

Effectiveness of Internal Control System as Early Detection Tool in Fraud Prevention of Village Fund Management

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Abstract: Introduction: The Village Fund is a form of trust from the central government to plan and implement programs and activities in its village. The increasing number of village funds disbursed by the government is not in line with good management.

Research Objectives: To analyze the effectiveness of the internal control system as a tool for detection early in preventing fraud in the management of village funds.

Methods: This research is qualitative. The object of this research is eight districts and 30 sub-districts as research samples in Central Java Province. This study's data analysis techniques were done through data reduction, presentation, and conclusion drawing.

Conclusion: From the results of data analysis in the field, it can be concluded that fraud in the management of village funds is generally caused by the non-functioning role of village assistants in managing village funds. Weak guidance and supervision from various parties that should be the duties and responsibilities of the agency, including the Subdistrict head, the Government Guard and Security Team and the Development of the Semarang District Attorney, the Body Consultative Village, which seems to be just a formality and most importantly the weak community participation, which is caused by lack of understanding of the community towards village development budgets and plans and incompetence of human resources (HR) managing village funds and village heads.

Keywords: Internal Control System; Village Funds; Management; Fraud.

JEL Classification: E62; H7; G2.

1. INTRODUCTION

A new development paradigm is projected to emerge due to the adoption of Law Number 6 of 2014, which concerns villages (Hendrina & Adang, 2019). The paradigm shift is intended to alter one's perspective on the development process, in which economic prosperity and prosperity are not always found in urban areas but are instead found in rural areas, beginning in the village because the village is at the forefront of the efforts of the development movement, which originates from community initiatives, in order to achieve long-term success (Sara, 2021). This aim is achievable with the assistance of large financial resources. Currently, these payments are provided by the central government and are bundled together in local trust funds. There is hope that a village may be inspired to become an independent and credible community to fulfil its requirements without relying on government support. If the village has successfully financed its activities, then money from the government is just a stimulant. Essentially, the Village Fund is a sort of trust between the central government and the village, which allows the community to develop, execute, and monitor programs and

activities in its village. From 2015 to 2020, the Central Java Province got 36.26 trillion in village funds. Funds received by villages in Java's Central Province Table 1 shows the forecast for 2015 to 2020. Following:

**Table 1. Source: Ministry of Finance (2021).
Central Java Province Village Fund.**

Year	Total Village Fund	Percentage (%)	
2015	2.23 trillion	Increase	15.50 %
2016	5.00 trillion	Up	55.40 %
2017	6.30 trillion	Up	20.60 %
2018	6.73 trillion	Up	6.39 %
2019	7.80 trillion	Up	13.70 %
2020	8.20 trillion	Up	4.88 %

Increasing the number of village grants distributed by the government does not correspond to excellent management practices (Wahyudi et al., 2021). Numerous fraud threats might arise throughout the management process, one of which is the accumulation of corruption in village finances.

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There were 94 incidents between 2015 and 2020, resulting in a loss of 41.6 billion. Table 2 shows the names of the people implicated in corruption cases, including village heads, village authorities, economic activity implementers, program implementers, and other partners:

**Table 2. Source: BPK Representative of Central Java (2020).
Fund Corruption Cases Village 2015 to 2019.**

Year	Number of Cases	Percentage	Suspect	Loss	Increase
2015	6 Cases			15 People	5.4 billion
2016	11 Cases	Up 83 %	32 People	9.1 billion	Up 68 %
2017	20 Cases	Up 82 %	65 People	8.3 billion	Down 9 %
2018	25 Cases	Up 25 %	29 People	11.5 billion	Up 39 %
2019	32 Cases	Up 28 %	41 People	7.3 billion	Down 36 %
	Total cases	94 Cases	182 People	41.6 billion	

Village finances are being misappropriated due to the absence of community participation in the development and monitoring of the village budget (Ardiana & Sugianto, 2020). The Village Consultative Body is not functioning at its best. Village funds are at a critical point in their management because of the lack of competence of the village head and village officials, as well as the lack of adequate facilities and infrastructure, even though various laws and regulations are in place to prevent mismanagement of village funds (Utami, 2018). The phenomena described above indicate that the ideal conditions of village governance related to the effectiveness of the implementation of the internal control system are interesting to investigate to prevent the occurrence of corrupt practices related to the management of village funds from occurring. In a study conducted by Wibisono (2017), it was discovered that the lack of guidance and supervision provided by the sub-district head, the Government and Development Security Guard Team, the Village Consultative Body, as well as a lack of Human Resources in charge of managing village funds and village heads, are the root causes of the tendency to misappropriate village funds. Seputro (2017) investigated the possibility of fraud in the management of village finances, which examined the possibility of fraud in terms of regulation, governance, and supervision.

2. RESEARCH METHODOLOGY

The nature of this investigation is qualitative. The subjects of this study are eight districts and thirty sub-districts in Central Java Province, which serve as research samples. The site was selected because the region got major village finances; nevertheless, it was believed that corruption had occurred involving a sum of money with a rather large nominal value throughout the program's execution. The core data for this

research came from in-depth interviews with village administrators and local community members, which resulted in the identification of resource individuals. In-depth interviews with resource individuals, as well as documentation, were used as data gathering strategies. To obtain information on fraud and the implementation of the internal control system, in-depth interviews were conducted with participants.

Meanwhile, paperwork is gathered from supporting papers about the administration of village finances to prepare reports. The data analysis strategies used in this research included data reduction, data presentation, and drawing of conclusions, among other approaches (Habibullah et al., 2019). The presentation of data and the drawing of conclusions must be balanced with triangulation procedures to assess the veracity of the data collected throughout the data reduction process.

3. LITERATURE REVIEW

Agency theory seeks to answer agency problems between cooperating parties with different goals and labour divisions (Eisenhardt, 1989). The idea model in this research was developed based on agency theory, which was selected as the theoretical foundation. This is deemed appropriate because the primary objective of the study is to confirm the effectiveness of the internal control system, which results in the management of village funds, which is one of the development problems in the context of the relationship between principal and agent, as well as the effectiveness of the external control system.

Agency theory as a grand theory implies that principles need the knowledge to assess the village government's path to establish great and transparent village governance practices. According to the Institute of Internal Auditors (IIA), fraud is "intentional fraud for activities that are not authorized by law and violate applicable regulations." The American Council on Fraud and Ethics (2013) divides fraud into fraud on asset misuse, fraud in financial statements, and corruption. The sort of fraud that will be explored in this research is the misrepresentation of financial information in financial statements.

4. RESULTS AND DISCUSSION

Corruption is a significant crime and is detrimental to the state and the people (Prabowo, 2014). There are opportunities to orient personal or group interests to influence corrupt behaviour. Corruption is also a threat to village officials in the administration of the village government (Wu & Christensen, 2020). Considering the implementation of the Village Law, the village government disbursed quite a lot of village finances for each village. This becomes a new problem for the village government if it is not managed correctly (Febby & Silubun, 2019).

Village finances and management must be accompanied thoughtfully and sustainably (Handayati & Palil, 2020). In this case, it is not easy to manage a government organization, and it requires qualified management, a sound system, and competent and quality resources. Weak oversight can foster corruption at the level village. Supervision must be carried out internally and externally. Supervision also needs to be

supported by the participation of the community. High participation can control the performance of village officials in good and transparent governance (Primastuti & Nooraini, 2020). In addition, the management of village human resources must continue to be carried out based on their needs and competencies. There are several motivations for village heads to commit corruption, including:

- a. The village head is a political position dedicated to its citizens for 24 hours. The village head is also required to participate in the community's needs, starting from the community that gives birth to its citizens' death; the village head's role becomes essential. Automatically, in that case, the village head can donate as little as possible. You can imagine how much the village head has to spend on all community events;
- b. Because the village head is directly elected by the community based on the majority of votes with a relatively high political capital, while the modality economy is fragile, corruption is encouraged to be carried out to restore the political capital that has been spent during the village head election;
- c. The existence of village heads has become the target of political parties to get their political roots planted by making them cadres of political parties, the room for corruption may be difficult to contain, especially during the general election period; and
- d. The lack of openness and supervision in the administration of the village government makes the control over the performance of the village government not run well. What has been planned, implemented, and budgeted without being adequately supervised can impact the occurrence of criminal acts of corruption.

Several issues need to be addressed in the supervision of village fund management in Central Java Province. These include:

- a. The non-functioning role of the village companion when it comes to carrying out the assistance of the village fund management mechanism;
- b. Weak elements of coaching and supervision of the subdistrict head;
- c. Weak components of holding and oversight by the Government and Development Security Escort Team, which suggests the likelihood of misuse and fraud in the administration of village money;
- d. This indicates the possibility of abuse and fraud in the management of village funds; d. Weak supervision of village funds by the village consultative body, which is primarily due to the element of formality;
- e. In many villages, there is still weak community participation in supervising the management and accountability of village funds, resulting from the community's poor understanding of village budgets and village development plans;

- f. The discovery of abnormalities in the administration of non-budgeted expenditures that are not accounted for by the village fund reporting mechanism results in the formation of engineering activities and other liabilities to compensate for the non-expenses;
- g. The Budgeter's Indications of this departure might negatively influence judicial proceedings;
- h. From the village head to the village treasurer, human resources are deficient (HR) when it comes to managing village finances; and
- i. It can be concluded that public oversight of the administration and reporting of village money is still insufficient.

Corruption can happen anywhere, anytime, and by anyone. Corruption is often carried out with various instruments by the perpetrators and with various backgrounds and reasons (Singleton & Singleton, 2010). Prevention of corruption is the essential part of repressive measures in handling corruption cases. Prevention of acts of corruption has an essential role in the future. Preventive action is a more subtle than repressive action in dealing with corruption (Pillay, 2004). Prevention of corruption must be transformed to all *stakeholders* governments, central government, regional government, and village government as the spearhead of village development. The village's corruption cases are still not as big as what happened at the central and regional levels. Considering that the implementation of the new Village Law was effective in 2016, it is necessary to increase understanding of crime and corruption and its sanctions to elements of village government so that they are aware of actions that lead to corruption. According to Zamroni (2014), prevention of criminal acts of corruption must continue to be done to strengthen the government's capacity for public welfare. Prevention can be carried out from the village through the following steps (Adam et al., 2019):

- a. Active participation of the village community. Knowledge for the village community about the importance of village development and how to build a village. They strengthen the village community and educate the village community about village traditions. Village communities must continue to be encouraged to participate in village development actively. They are starting with planning, budgeting, implementation, and supervision so that the implementation of the village government is right on target.
- b. They were building democracy by practising it directly in local democracy. The implementation of village deliberations must be channelled in a democratic, fair and equal manner. Policies related to important matters regarding the village must involve the village community. Deliberation and consensus must be prioritized in policymaking.
- c. Strengthen control over the government. After strengthening the village community and developing a democratic life at the village level, it is vital to exercise efficient control from the villagers to the village government. The management of public

complaints to the government is still weak, especially to the village government.

Therefore, the development of village-level journalism can help village communities control the performance of the village government. Control through village journalism can also be applied to control the management of village funds. Ideas and ideas, and suggestions from the village community on managing village funds can be more easily accessed and conveyed. Constructive criticism can be input for the village government in managing village development. In addition, journalistic media is an effective means of communication between the government and the village community regarding the problems and problems faced, including control in preventing criminal acts of corruption in village funds.

Some of the data discussed above show that village fund management has been abused or deviated due to insufficient prevention and supervision, which has resulted from the malfunction of important components of prevention and supervision. Several steps must be taken to ensure that village funds are managed and utilized by the rules and regulations and properly implemented. The researcher provides advice to the Central Java Provincial government as input material. In order to break the chain of corruption crimes committed by individuals, several conditions must be met, including:

- a. Individuals who are familiar with the local budget and want to participate.

Village communities' limited engagement in village development planning results from their lack of understanding of the village budget. However, even while the village community should enjoy the aim of village development in order for the Village Expenditure Revenue Budget to be seen as belonging to the village community, this is not always the case. This highlights the importance of efforts by local governments, academics and observers, or village development activists to develop activities that, at their core, educate (provide knowledge) to the village community on topics ranging from the village medium-term development plan to the village budget. The village document should include the desires of the village community and should make the villagers aware that the village development plan is his so that they understand that they have the right to participate in and monitor it. Community engagement will, of course, expand as more people become familiar with the village budget and village development plan.

- b. An assessment of the Village Companion's continued existence.

It is necessary to provide information to the Ministry of Village Development of Disadvantaged Regions and Transmigration about the performance of Village Companions, whose indications are not very encouraging, and it is also necessary to evaluate their presence in the village in order to make recommendations to the Ministry. Because other parties (and not community companions) are better at understanding the procedures and activities of village fund management, it is vital to start a dialogue so that the village may choose its companion or consultant by using the village money, which is now not the case.

- c. Officials who are knowledgeable and kind.

The need for a "whistleblower" who can inform the local government about the performance of the subdistrict head as a village supervisor and supervisor in the implementation of village funds, as well as the need for an evaluation of the role of the subdistrict head by the local government, as well as the preparation of competent officials to serve as subdistrict heads. Also necessary is the evaluation of structural officials under the subdistrict head, specifically the Head of the Government Section, because it generally lacks understanding and serves as a coach and supervisor to village fund implementation, as well as an extension of the subdistrict head's hand as a coach and supervisor of village fund implementation.

- d. The provision of ongoing training, coaching, and supervision.

It must be acknowledged that corrupt conduct in all sectors of life, particularly in the administration of village money, is a culture that has developed over a long time due to extensive community and legal interaction. It seems to be unjust that the village head and the village fund implementation team are the only ones held accountable when there are indications of irregularities in the administration of the Village Fund. Activities such as training, coaching, and monitoring village finances must be carried out continuously by authorized and competent parties. It is also important to foster public engagement in village financial administration and oversight and participation from community groups, non-governmental organizations, and media. It is anticipated that the planning, administration, management, and accountability of village finances will be improved and that the monies will be used more effectively to empower the community.

It is hoped that the Village Law will contribute to the prevention of the criminal act of fraud in the management of village funds, particularly in villages in the Central Java Provincial Government area, by ensuring that village funds are managed transparently and participatory.

5. CONCLUSION

Based on the data analysis findings conducted in the field, it can be determined that fraud in the administration of village finances is often caused by the failure of village assistants to perform their duties in the management of village funds. The agency's tasks and responsibilities should include providing inadequate direction and oversight to various parties, including the Subdistrict head, the Government Guard and Security Team, and the Development of Central Java Province. The Village Consultative Body seems to be nothing more than a clerical formality. The most significant factor is the low level of community engagement, caused by a lack of awareness within the community about village development budgets and plans and ineptitude among the human resources in charge of village finances and village leaders, among other factors. It is generally agreed that public monitoring of the administration and reporting of village money is still insufficient in most cases.

The many issues that have been identified are connected to the implementation of an internal control system that has not been fully implemented, particularly concerning parts of the control environment. This is because the control environ-

ment is critical in the management of village funds in order to achieve the common goal of improving community welfare through improvements in the village economy, society, culture, and other fields. In particular, the apparatus will be supervised and in direct contact with an independent financial supervisory agency appointed by the central government, which will be in direct contact with the central government. To keep track of how community finances are being used and account for them. When it comes to the administration of village finances, the internal control system impacts fraud prevention. This is because an appropriate internal control system can prevent all forms of fraudulent conduct in the financial sector. The dissemination of information and communication and the effect of monitoring impact the prevention of fraud (fraud) in the administration of village finances. Due to frequent and continuous monitoring, it is believed that fraud in the administration of village finances would be reduced to an absolute minimum.

Village communities' limited engagement in village development planning results from their lack of understanding of the village budget. This highlights the importance of efforts by local governments, academics and activists to develop activities that educate (provide knowledge) to the village community on topics ranging from budgets to development plans. The need for a "whistleblower" who can inform the local government about the performance of the subdistrict head. The provision of ongoing training, coaching, and supervision. It is hoped that the Village Law will contribute to the prevention of fraud in the management of village funds.

ACKNOWLEDGEMENTS

This article is the result of research financed by DRPM DIKTI: Research Proposal For Doctoral Dissertation (PDD), the Contract of Research of Fiscal Year 2022.

CONFLICT OF INTEREST

The authors reported no potential conflict of interest.

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