowing system and expand the scope of research that is not only in villages in Denpasar City but in other districts in Bali so that the results of research can be more generalized.

REFERENCES

[1] Atmadja dan Saputra (2017), Pencegahan Fraud dalam Pengelolaan Keuangan Desa. *Jurnal Ilmiah Akuntansi dan Bisnis*, 1(2), 7-16.

[2] Cressey, D. R. (1953). *Other People's Money: A Study in The Social Psychology of Embezzlement*. Glencoe, IL: Free Press.

[3] Crowe, H. (2012). *The Mind Behind the Fraudsters Crime: Key Behavioral and Environmental Elements*. United States of America: Crowe Horwath LLP, 1-62.

[4] Desviana et al. 2020. Analisis Kecurangan pada Pengelolaan Dana Desa dalam Perspektif Fraud Hexagon. *Studi Akuntansi dan Keuangan Indonesia*. Vol. 3, No.1, Hal: 50-73.

[5] Dewi dan Damayanthi, (2019), Pemoderasi Pengaruh Kompetensi Aparatur Desa dan Sistem Pengendalian Internal Pada Pencegahan Fraud, *E-Journal Akuntansi pada Universitas Udayana* Vol: 26 No: 3, Denpasar.

[6] Dewi, Wahyuni dan Yuniarta, (2017), Pengaruh Moralitas, Integritas, Komitmen Organisasi, dan Pengendalian Internal Kas Terhadap Pencegahan Kecurangan (Fraud) dalam Pelaksanaan Program Subsidi Beras Bagi Masyarakat Berpendapatan Rendah (Studi Pada Desa di Kabupaten Buleleng), *E-Journal S 1 Akuntansi pada Universitas Pendidikan Ganesha* Vol: 8 No:2, Buleleng.

[7] Ghozali, (2018), *Aplikasi analisis Multivariate Dengan Program IBM SPSS 25*, Edisi ke-9, Universitas Diponegoro, Semarang.

[8] Laksmi dan Sujana, (2019), Pengaruh Kompetensi SDM, Moralitas dan Sistem Pengendalian Internal Terhadap pencegahan Fraud Dalam pengelolaan Dana Desa, *E-Journal Akuntansi Universitas Udayana* Vol: 26 No: 3, Denpasar.

[9] Lubis, (2017), Akuntansi Keperilakukan Akuntansi Multiparadigma, Edisi 3, Salemba Empat, Jakarta.

[10] Madea, Y., V. Y. Londa dan A. Laloma. 2017. Peran Kepala Desa Dalam Pengelolaan Dana Desa di Kecamatan Essang Selatan Kabupaten Talaud. *Jurnal Ilmu Administrasi Publik*. 3 (046) : 1-9

[11] Marks, Jonathan. (2012). *The Mind Behind The Fraudsters Crime: Key Behavioral and Environmental Elements*. Crowe Howarth LLP (Presentation)

[12] Mulyadi, (2017), *Auditing Edisi 6*, Salemba Empat, Jakarta.

[13] Peraturan Menteri Dalam Negeri Nomor 113 Tahun 2014 tentang Pengelolaan Keuangan Desa

[14] Peraturan Menteri Dalam Negeri Republik Indonesia Nomor 113 Tahun 2014 Tentang Pengelolaan Keuangan Desa.

[15] Peraturan Pemerintah Nomor 60 Tahun 2008 tentang Sistem Pengendalian Internal Pemerintah

[16] Rahmani, U. (2020). Pengaruh Pengendalian Internal, Moralitas Individu, Dan Kesesuaian Kompensasi Terhadap Program Studi Akuntansi. *Program Studi Akuntansi Fakultas Ekonomi Dan Bisnis Universitas Yapis Papua*.

[17] Saputra dkk, (2019), Praktek Akuntabilitas dan Kompetensi Sumber Daya Manusia Untuk Pencegahan Fraud Dalam Pengelolaan Dana Desa, *E-Journal S1 Akuntansi pada Universitas Warmadewa* Vol: 10 No:2, Denpasar.

[18] Sari, S. P. & Nugroho, N. K. 2020. "Financial Statements Fraud dengan Pendekatan Vousinas Fraud Hexagon Model: Tinjauan pada Perusahaan Terbuka di Indonesia". 1st Annual Conference on Ihtifaz: Islamic Economics, Finance, and Banking 411411 (ACI-IJIEFB) 2020. Universitas Ahmad Dahlan Yogyakarta, Indonesia.

[19] Suardika, N. K. N. dan A. A. K. A. (2020). Pengaruh Moralitas Individu, Asimetri Informasi, Dan Efektivitas Pengendalian Internal Terhadap Kecenderungan Kecurangan Akuntansi Pada LPD Di Kecamatan Tegallalang. 29-62.

[20] Sugiyono, (2019), *Metodologi Penelitian Kuantitatif, Kualitatif, dan R&D*, CV Alfabeta, Bandung.

[21] Undang-Undang Republik Indonesia Nomor 6 Tahun 2014 tentang Desa

[22] Vousinas, G. L. (2019). Advancing Theory of Fraud: The S.C.O.R.E. Model. *Journal of Financial Crime*, 26(1), 372-381. <https://doi.org/10.1108/JFC-12-2017-0128>

[23] Wolfe, D. T., & Hermanson, D. R. (2004). The Fraud Diamond: Considering the Four Elements of Fraud. *The CPA Journal*, 74(12), 38-42.

[24] Yogi Anggara, I. K., & Bambang Suprasto, H. (2020). Pengaruh Integritas dan Moralitas Individu pada Kecurangan Akuntansi dengan Sistem Pengendalian Internal sebagai Variabel Mediasi. *E-Jurnal Akuntansi*, 30(9), 2296. <https://doi.org/10.24843/eja.2020.v30.i09.p10>