

COMPETENCE AND OPTIMIZATION OF THE INTERNAL CONTROL SYSTEM TO PREVENT VILLAGE FINANCIAL FRAUD

**KOMANG ADI KURNIAWAN SAPUTRA¹, PUTU DIAN PRADNYANITASARI²,
PUTU YUDHA ASTERIA PUTRI³, PUTU GEDE WISNU PERMANA KAWISANA⁴**

^{1,2,3,4}Faculty of Economics and Business, University of Warmadewa

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Abstract

Prevention of fraud in the management of village funds is a susceptible issue at this time because many village officials have been exposed to cases of corruption in village funds. Preventative steps need to be taken, so in this study, we want to find a prevention model through testing several variables. This study aims to examine the effect of competency variables and internal control systems on fraud prevention in village financial management. This study used a survey method with a questionnaire, the number of samples used was 57 villages that received village funds in Buleleng Regency, Bali Province. Data analysis uses multiple linear regression. Previously tested the validity and reliability of the instruments used. The results showed that competence and internal control systems had a significant effect on fraud prevention in village financial management. These results indicate that the model of preventing corruption in village funds can be through actions to increase the capacity of village officials and increase supervision through internal control systems.

Keywords: fraud prevention, internal control system, competence, and village financial management

JEL Classification: G34; H6

Introduction

Law No. 6 of 2014 concerning Villages has changed village governance. The proposed change is in accordance with the principle of recognition and subsidiarity, which is the spirit in this village law (Atmadja et al., 2018). The principle of recognition means that there is recognition of the village's original rights, while the principle of subsidiarity means that the State recognizes the village's authority in managing itself. In article 72 paragraph (2) of Law Number 6 of 2014 concerning Villages, it is stated that Village Funds are sourced from central spending by streamlining village-based programs equally and equitably (Atmadja and Saputra, 2017). Based on that, an understanding can be taken that the village fund must be able to guarantee to generate all power in the village, including in the economic, development, and others.

With the existence of this village law, many hopes arise from both the government and the community. A prosperous village community, a strong village government, and a decent quality of life for the village community are the highest expectations (Atmadja et al., 2018). Village progress is a beneficial input for the village and the region. However, another hope that cannot be ruled out is that with village funding from the government, villages can be motivated to become independent and credible villages so that they are able to meet their own needs and are not solely dependent on government assistance (Basirrudin, 2012), and make assistance from the government as a stimulant or stimulant (Wardoyo, 2015). In managing village finance, it is important to observe and adhere to the general principles of village financial management, namely, village finance must be managed in an orderly, obedient to the laws, transparent, accountable, and participatory by taking into account the principles of justice, propriety and benefits for the village community (Taufik, 2008).

With the competence of the apparatus in village financial management, it is expected that the economic and social objectives of village governance can be achieved (Saputra et al., 2018). Therefore, the participation of parties outside the village administration and the Village Consultative Body (BPD) such as village leaders, religious leaders, farmers, village entrepreneurs, and other community representatives must work together and be involved in village financial management. Prasetyo and Muis (2015) stated that the supervision of village financial management should be carried out professionally, strictly, controlled, and with integrity. Research Fikri et al. (2015) stated that the competence of personnel with the understanding that they cause less accounting financial management is not professional, so the potential of fraud. This indicates that the internal control system and the competency of the apparatus must work together in order to prevent fraud (Saputra et al., 2019).

Fadilah (2011) states that the internal control system has a direct influence on Good Governance so that it has implications for fraud prevention. However, the internal control system does not escape its weaknesses, and this weakness can be exploited by unscrupulous perpetrators (Martani and Zaelani, 2011). If the morality of a good apparatus supports the weakness of this system, then all types of fraud can be prevented, as a study of Salindeho (2012) states that the morality of the government apparatus stated in government ethics has a strong influence on the performance of the government. Apparatus competence and adequate internal control system, as well as the active role of village communities, are considered necessary to be considered in village financial management, especially as there are allegedly many problems that occur in village financial management (Saputra et al., 2018). This is the motivation in this study, so researchers examined the competency variables and internal control systems for fraud prevention. Based on the background explanation above, the problems examined in this study are: does the competence and strengthening of internal control systems have an influence on fraud prevention in village financial management?

Literature Review Agency Theory

Agency theory developed by Watts and Zimmerman is based on the assumption that individuals will act in accordance with their interests (Yamin and Sutaryo, 2015). In agency theory, there is an agency relationship in the contractual form between the principal and the agent to perform services on behalf of the principal, which involves the delegation of decision making authority to the agent. Conflicts between principals and agents often occur in the management of village finances, which is often the occurrence of irregularities in information between the village government and the community, the village head with the village apparatus, the village head with social institutions, the village head with the Village Consultative Body, or between the village head with the manager of the Village Owned Enterprise.

Effect of Competence on Prevention of Village Financial Management Fraud

Competence is defined as the basic abilities and quality of work needed to do a good job (Furham, 1990; Fikri, et al., 2015). The competence of the local government apparatus means the ability that must be possessed by an apparatus in the form of knowledge, skills, attitudes, and behaviors needed in carrying out their duties (Aruan, 2003).

Research from Rahmawaty (2015) states that the competence of apparatus has a significant effect on fraud prevention, which means that officials who have competence in the field of financial management will have more potential to prevent financial fraud so that it does not harm the public. The research results of Sudiarianti, et al. (2015) stated that the competence of the apparatus has a positive effect on the quality of local government financial reports through the application of an internal control system. The higher the competence of the government apparatus through increasing the application of internal control systems, has an impact on improving the quality of local government financial reports and can prevent fraud. Other research from Bassirudin (2014) states that the ability/competency of the village apparatus human resources, which in this case is seen from a low level of education, is an obstacle in managing village finances so that there is potential for fraud. This is also exacerbated by the lack of public awareness of village government policies. So it can be concluded from the results of the study is that the competence of village officials is very influential in preventing fraud in village financial management. Based on the description of previous research above, then the hypothesis can be formulated as follows:

H1: Apparatus competence influences fraud prevention in village financial management

Effect of Internal Control Systems on Prevention of Village Financial Management Fraud

Boynton (2006) defines control activities as policies and procedures that help ensure that management orders are carried out. Control activities help ensure that the necessary actions regarding risks are taken to achieve organizational goals (Saputra, 2014). Internal control contained in an agency or organization not only covers accounting and financial activities but

also covers all aspects of the organization's activities. Tuanakotta (2012: 272) states that internal control is the first step in fraud prevention. Fraud prevention, in general, is an activity carried out in terms of establishing policies, systems and procedures that help that the necessary actions have been taken by the board of commissioners, management, and other personnel in the company/organization to be able to provide adequate confidence in achieving organizational goals, namely: effectiveness and efficiency operations, financial statement reliability, and compliance with applicable laws and regulations. Hermiyeti (2008), Nisak, et al. (2013), and Purwitasari (2013) research stated that internal control has a significant influence on fraud prevention. This indicates that the improvement of the internal control system is a measure of the success of fraud prevention. Based on the description of previous research above, then the hypothesis can be formulated as follows:

H2: The internal control system influences fraud prevention in village financial management

METHODOLOGY

The research design used in this study is a survey method. Research on the effect of competence and strengthening of internal control systems on fraud prevention in village financial management, a survey of village heads throughout Bali Province as respondents. The population of this study was the village head whose village received village funds in the Regency of Bali Province, which amounted to 129 villages. The reason for selecting the sample is for the specifications of the research conducted so that it makes it easier to evaluate village financial management partially. Then determine the number of samples using the Slovin formula (Usman, 2007) and obtained several 57 villages. This study uses primary data, which is a source of research data obtained directly from the source (Indriantoro and Supomo, 2009: 154). The data collection method in this study is the questionnaire collection technique. The total questionnaire sent was a total of 57 questionnaires according to the specified number of samples. To test the effect of variable competence of the apparatus and system of internal controls against fraud prevention financial management of the village used multiple linear regression test. Previously tested the validity and reliability of the instruments used. This study also used a classic assumption test, which includes a multicollinearity test, heteroscedasticity test, and normality test (Atmadja et al., 2014).

RESULTS AND DISCUSSION

The results of testing the validity and reliability of the instrument indicate that the instrument used in this study is valid and reliable, as indicated by the value of the item-total correlation

coefficient of variables greater than 0.3 and the significance of less than 0.05. The reliability test results showed that the Cronbach alpha value for all variables used in this study was more significant than 0.70. This is because the instruments used by researchers have been used by previous researchers and tested their validity and reliability.

Table 1. Results of Test Reliability

Variable	<i>Cronbach Alpha</i>	Description
<i>PFraud</i>	0.946	Reliabel
<i>KA</i>	0.928	Reliabel
<i>SPI</i>	0.952	Reliabel

Description:
Fraud Prevention, KA: Apparatus Competency, SPI: Internal Control System

The normality test with Kolmogorov Smirnov showed an Asymp. Sig result of $0.601 > 0.05$ so that it was concluded that the residual had fulfilled the normal distribution assumption. Multicollinearity testing results in VIF values less than 10, ranging from 1.050 to 1.125, so it is proven that there is no severe multicollinearity.

Table 2. Test Results Multicollinearity

Coefficients		Correlations			Collinearity Statistics	
		Zero-order	Partial	Part	Tolerance	VIF
1	KA	.245	.257	.255	.889	1.125
	SPI	-.103	-.046	-.044	.952	1.050

a. Dependent Variable: PFraud

The heteroscedasticity test with Glejser Test shows the significant value of all variables above 0.05, which indicates there is no heteroscedasticity.

Table 3. Test Results heteroscedasticity

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	8.031	15.008		.535	.596
	KA	.049	.095	.088	.519	.607
	SPI	-.181	.112	-.264	-1.619	.114

a. Dependent Variable: AbsResidual

Statistical test results show that hypothesis 1 is accepted, that is, there is an influence of apparatus competence on fraud prevention in village financial management. In managing village finances, the apparatus must have competence, which means the ability that must be possessed by an apparatus in the form of knowledge, skills, attitudes, and behaviors required in carrying out their duties. Apparatus competency can be increased by conducting training, counseling, or following training planned by the district/city government, besides that to increase knowledge and insight in village financial management, officials can attend workshops, seminars or other activities related to village financial management organized by related institutions. This needs to be done in addition to good financial governance, it can also be for village governance and be able to coexist, and there is no information asymmetry with village assistants assigned by the central and provincial governments. The results of this study are consistent with previous studies (Bassirudin 2014; Rahmawaty 2015; Sudiarianti et al. 2015), which states that the competence of the apparatus has a significant influence on the fraud prevention process in financial management. So it can be concluded from the results of the study is that the competence of village officials is very influential in preventing fraud in village financial management.

Table 4. Test Results Hypothesis 1 and 2 (Multiple Linear Regression)

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	45.355	12.661		3.582	.001
	KA	.131	.090	.234	1.448	.016
	SPI	-.041	.110	-.061	-.376	.009

a. Dependent Variable: PFraud

Meanwhile, the results of hypothesis 2 testing are accepted that the internal control system influences fraud prevention in the management of village finances. This means that it is important for all village governments to understand the importance of implementing and maintaining effective internal control, which is the responsibility of all parties because fraud prevention can start from internal control (Tuanakotta, 2012: 272). These results make it clear that internal control not only affects reliable financial reports but also shows that control should be effective for all operations in village financial management. (Hermiyeti 2008; Nisak, et al. 2013; Purwitasari 2013) research stated that internal control has a significant influence on fraud prevention. This indicates that the improvement of the internal control system is a measure of the success of fraud prevention.

Conclusions and suggestions

Based on the results of tests that have been done, then the entire hypothesis formulated in this study was successfully accepted. Apparatus competence influences fraud prevention in village financial management. This is because the ability of the village apparatus has an important role in managing village finances to achieve a common goal, which is to improve the welfare of the community through the improvement of the village economy, social, culture, and other fields. The center to oversee the use of village funds and to account for them. The internal control system influences fraud prevention in village financial management. This is because all types of financial fraud in an organization/government can be prevented through an adequate internal control system. Morality successfully moderates the influence of apparatus competence and internal control systems on fraud prevention in village financial management. This is since one's competence or ability to manage finances is often misused to commit fraud, accompanied by good morality. However, good morality and adequate apparatus competency must also be

supported by a reliable internal control system to prevent fraud in village financial management.

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