

Determinant Factors of Fraud in Village Financial Management

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Abstract

The competence of the apparatus and the internal control system has an effect on fraud but the effect is not always linear because it is suspected that there are contingent factors as mediators, one of which is morality. This study aims to determine the impact of morality mediation on the influence of apparatus competence and internal control on village financial management fraud in Badung Regency. The data in this study are primary data obtained from questionnaires. This type of research is quantitative research. The population in this study were village officials consisting of the village secretary, village treasurer and head of village planning affairs in Badung Regency. The research sample was 138 respondents spread across 46 villages. Data obtained from the results of processing respondents' statements by using a questionnaire. The data were analyzed using the Partial Least Square (PLS) method. Processed using the SmartPLS 3 program. The results of this study indicate that: first, the competence of the apparatus has a significant negative effect on the tendency of fraud in village financial management; second, internal control has a significant negative effect on the tendency of fraud in village financial management; and third, morality mediates the influence of apparatus competence and internal control significantly on the occurrence of fraud in village financial management. The research has implications for the village government and Badung Regency to improve the competence of village apparatus, optimize internal control and develop apparatus morality, in supporting the smooth running of tasks related to village financial management, so that the use of village funds is more targeted.

Keywords

Fraud; financial management; village funds



I. Introduction

The Government of the Republic of Indonesia is increasingly making efforts to optimize and encourage the realization of Village Fund management accountability. This effort is realized through Permendagri RI Number 20 of 2018 which states that village finances are managed based on transparent, accountable, participatory principles and are carried out in an orderly and budgetary discipline. (Limba et al., 2021). However, in reality the accountability of village financial management can still be said to be low because of the frequent occurrence of fraud (Furqani, 2011) ;(Wijayanti and Hanafi, 2018) ;(Meyrina, 2017)). Low accountability due to fraud can result in administrative failure, poor political decisions, and high acts of corruption (Huque, 2011) ;(Inawati and Sabila, 2021).

Fraud is defined as a lie, untruth that is done intentionally in managing and reporting wealth in order to seek profit for a person or group of people. Fraud is part of an act of violation that often occurs and is carried out consciously by a number of people for their own interests and harming others. Fraud is a representation of material facts that are false and intentionally so that they are believed and followed up by the victim (Wulandari and

Nuryanto, 2018). The Association of Certified Fraud Examiner (ACFE) classifies fraud in several classifications such as misappropriation of assets, false statements, and corruption.

The phenomenon of fraud in the management of village funds is caused by the increasing amount of village fund budget allocations which are increasing every year. The phenomenon of cases of village financial management has occurred in Indonesia. The results of monitoring carried out by Indonesia Corruption Watch (ICW) stated that from 2015 to 2017 cases of corruption in villages were increasing. There were 127 cases of misuse of village budgets that occurred. Misuse of the village budget on average is carried out by the Village Head (Indonesia Corruption Watch, 2018). Based on the results of a study conducted by the Corruption Eradication Commission (KPK), four aspects were identified that could trigger corruption in village financial management, namely in the regulatory and institutional aspects, management aspects, supervision aspects and human resources aspects. (Laksmi & Sujana, 2019).

Based on the research explanation of the determinants of fraud in village financial management, it was found that the results were varied/inconsistent or still controversial, which was thought to be due to other factors that influenced the independent variable and the dependent variable. Financial statements are basically a source of information for investors as one of the basic considerations in making capital market investment decisions and also as a means of management responsibility for the resources entrusted to them (Prayoga and Afrizal 2021). Financial performance is a measuring instrument to know the process of implementing the company's financial resources. It sees how much management of the company succeeds, and provides benefits to the community. Sharia banking is contained in the Law of the Republic of Indonesia No.21 of 2008 article 5, in which the Financial Services Authority is assigned to supervise and supervise banks. (Ichsan, R. et al. 2021)

This study uses the fraud pentagon theory which is a renewal of the two previous theories, namely the fraud triangle theory and the fraud diamond. There are five elements in the fraud pentagon theory that motivate a person to commit fraud, namely; (1) arrogance (the nature of superiority), (2) pressure (the existence of pressure / encouragement), (3) competence (the ability), (4) opportunity (there are opportunities / opportunities), and (5) rationalisation (there is justification)(Fitri et al., 2016).Based on the explanation of the research phenomenon, the author conducted a research on "Determinant Factors of Fraud Occurrence in Village Financial Management".

II. Review of Literature

2.1 Stewardship Theory

Stewardship Theory is harmonization between capital owners (principles) and capital managers (Steward) in achieving common goals, but implicitly reflects how accounting builds a construct of leadership patterns and communication relationships between shareholders and management. Assidiqi (2016) explains that the Stewardship theory assumes that humans are essentially capable of acting responsibly, trustworthy, have high integrity and have honesty. (Harahap, 2020).

2.2 Fraud Pentagon Theory

Fraud Pentagon Theory (Setiawati and Baningrum, 2018) stated that the fraud pentagon theory is a development of the fraud triangle theory written by Cressey (1953) and the fraud diamond theory by Wolfe & Hermanson, 2004. The cause of fraud or fraud

consists of five elements that influence the occurrence of fraud, namely arrogance, pressure, competence, opportunity, and rationalization. (Wijayanti and Hanafi, 2018).

2.3 Apparatus Competence

An individual's competence is something inherent in him that can be used to predict his level of performance (Sugiarto, 2018). The Financial Audit Agency (BPK) Regulation Number 1 of 2017 explains that competence is the expertise or educational experience, knowledge, possessed by a person, both regarding audits or on matters in certain fields. (Yusuf et al., 2021). Research result Rahmawati, (2015) and Sudiarianti, (2015) found that the competence of the apparatus has a significant influence on the quality of local government financial reports with the implementation of an internal control system.

2.4 Internal Control System

The internal control system is a process designed to provide reasonable assurance about the achievement of the group of objectives consisting of the reliability of financial statements, effectiveness and efficiency (Pujiono et al, 2016). The function of the internal control system is as a guideline for the implementation of an organization's activities by considering aspects of costs and benefits, human resources, clarity of criteria for measuring effectiveness and technological developments and carried out comprehensively. (Atmadja and Saputra, 2017a). A good internal control system is able to minimize the occurrence of fraud in village financial management, especially that village finances are supervised by the Central, Provincial, Regency, or City Government and independent financial institutions (Atmadja and Saputra, 2017b).

2.5 Morality

Etymologically, the word morality comes from Latin with the singular form of the word moral, namely *mos* and its plural form, namely *mores*, each of which has the same meaning, namely custom, custom. (Jayanti and Suardana, 2019). Individual morality will relate to a person's tendency to commit accounting fraud (Dennyningrat & Suputra, 2018).

Rahimah & Yetty (2018) explained that individuals who have high morals will be able to minimize the occurrence of fraud because individuals who have high morals will obey the rules in accordance with universal ethical principles, and vice versa individuals who have low morals tend to make decisions based on what they want and do not obey regulations and obligations that must be fulfilled. Wardana (2017) states that partially the morality of the apparatus has an effect on the occurrence of fraud. However, the research results are different from the research Wardani & Ika (2017) which states that morality has no significant effect on the occurrence of fraud.

2.6 Fraud

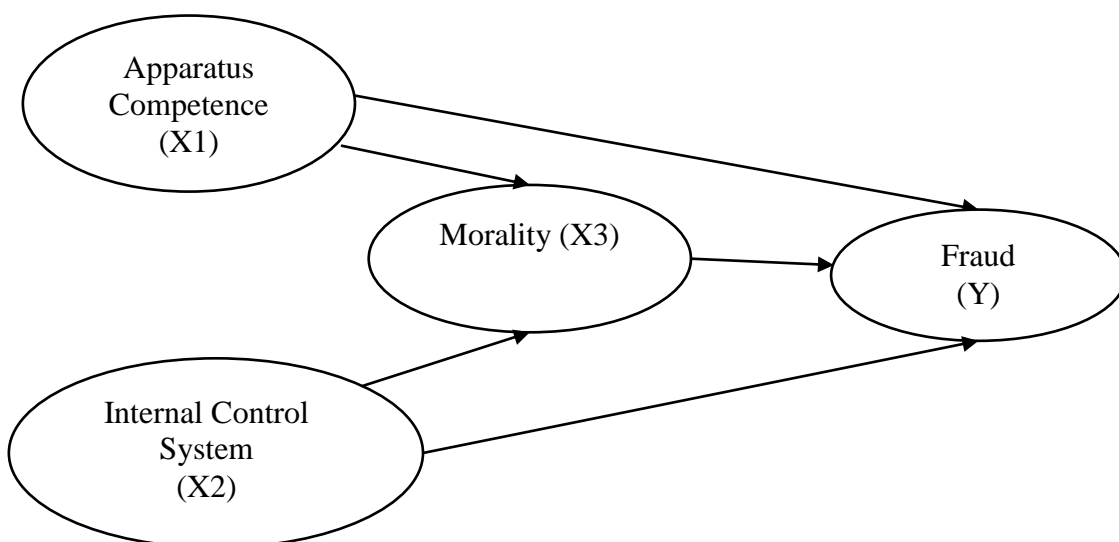
Institute of Internal Auditors (IIA) in Sulastrri & Simanjuntak (2014) states that fraud is a series of improper and illegal acts that are intentionally carried out to deceive which are carried out to benefit or harm the organization and are carried out by outsiders and people within the organization. Fraud concerns the ways produced by human reason that are chosen by one person to get an advantage from another party by presenting a false/false representation. Fraud can also be in the form of surprise, deception, cunning and dishonest ways used to deceive others. This is in line with the opinion Singleton et al., (2006) which states that fraud, theft, defalcation, irregularities, white collar crime, and embezzlement are terms that are often used interchangeably.

2.7 Village Financial Management

Village financial management is all activities that include planning, implementation, administration, reporting, and village financial accountability. The holder of the Village Financial Management Executing Power (PPKD) is the Village Head, the Village Secretary as the PPKD Coordinator, and the Head of Finance carrying out the treasury functions (Wijayanti and Hanafi, 2018). Village financial management must be based on the principles of transparency, accountability, participatory and carried out in an orderly and budgetary discipline which has been stated in the Minister of Home Affairs Regulation (Pemdagri) Number 20 of 2018 concerning Village Financial Management (Jayanti and Suardana, 2019). The presentation of village financial reports must meet the rules that refer to Government Regulation Number 71 of 2010 concerning Government Accounting Standards (Fikri et al., 2015).

2.8 Framework And Hypotheses

The variables studied in this study include the independent variables (competence of the apparatus and internal control systems), the dependent variable (fraud) and the mediating variable (intervening variable), namely morality. The conceptual framework for this research is presented in Figure 1 below.



Source: Processed data (2022)

Figure 1. Research Concept

Based on the conceptual framework, the hypotheses proposed for this study are as follows:

2.9 The Effect of Apparatus Competence on the Occurrence of Fraud in Village Financial Management

Atmadja & Saputra, (2017a) states that a person's capacity can have a negative effect, namely providing the ability to create or exploit fraud opportunities unseen and harm many people, this is in accordance with the definition of competence in the fraud pentagon theory. TStewardship theory explains that management is a party capable of carrying out the best possible actions with the aim of meeting the needs of stakeholders. The concept of this theory makes the principle of trust as the basis for those who are given the authority, where management in an organization is considered a good steward who carries out the duties of his superiors with full responsibility.

Based on this description, the hypotheses that can be formulated in this study are as follows:

H1: Apparatus competence has a negative effect on the occurrence of fraud in village financial management.

2.10. The Influence of the Internal Control System on the Occurrence of Fraud in Village Financial Management

The Internal Control System is a projection of the Opportunity factor in the fraud pentagon theory. Conditions When an internal control system implemented in village financial management is not able to run effectively, this will provide opportunities for village officials to commit fraud. Related to the Stewardship theory, this theory attempts to show the concept of the role of the leader who will consider the rules for the need for accountability. Stewardship theory explains that Stewardship has a strong relationship with organizational success, so the service function is used optimally.

Based on this description, the hypotheses that can be formulated in this study are as follows:

H2: The internal control system has a negative effect on the occurrence of fraud in village financial management.

2.11 Morality Mediates the Effect of Apparatus Competence Against the Occurrence of Fraud in Village Financial Management

Morality refers to personal or cultural values, ethical codes or social customs that distinguish between right and wrong, so that morality in an officer plays an important role as a holder of a commitment to governance and development. Morality is related to the rationalization of the fraud pentagon theory. There are so many justifications for wrongdoing circulating in the community that it tends to encourage fraudulent acts that continue to occur to this day. In relation to the Stewardship theory, it assumes that humans are essentially capable of acting responsibly, trustworthy, have high integrity and have honesty.

Based on this description, the hypotheses that can be formulated in this study are as follows:

H3: Morality mediates the effect of apparatus competence on the occurrence of fraud in village financial management

2.12 Morality Mediates the Effect of the Internal Control System on the Occurrence of Fraud in Village Financial Management

The tendency of fraud in financial management can be influenced by weak internal controls. Internal control serves to reduce the opportunity factors that encourage fraudulent actions. The impulse that occurs from within can be caused by the aspect of morality in a person. Therefore, morality is used as a mediating variable against the occurrence of fraud.

Individuals who have high morality with a good internal control system.

Based on this description, the hypotheses that can be formulated in this study are as follows:

H4: Morality mediates the influence of the internal control system on the occurrence of fraud in village financial management

III. Research Method

This type of research is direct research (field research) using quantitative analysis research methods. The location of this research is in 46 Village Offices in Badung Regency, and registered with the Badung Regency Community and Village Empowerment Service. The instrument used in this research is a questionnaire which is a set of questions or written statements given to respondents to be answered (Chandrarin, 2017:123). Questionnaires were given directly to each respondent.

IV. Result and Discussion

4.1 Partial Least Square (PLS) Analysis

a. Structure Analysis Model

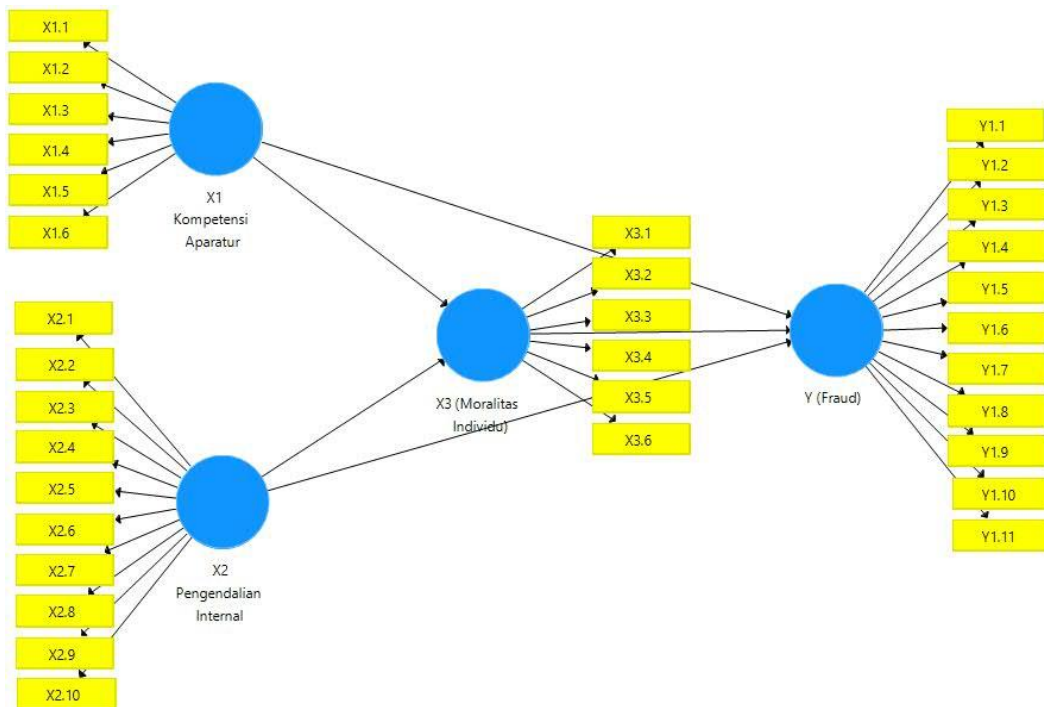


Figure 2. Analysis Model Structure

b. Testing Outer Model/Measurement Model

1) Cronbach's alpha and Composite Reliability Uji test

Table 1. Cronbach Alpha Value and Composite Reliability

Latent Variable	Cronbach's Alpha	Composite Reliability
X1	0.853	0.872
X2	0.914	0.939
X3	0.857	0.890
Y	0.850	0.876

Source: Primary Data Processing Results, 2022

Based on Table 1, it can be seen that the composite reliability value on all variables is greater than 0.7. This means that the measurement results on each construct are reliable and able to explain well each of the variables in question. The value of Cronbach's alpha on all variables is greater than 0.6 which means that all constructs are reliable and the data from the measurement results of all indicators for measuring the latent variables are reliable.

2) Convergent Validity Test

Convergent Validity The rules of thumb used for convergent validity are outer loading > 0.7 , communality > 0.5 and AVE > 0.5 (Anuraga et al., 2017). Convergent Validity Test can be seen in Table 3.

Table 2. Value of Cronbach Alpha and Composite Reliability

Latent Variable	AVE
X1	0.853
X2	0.914
X3	0.857
Y	0.850

Source: Primary Data Processing Results, 2022

Based on Table 2 above, it can be seen that the AVE value in each latent variable is greater than 0.5, the latent variable is able to measure the latent variable well.(Sudiarianti, 2015).

3) Discriminant Validity Test

Table 3. Fornell Larckel Criterion. Test Results

Variable	Apparatus Competence (X1)	Internal Control (X2)	Individual Morality (X3)	Fraud (Y)
Apparatus Competence (X1)	1			
Internal Control (X2)	0.833	1		
Individual Morality (X3)	0.882	0.748	1	
Fraud(Y)	0.770	0.768	0.777	1

Source: Primary Data Processing Results, 2022

Based on Table 3, it can be seen that the value of the square root of AVE along the diagonal line is greater than the correlation between one construct and the other constructs. This means that the measurement of the latent variable meets discriminant validity using the Fornell Larckel Criterion method.

3) Inner Model Test
a). Path Coefficient

Table 4. Path. Coefficient

Relationship Between Latent Variables	Coefficient
Apparatus Competence (X1) -> Fraud	-0.168
Internal Control (X2) -> Fraud	-0.306
Individual Morality (X3) -> Fraud	-0.279
Morality Mediates Apparatus Competence (X1X3) -> Fraud	-0.453
Morality Mediates Apparatus Competence (X2 X3) -> Fraud	-1,347

Source: Data processing results, 2022

Based on Table 4, the following can be formulated:

- a. There is a direct influence of apparatus competence on the occurrence of fraud in the management of village funds.
- b. There is a direct influence of internal control on the occurrence of fraud in the management of village funds.
- c. There is a direct influence of individual morality on the occurrence of fraud in the management of village funds.
- d. There is an indirect influence between the competence of the apparatus on fraud through individual morality variables
- e. There is an indirect influence between internal control on fraud through individual morality variables.

b) Research Hypothesis Testing

Table 5. Hypothesis Testing Results

Relationship Between Latent Variables	P Values
Apparatus Competence (X1) -> Fraud	0.021
Internal Control (X2) -> Fraud	0.011
Individual Morality (X3) -> Fraud	0.032
Morality Mediates Apparatus Competence (X1X3) -> Fraud	0.016
Morality Mediates Apparatus Competence (X2 X3) -> Fraud	0.022

Source: Results of data processing, 2022

Based on Table 5, the following hypothesis testing results can be formulated:

- 1) Hypothesis 1: The influence of apparatus competence on the tendency of fraud with a p-value of 0.021 which is smaller than the significance level of (0.05). Thus, the competence of the apparatus has a significant effect on the tendency of fraud.
- 2) Hypothesis 2: The effect of internal control on the tendency of fraud with a p-value of 0.011 which is smaller than the significance level of (0.05). Thus, the effectiveness of internal control has a significant effect on the tendency of fraud.
- 3) Hypothesis 3: The effect of the variable competence of the apparatus on fraud moderated by the individual morality variable shows a significance level of 0.016 which is smaller than =0.05. Thus, it can be said that morality mediates the influence of apparatus competence significantly on fraud in village financial management.

- 4) Hypothesis 4: The effect of internal control variables on fraud moderated by individual morality variables shows a significance level of 0.016 which is smaller than $\alpha=0.05$. Thus, it can be said that morality mediates the effect of internal control significantly on fraud in village financial management.

c) Determination Value (R-square)

Table 6. Determination Value

Endogenous Variables	R Square	R Square Adjusted	Criteria
<i>Fraud</i>	0.899	0.808	Strong

Source: Data processing results, 2022

Based on Table 7, it can be explained that the R Square value is 0.899 or 89.9%. The value of R Square shows that the exogenous latent variables: apparatus competence, internal control and individual morality are able to explain changes in the fraud variable by 89.9% while the remaining 10.1% is explained by other variables outside the model.

4.2 Discussion

1) The Effect of Apparatus Competence on the Occurrence of Fraud in Village Financial Management

The results of hypothesis testing indicate that the competence of the apparatus has a significant effect on the tendency of fraud and shows the direction of a negative relationship. Thus, the higher the variable competence of the apparatus, the lower the tendency for fraud. These results support the hypothesis (H1) that the competence of the apparatus has an effect on the tendency of fraud. Thus, it can be interpreted that the better the perception of the competence of the apparatus in the village apparatus, the lower the tendency for fraud in financial management in villages in Badung Regency. This can also be seen from the contribution of respondents' answers which describe the level of competence of the apparatus in the villages in Badung Regency which is in the high (good) criteria as presented so that the tendency of fraud in village apparatus in Badung Regency is low. Therefore, the Badung district government should continue to pay attention to compensation in the form of village apparatus competence so that it is expected to reduce the occurrence of fraud in financial management in the village/hamlet government.

Based on government regulations through the Financial Audit Agency (BPK) Number 1 of 2017, competence is the expertise or educational experience, knowledge, possessed by a person, both regarding audits or on matters in certain fields. Therefore, a person's competence becomes the basis for a village apparatus to carry out his work in accordance with established procedures. The findings of the research conducted by (Sudiarianti, 2015) who found that the competence of the apparatus had a significant effect on the quality of local government financial reports with the implementation of an internal control system. These results indicate that the higher the competence of government officials by maximizing the internal control system, the better the quality of local government financial reports and preventing fraud or fraud. The results of this study are supported by research Masruhin & Kaukab (2019); Laksmi & Sujana (2019), Atiningsih & Aulia (2019) which shows that the competence of the village fund management apparatus has a positive and significant effect on the accountability of village fund management in the village government apparatus

2) The Influence of the Internal Control System on the Occurrence of Fraud in Village Financial Management

The results of hypothesis testing indicate that internal control has a significant effect on the tendency of fraud and shows the direction of a negative relationship. Thus, the higher the effectiveness of the internal control variable, the lower the tendency for fraud. These results support the hypothesis (H2), namely the effectiveness of internal control has an effect on the tendency of fraud. Thus, it can be interpreted that the better the effectiveness of internal control in the village government in the Papat Ilir sub-district, the lower the level of tendency for fraud to occur.

Based on government regulation No. 60 of 2008 concerning the Government's Internal control system, this internal control is an integral process for actions and activities carried out continuously by the leadership and all employees to provide adequate confidence in the achievement of organizational goals through effective and efficient activities, reliability of financial reporting, safeguarding state assets, and compliance with laws and regulations. According to the Financial Audit Agency (BPK) Regulation Number 1 of 2017 concerning internal control, internal control is a process designed, implemented and monitored by the leadership and personnel of the entity who are responsible for the governance of the entity to provide reasonable assurance about the achievement of the entity's objectives.

The results of this study are supported by research conducted by Laksmi & Sujana (2019), Atmadja & Saputra (2017), Widyatama & Lola (2017) shows that the internal control system has a negative effect on village financial management. This indicates that the improvement of the internal control system is a measure of success in minimizing the occurrence of fraud. Internal control is the initial action in preventing fraud (fraud). (Wijayanti and Hanafi, 2018). By looking at the results of this study, the elements of the internal control system in Government Regulation no. 60 of 2008 concerning SPIP, namely: 1) Control environment, 2) Risk assessment, 3) Control activities, 4) Information and communication, 5) Monitoring with research questions taken from (Mustika et al, 2016) has a determining influence on the occurrence of fraud. The internal control system has a significant negative effect on the tendency of fraud.

3) Morality Mediates the Effect of Apparatus Competence on the Occurrence of Fraud in Village Financial Management

The results of hypothesis testing indicate that individual morality has a significant effect on the tendency of fraud and shows the direction of a negative relationship. Thus, the higher the suitability of the individual morality variable, the lower the level of tendency to fraud. These results support the hypothesis (H3) that individual morality has an effect on the tendency of fraud. Thus, it can be interpreted that the better the ethical culture of the organization in the village apparatus. In addition, morality mediates the influence of apparatus competence and internal control on fraud significantly. Thus, the competence of the apparatus against fraud in village financial management. The results of this study are supported by research conducted by Laksmi & Sujana (2019) shows that morality has a negative effect on the occurrence of fraud in village financial management. Then the results of research by Atmadja & Saputra (2017) shows that morality as a moderator of the influence of the competence of the apparatus and the internal control system on the occurrence of fraud in village financial management. Based on empirical findings, the theories studied and several previous studies, it can be concluded that the internal control system has a significant negative effect on the tendency of fraud. The higher the internal control effectiveness variable, the lower the tendency for fraud

4) Morality Mediates the Effect of the Internal Control System on the Occurrence of Fraud in Village Financial Management

The results of hypothesis testing indicate that individual morality has a significant effect on the tendency of fraud and shows the direction of a negative relationship. Thus, the higher the suitability of the individual morality variable, the lower the level of tendency to fraud. These results support the hypothesis (H4) that morality mediates the effect of the internal control system on the occurrence of fraud in village financial management. Thus, it can be interpreted that the better the ethical culture of the organization in the village apparatus. In addition, morality mediates the influence of apparatus competence and internal control on fraud significantly. Thus, the competence of the apparatus and internal control against the occurrence of fraud in village financial management.

Judging from the value of determination of the variables, the influence of apparatus competence, internal control and individual morality together on the tendency of fraud is in the strong category. By looking at the empirical evidence, the theories studied and several previous studies, it can be concluded that morality mediates the influence of apparatus competence and the internal control system significantly and has a negative direction on the occurrence of fraud in village financial management.

The results of this study are supported by research conducted Laksmi & Sujana (2019) shows that morality has a negative effect on the occurrence of fraud in village financial management. Then the results of research by Atmadja & Saputra (2017) shows that morality as a moderator of the influence of the internal control system on the occurrence of fraud in village financial management. Internal Control can reduce Accounting Fraud. the existence of an effective Internal Control system will be able to reduce deviant actions that are often in an agency and are usually caused by personal interests. Such deviant actions will lead to a desire to commit Accounting Fraud. This internal control is influenced by individual morality. In an organization, the tendency for accounting fraud to occur can be seen from the lack of concern from members within the organization itself for actions that are considered wrong. Even the wrongdoing is considered an ordinary act or pretending not to know it.

Based on research conducted by (Laksmi & Sujana, 2019) shows that human resource competence has a positive effect on fraud prevention in village financial management. Morality has a positive effect on fraud prevention in village financial management. This means, with the competence of human resources, good morality and a strong internal control system, it can be a factor in the occurrence of fraudulent actions in village financial management. Individuals who have high morality with a good internal control system tend not to commit accounting fraud, and are even able to minimize the occurrence of fraud. Morality can occur if the individual takes good action because he is aware of his responsibilities and not because he wants to seek profit. Morality can occur if the individual takes good action because he is aware of his responsibilities and not because he wants to seek profit. The higher the morality of employees, the accounting fraud committed by the government will also decrease.

V. Conclusion

Based on the results of the study, it can be concluded that:

- 1) Apparatus competence has a significant negative effect on the tendency of fraud in village financial management. Thus, the higher the competence variable of the apparatus, the lower the level of tendency for fraud

- 2) Internal control has a significant negative effect on the tendency of fraud in village financial management. The higher the internal control effectiveness variable, the lower the tendency for fraud
- 3) Morality mediates the influence of significant apparatus competence in a negative direction on the occurrence of fraud in village financial management. The better the competence of the apparatus, it will grow high morality so as to prevent the occurrence of morality fraud in village financial management
- 4) Morality mediates the effect of significant internal control in a negative direction on the occurrence of fraud in village financial management. The better the internal control carried out by the village apparatus; the higher morality will grow so as to prevent the occurrence of morality fraud in village financial management.

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