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THE EFFECT OF INTERNAL CONTROL ON PREVENTING VILLAGE FUND FRAUD

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ABSTRACT

This research aims to conduct a literature review related to the influence of internal control on preventing village fund fraud. The research method used in this research is the SLR (Systematic Literature Review) method. Data collection was carried out by identifying or reviewing all articles that had the same research topic in this study. The articles used in this research were 15 national and international articles obtained from Google Scholar, Research Gap, SINTA, Scopus, and Crossref. Based on this research, it was found that the influence of internal control had a positive effect on village fund fraud.

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INTRODUCTION

According to the Village Law, Village Funds are defined as funds sourced from the APBN which are transferred through the Regency/City APBD and will be used to finance government administration, implementation of development, community development and community empowerment. These funds are used to finance government administration, as well as the implementation of development and development programs.

In print and electronic media, cheating is still a hot topic among people throughout the country. Irresponsible parties will commit fraud to fulfill personal or group desires. Every year the government has a large budget to allocate village funds to lubricate the wheels of village economic development. Funds sourced from the state Revenue and Expenditure Budget (APBN) are channeled through the Regency/City Regional Revenue and Expenditure Budget (APBD) which is then distributed to each village with aim of providing costs for administering government, development, coaching and empowering village communities (Sholawati & Bhilawa, 2022).

Law no. 6 of 2014 article 18 explains that villages are given the authority to carry out village government, implement development, develop village communities and also empower village communities. In this case, villages are given funds and authority to manage the potential of village government to improve the economy and welfare of village communities. One source of funds or income owned by villages is from village fund allocations.

To find out whether the function of the Village Fund is running well or not, supervision from the inspectorate/APIP is needed. Zakariya in Berliana (2023) explains that supervision is a process carried out systematically with the aim of evaluating the comparative relationship between implementation standards and reality in field. Village financial supervision must be carried out in a professional, strict, controlled and honest manner.

There have been many cases of fraudulent misuse of village funds in Indonesia. Due to the large number of cases involving unscrupulous village officials, it is important to monitor the management of village funds by all levels of society to avoid fraudulent acts in village financial management. Fraud is defined as a practice where someone does something solely to obtain money, assets or other benefits that will harm other people or related parties (Hasdi & Usman, 2023). Fraud can occur within an organization, by an organization, or for an organization. This

occurs both internally and externally, and always aims to gain profit by using organizational resources for work-related activities or by spending everyday assets (Antong, 2023).

Village fund fraud also occurred in the Special Region of Yogyakarta, according to Jogja Corruption Watch (JCW), which revealed two striking cases of village fund corruption in 2019 in a statement on Kumparan.com. this case occurred in Banguncipto Village, which is located in Sentolo District, Kulonprogo Regency, and involved the misappropriation of IDR 1.15 billion (Andani in Pratiwi, 2023). Because village funds are very large for each village, good village financial management is needed to avoid fraud or corruption in managing village funds.

Irriani (2021) states that the role of internal control; The government has a positive influence on preventing fraud in managing village funds. The role of government internal control in internal supervision is that issuing control report will follow up on internal supervision, so that it will not lead to fraudulent management of village funds.

THEORY AND HYPOTHESIS DEVELOPMENT

According to Law Number 6 of 2014 concerning Villages, the distribution of village funds aims to be a form of the state's commitment to protecting and empowering village so that they become strong, advanced, independent and democratic. So that with the existence of Village Funds, village can increase village development and empowerment towards a just, prosperous and prosperous society.

The objectives of Village Fund Allocation are:

1. Overcoming poverty levels and reducing disparities.
2. Improving the quality of development planning and budgeting at the village level.
3. Increasing rural infrastructure development based on justice and local wisdom.
4. Increasing the practice of religious, social and culture value in an effort to realize increased social welfare.
5. Provide better services to village communities.
6. Encourage increased self-sufficiency and mutual cooperation in village communities.
7. Increasing village and village community income through Village-Owned Enterprises (BUMDes).

In using the Village Fund Allocation, the Government allocates 30% of village funds for village operational financing, BPD operational costs, and operational costs for the team organizing the village fund allocation. Meanwhile, 70% of village funds are used for the development of village economic facilities and infrastructure, community economic empowerment, especially to reduce poverty levels and financial assistance to village community institutions, BUMDesa, business group in accordance with the potential of village communities, as well as financial assistance to village institutions. Such as LPMD, RT, RW, PKK, Karang Taruna and Linmas.

According to Minister of Home Affairs Regulation Number 37 of 2007, village fund allocations are obtained by the village government from the central government through the Regional Revenue and Expenditure Budget (APBD). The funds are then distributed by the village government in the form of the Village Revenue and Expenditure Budget (APBDes), which is evaluated to evaluate the financial management performance of the village government.

Village Fund

Village funds are a form of state confirmation of legal community unity with the authority to carry out government activities, traditional origin rights, community interests along with welfare and efforts to equalize village development (Ministry of Finance of the Republic of Indonesia, 2017). According to the Ministry of Finance of the Republic of Indonesia (2017), the aim of village funds is to create a prosperous village community, alleviate or improve poverty by fulfilling basic needs, as well as developing the potential of the domestic economy, and making sustainable use of all natural resources.

Fraud

Wonar et al., (2018) argue that fraud is an unlawful act (Illegal Acts) that is deliberately carried out for a desired purpose, for example committing fraud by providing false explanations/expositions (mislead) for the benefit of individuals and/or communities by means of which is wrong and can harm other parties either directly or indirectly.

Fraud Triangle

The fraud triangle is a theory that was first introduced by Cressey (1953), who said that there are three aspects that trigger a person to commit fraud, namely pressure caused by failure to meet life's needs and the employee's relationship with his superior is not good. The fraudulent practices carried out originate from in-depth knowledge of the weaknesses of an agency, so this is used as an opportunity to carry out fraudulent acts. Afterwards, they rationalize their actions by assuming that this is a normal thing. Here the perpetrator perceives himself as an honest and trustworthy person but becomes a victim of circumstances (Sinaga and Dewi, 2018).

Hexagon Theory

The rise in fraud cases that occur from time to time has encouraged the development of theories needed to detect and prevent fraud. As the Fraud Hexagon Theory is an update of the previous fraud theory. In 2019 George Vousinas revealed his theory, namely the Fraud Hexagon Theory, he said that this theory emerged because of the dilator behind several cases of fraud that occurred, namely conspiracy/cooperation which had the greatest potential for loss compared to other fraud factors. Therefore, this theory is intended to perfect previous theories by adding a new element, namely Collusion, so that this theory is known as The S.C.C.O.R.E. This model consists of six elements, namely Stimulus, Capability, Collusion, Opportunity, Rationalization, and Ego. Stimulus means a situation where a person feels pressured/pressured in difficult conditions when the person experiences difficulties. This capability is in line with competency, which means a person's ability to commit fraudulent acts. Collusion (Cpllusion) which means an agreement that deceives one party by two or more people with parties outside the organization or between employees in an agency or organization (Vousinas (2019) in Kusumosari, 2020). According to Rahmida (2019), opportunity is an action taken by someone that is triggered by weak internal control, poor management supervision, lack of control to prevent or detect fraud, inability to assess performance quality, failure to discipline perpetrators of fraud, weak supervision of access to information, and inability to anticipate acts of fraud. Rationalization is someone who commits fraud and seeks defense if what he did was right. Arrogance (Ego) is an individual's greed in committing fraud (Desviyana et al., 2020).

Internal Control

Internal control is an organizational plan and method that can be used to safeguard or protect assets, to produce accurate and reliable information to improve efficiency and to encourage compliance with management policies. All controls can be classified into active internal controls and passive internal controls. The keyword for active control is to prevent, therefore in several studies the purpose of active and passive internal control is the same, namely preventing the occurrence of fraud. Active internal control means that are often used and are generally well known in accounting systems include: signatures, countersigning, passwords and pins, physical separation of asset control duties, real time inventory control, fences, padlocks, and all buildings and physical barriers, document matching, forms that have their numbers printed (Mufidah, 2017).

Fraud Prevention

Fraud is a crime that can be handled in two ways, namely by preventing and detecting. According to experts, the fraud that was revealed was a small part of all the fraud that actually occurred. Therefore, the main effort should be on prevention (Mufidah, 2017). The root problem or cause of fraud is fraud by need by greed, and by opportunity. The element of by opportunity is usually suppressed through effective internal control.

The Influence of Internal Control on Village Fund Financial Fraud

Based on data analysis and discussion, it can be concluded that: Internal Control has a significant effect on Village Fund Fraud. Effective internal control can prevent fraud tendencies. The higher the effectiveness of internal control, the lower the tendency for fraud. A person's intention and desire to commit fraud can still be prevented by effective internal control. Internal Control influences Village Fund Fraud, this statement is supported by previous researchers, namely:

1. Laksmi and Sujana (2019), Ardiyanti and Supriadi (2018) and Jayanti and Suardana (2019) which show that there is a positive influence between the internal control system on fraud prevention in rural fund management. Having a strong control system can minimize the risk of errors when preparing financial reports. Based on previous research, there is support that an internal control system can have a positive influence on fraud prevention in rural financial management.
2. Oktaviyanti et al., 2017, Soleman, 2013, Arfah, 2011, Mufidah, 2017 which shows that internal control has a significant effect on the effectiveness of implementing audit procedures in preventing fraud, this also shows that the better the internal control is implemented, the better. The more effective the implementation of audit procedures will be, in this case it can prevent fraud.
3. Yusuf et al., (2021); Paramitha & Adiputra, (2020) stated that internal control has a positive effect on fraud prevention, which means that the higher the level of internal control in village government, the higher the level of fraud prevention in managing village funds in village government.
4. Wardana (2017) in his research results shows that the internal control system has a positive and significant effect on fraud prevention. Where if a BUMDes can implement an internal control system properly and appropriately then this can improve the performance and financial management of the BUMDes and also prevent fraud within the BUMDes.

RESEARCH METHODS

This scientific article was prepared using the Systematic Literature Review (SLR) method. In Indonesian, a systematic literature review is a literature review method that identifies, examines, evaluates and interprets all available research. With this method, researchers review and identify journals in a structured manner, in each process following predetermined steps (Triandini, Jayanatha, Indrawan, Werla Putra, & Iswara, 2019). Researchers collect journal articles and National and International Journal Websites such as Google Scholar, Research Gap, SINTA, Scopus, Crossref. Key words are Internal Control and Fraud Prevention. The articles collected are articles published in the 2018-2023 period. From various articles, researchers selected 15 articles that were closely related to the keywords used. The next step, researchers grouped articles related to internal control against fraud.

DISCUSSION

Acts of fraud (fraud) can be carried out outside the internal control system which has been structured in such a way by making certain agreements that are not in accordance with the provisions/procedures so that the existence of a good internal control system is no longer an obstacle to committing acts of fraud (fraud) (Permatasari et., al, 2017). This proves that the success of internal control does not only rely on adequate control procedures to achieve organizational goals, but also on every person in the organization as a factor that can make internal control function (Eldayanti, 2020).

Tuanakotta (2012) said that internal control is the initial action in preventing fraud. Fraud prevention in general is an activity carried out in establishing policies, procedures and systems that assist with the actions needed by an organization or company to obtain a stable confidence in achieving organizational goals efficiently and effectively. IAPI in Sukrisno, (2012: 100) internal control is a stage carried out by several people, namely: personnel, management and the board of commissioners, which is designed to obtain a stable confidence regarding the effectiveness and efficiency of operations, financial reporting constraints and legal compliance and applicable regulation. In Tuanakotta, (2015:94) internal control consists of five components,

namely: Control Environment, risk assessment, control activity (control activities), information system (information system), and monitoring (monitoring).

Based on the results that have been tested, Internal Control has a significant and positive effect on preventing fraud in Village funds (Hamidah, 2022). Respondents' responses regarding the influence of internal control in general were strongly agree. If good internal control is implemented in all village fund management activities, acts of fraud will be minimized and also eliminated. This is in line with research put forward by Yuniarti (2019), that fraud can be prevented by building good controls and by increasing AntiFraud awareness among all parties in the organization.

Therefore, with internal control, the village financial management process can be directed, monitored and can detect any fraud so that the report can be accounted for. This is in line with research by Marwah Yusuf (2021) which states that internal control has a significant influence on preventing fraud in village funds and research conducted by Puti Santi Putri Laksmi & I Ketut Sujana (2019) states that internal control has a positive effect on preventing fraud in village financial management. This research was conducted to determine the effect of Internal Control on Village Fund Fraud Prevention.

Based on the research results above, it shows that Internal Control has a positive effect on the Prevention of Village Fund Fraud. This means that the better the level of internal control in a village government, the higher the level of fraud prevention. Vice versa, the lower the internal control, the lower the fraud prevention in village government.

The results of this research are in line with agency theory. Agency theory raises agency problems, namely information asymmetry occurs due to differences in information held between agents and participants. Information asymmetry can be resolved with bounding mechanisms and monitoring. The internal control system is included in resolving asymmetry in the form of a bounding mechanism, namely resolving agency problems originating from internal parties. Asymmetry does not occur in village government when internal control in the village government is high, because this control environment can monitor fraud, whether it will occur or is currently occurring.

CONCLUSION

This research concludes that internal control has a significant effect on preventing village fund fraud. Internal control is very important to carry out with the aim of minimizing the opportunity for negligence and behavior that deviates from existing rules. So, a person's intention to commit accounting fraud is due to the opportunity to commit accounting fraud, which is due to the opportunity to carry out this action. The opportunity for fraud to occur can be reduced by implementing good internal controls, so that operational activities can run effectively and efficiently. The more effective the internal controls that are established, the better the efforts to prevent fraud will be.

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