


The Influence of Apparatus Competence, Individual Morality, Internal Control System, Whistleblowing System on Village Fund Fraud Prevention

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Article Info	ABSTRACT
<p>Article history:</p> <p>Received June 13, 2024 Revised June 16, 2024 Accepted July 22, 2024</p> <hr/> <p>Keywords:</p> <p>Apparatus Competence, Individual Morality, Internal Control System, Whistleblowing System, Fraud Prevention</p>	<p>The objective of this study is to explore the impact of apparatus competency, individual morality, internal control systems, and whistleblowing systems in preventing fraud related to village funds. The research population includes all village officials, members of the Village Consultative Body (BPD), village fund supervisors, and community leaders in Ruteng District, Manggarai Regency. The sample consists of Village Heads, Village Secretaries, Heads of Finance, Heads of BPD, village fund supervisors, and community leaders from each village in Ruteng District. Path analysis is the technique used for data analysis. The study finds that apparatus competency, individual morality, internal control systems, and whistleblowing systems positively influence the prevention of fraud in village fund management. In summary, competent officials perform their duties in managing village funds responsibly, high-morality officials are less likely to engage in misconduct, and effective supervision ensures village management activities are directed and monitored to prevent fraud.</p>
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1. INTRODUCTION

Village Funds are a form of government policy that is implemented in a self-managed manner using prioritized local resources or raw materials to finance development and community empowerment and strive to absorb more local community workers. Village Funds are used to carry out village government, finance development and community empowerment, where these funds are sourced from the APBN intended for villages which are transferred through the district or city APBD [1]. The amount of budget funds given to villages has increased every year, namely IDR 20.67 trillion in 2015, IDR 46.98 trillion in 2016, and in 2017 and 2018 it was allocated IDR 60 trillion each, then in 2019 the budget allocated IDR 70 trillion (Kompas.com, 2019). In 2020, the amount of allocation issued by the government will be IDR 72 trillion (Datikfinance, 2020).

On the other hand, with the increase in the number of village budgets per year, there is a high risk for the management of village funds, namely the possibility of fraud being committed by people who manage village funds. Fraud is a deviant act and unlawful act carried out by someone intentionally in order to gain profit by obtaining money, assets and other things that can result in harm to other people or certain parties according to Aini et al [2]. Based on audit standards, fraud can be caused by three circumstances, namely pressure or incentives, opportunities, and behavior or justification for actions [3]. The occurrence of fraud is frequent in Indonesia, it can be seen through various cases of several officials from central to regional levels who have been involved in suspected corruption cases [4]. The cause of fraud, whether in the form of corruption or inappropriate purposes in the distribution of village funds, is a lack of insight into the management of village funds [5].

Fraud prevention is needed to control and prevent fraud by creating conditions that can drive fraud prevention efforts [6]. Actions against fraud but with inexpensive funds, namely by preventing fraud. Apart from that, to prevent fraud, monitoring and evaluation of the use of village funds is needed, preventive measures are also needed to minimize the occurrence of fraud. Fraud prevention is an effort or step taken to minimize opportunities, ward off and assess every activity that has a risk of fraud [2]. There are several factors that can prevent fraud, including the competence of the apparatus, individual morality, internal control system and whistleblowing system.

When fraud is discovered, usually the money cannot be returned or there is a very small chance of full recovery from losses. In addition, the fraud investigation process will be time consuming and not cheap, especially those involving large-scale multinational operations. However, if fraud prevention is the focus then all financial losses, time, and effort to investigate perpetrators, reconstruct fraudulent transactions, and recover lost money can be used to save efforts [7]. Very high intelligence is required when committing fraud. Therefore, companies need strict control, so that fraud will be difficult for anyone to commit. So here the detection, prevention, reporting and handling of fraud are the functions of a fraud control system [8].

An important element in preventing village fund fraud is the ability or competence of village officials. Therefore, the efforts made by the local government are through education or training regarding village fund management which functions to continue to increase government competence [6]. Selection of competent village officials can have an influence on preventing fraud in managing village funds. There will be a difference between officials who have below standard competence and village officials who have high competence [9]. Individual morality is correlated with preventing fraud in managing village funds. The opportunity to commit fraud will be lower if the morale is higher. Actions that violate the law or can harm other people and the country will not be carried out by someone who has good morals [10]. Opportunities for fraud will be closed by good and effective internal controls. Weak internal control in an organization, insufficient supervision, and misuse of authority are opportunities that usually allow fraud to occur [11]. If the village government has a stronger internal control system, fraud and errors in village financial management that may occur can be minimized and prevented and if internal control is weak, the greater the fraud that will occur [12]. The occurrence of fraud in village fund management can be prevented through whistleblowing. A whistleblowing system is a forum for a whistleblower to complain about fraud or violations committed by internal parties in the organization. An effective whistleblowing system will be able to encourage the participation of the public and company employees to be more courageous in acting to prevent or minimize the occurrence of fraud by reporting it to parties who can handle it. It is easier for whistleblowers to report violations with whistleblowing and village officials with the implementation of whistleblowing will make them think again about carrying out acts of fraud, this system becomes an external monitoring medium indirectly [13]. The effectiveness of the whistleblowing system will be able to encourage the participation of company employees and the public to be more courageous in taking action to prevent or minimize the occurrence of fraud by reporting it to parties who can handle it [14].

One of the reasons for choosing a village in Ruteng sub-district, Manggarai Regency as the research object was to determine the intentions of village officials in managing village funds by paying attention to fraud prevention factors because there were many cases of misuse of village funds in East Nusa Tenggara in Manggarai Regency, Ruteng District. There are several cases of misuse of village funds, namely where the Manggarai District Prosecutor's Office detained the Head of Bangka Lao Village, Ruteng District, Manggarai Regency, NTT, with the initials GSK, Thursday (11/10/2022). The detention was carried out after the stage II handover by Manggarai Police Investigators. GSK is suspected of committing a criminal act of corruption in village funds in 2017-2019, worth IDR 544,000,000.00. GSK was named a suspect by the Manggarai Police on March 31 2022. Another case is that the West Manggarai (Mabar) District Prosecutor's Office (Kejari), East Nusa Tenggara (NTT) Province officially determined and detained Candu Muhamad Tahir and DjulfiQkarno Canhir, on Friday (6/10/2023). Both of them were detained in the alleged criminal case of Corruption and Financial Misappropriation in Nangalili Village, South Lembor District, West Manggarai Regency, NTT, for the 2021-2022 Fiscal Year which resulted in State/Regional Financial Losses of more than IDR 600,000,000.00. Empirical studies in the form of previous research from [5] obtained results that apparatus competency has a positive and significant influence on preventing fraud in managing village funds. These results are in line with research by [15]. However, different results were obtained in the research of [16] [17] the results obtained were that apparatus competency had no influence on preventing fraud in managing village funds.

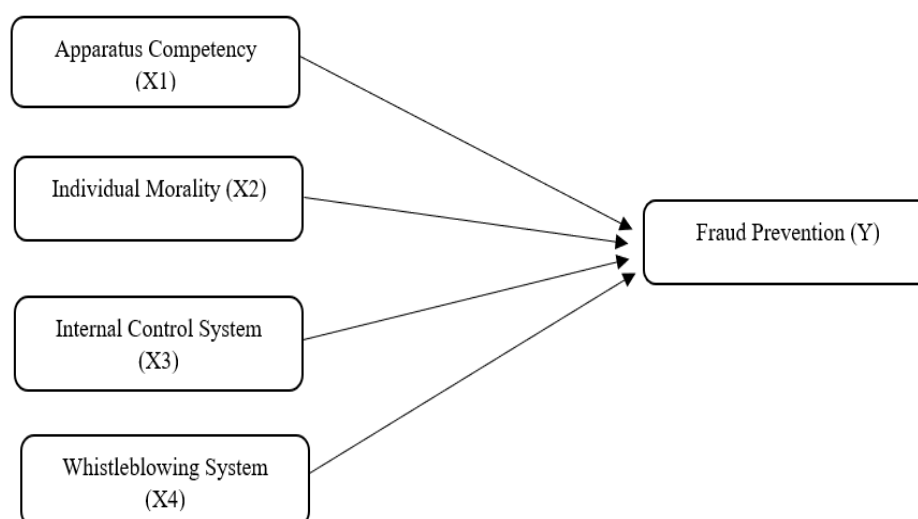


Figure 1. Research Concept

2. METHOD

The research is conducted across all villages in Ruteng District, Manggarai Regency, East Nusa Tenggara Province, during 2024. The population encompasses all village officials, members of the Village Consultative Body (BPD), village fund supervisors, and community leaders in Ruteng District, Manggarai Regency. As defined, a population is a generalization area comprising objects/subjects with distinct qualities and characteristics that researchers determine for observation and conclusion drawing. The sample includes members from the population with specific characteristics. Per the Minister of Home Affairs Regulation Number 20 of 2018 on Village Financial Management, those involved in managing village finances include the Village Head, Village Secretary, Head of Administration and Section Heads (Administration and General Affairs, Planning, Government, Welfare, Services), and the Head of Finance. The research sample consists of Village Heads, Village Secretaries, Heads of Finance,

Heads of BPD, village fund supervisors, and community leaders from each village in Ruteng District. The sampling method used is purposive sampling. In this study, the dependent variable is fraud prevention in managing village funds (Y), while the independent variables are apparatus competency (X1), individual morality (X2), internal control systems (X3), and whistleblowing systems (X4). Data was collected through a field survey using a questionnaire.

3. RESULT AND DISCUSSION

3.1 OUTER MODEL

3.1.1 Validity test

1. Outer loading test (content validity)

Convergent validity testing can be assessed based on outer loadings or loading factors. Usually in research a loading factor limit of 0.70 is used. An indicator can be declared to meet convergent validity and have a high level of validity when the outer loadings value is > 0.70 .

The apparatus competency variable item 1 has an outer loading value of 0.860, which means that this item is valid for measuring the apparatus competency variable. Every change in the Apparatus Competency variable will be reflected in the Apparatus Competency 1 variable of 73.96% ($0.860 \times 0.860 = 0.7396$). Individual Morality Variable 1 has an Outer Loading value of 0.952, which means that this item is valid for measuring the Individual Morality variable. Every change in the Individual Morality variable will be reflected in the Individual Morality variable 1 of 90.63% ($0.952 \times 0.952 = 0.9063$). Fraud Prevention Variable 1 has an Outer Loading value of 0.905, which means that this item is valid for measuring the PF variable. Every change in the Fraud Prevention variable will be reflected in the Fraud Prevention variable 1 of 81.90% ($0.905 \times 0.905 = 0.8190$). Internal Control System variable 1 has an Outer Loading value of 0.970, which means that this item is valid for measuring the Internal Control System variable. Every change in the Internal Control System variable will be reflected in the Internal Control System 1 variable of 94.09% ($0.970 \times 0.970 = 0.9409$). The Whistleblowing System 1 variable has an Outer Loading value of 0.899, which means that this item is valid for measuring the Whistleblowing System variable. Every change in the Whistleblowing System variable will be reflected in the Whistleblowing System 1 variable by 80.82% ($0.899 \times 0.899 = 0.8082$). From the Outer Loadings Test results table, it shows that all item variables have an Outer Loading value above 0.7. So it can be concluded that all of these item variables are valid for research.

3.1.2 Reliability Test

Table 1. Reliability Test

	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
AC	0.978	0.980	0.981	0.854
MI	0.978	0.978	0.981	0.883
FP	0.975	0.975	0.978	0.850
ICS	0.992	0.992	0.993	0.931
WS	0.964	0.964	0.970	0.821

1. Cronbach's Alpha Test

Reliability testing can be conducted using Cronbach's Alpha. This value indicates the reliability of all indicators in the model. A minimum value of 0.7 is acceptable, while the ideal value ranges between 0.8 and 0.9. According to the table, the Cronbach's Alpha values for the variables of apparatus competency, individual morality, fraud prevention, internal control system, and whistleblowing system all exceed 0.7, demonstrating that these constructs are reliable.

2. Composite Reliability Test

In the outer model, composite reliability is assessed. This value indicates internal consistency, with a high composite reliability value reflecting the consistency of each indicator in measuring the construct. The expected composite reliability value is greater than 0.7. According to the table, the composite reliability values for the variables of apparatus competency, individual morality, fraud prevention, internal control system, and whistleblowing system all exceed 0.7, indicating that these constructs are reliable.

3.1.3 Multicollinearity Test

1. Inner VIF

Table 2. Inner VIF.

	KA	MI	PF	SPI	WS
KA			2.571		
MI			2.235		
PF					
SPI			2.377		
WS			2.611		

The VIF value should be less than 5, as values above 5 indicate collinearity between constructs (Sarstedt et al., 2017). According to the table, the VIF values for each item of apparatus competence, individual morality, internal control system, and whistleblowing system are below 5, indicating no multicollinearity between the variables.

3.2 Inner Model

3.2.1 R Square

Table 3. R Square.

	R-square	R-square adjusted
PF	0.814	0.806

According to [19], R Square values of 0.75, 0.50, and 0.25 indicate strong, moderate, and weak models, respectively. The table shows that the R Square value for the variables of apparatus competency, individual morality, internal control system, and whistleblowing system in relation to fraud prevention is 81.4%. This indicates that 81.4% of the variation in fraud prevention can be explained by these variables. The remaining 18.6% is attributed to other factors not examined in this study.

3.2.2 Hypothesis test

Table 4. Hypothesis Test

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
KA -> PF	0.411	0.438	0.115	3.577	0.000
MI -> PF	0.197	0.164	0.098	2.015	0.044
SPI -> PF	0.205	0.197	0.089	2.304	0.021
WS -> PF	0.215	0.223	0.081	2.651	0.008

$$\text{Fraud Prevention} = 0.411\text{KA} + 0.197\text{MI} + 0.205\text{SPI} + 0.215\text{WS} + e$$

According to Ghazali, if the p-value is below 0.05, then H_a is accepted; conversely, if the p-value is above 0.05, then H_a is rejected.

1. **Apparatus Competence:** It was concluded that apparatus competency positively influences fraud prevention, with a coefficient of 0.411, indicating a positive relationship. The t statistic is 3.577 (above 1.96), and the p-value is 0.000 (below 0.05). This suggests that increased apparatus competency enhances fraud prevention in managing village funds, showing a direct positive impact.
2. **Individual Morality:** It was found that individual morality has a positive effect on fraud prevention, with a coefficient of 0.197, indicating a positive relationship. The t statistic is 2.015 (above 1.96), and the p-value is 0.044 (below 0.05). This means that higher individual morality leads to better fraud prevention in managing village funds, showing a direct positive impact.
3. **Internal Control System:** The study concluded that the internal control system positively influences fraud prevention, with a coefficient of 0.205, indicating a positive relationship. The t statistic is 2.304 (above 1.96), and the p-value is 0.021 (below 0.05). This implies that improvements in the internal control system enhance fraud prevention in managing village funds, showing a direct positive impact.
4. **Whistleblowing System:** It was concluded that the whistleblowing system positively influences fraud prevention, with a coefficient of 0.215, indicating a positive relationship. The t statistic is 2.651 (above 1.96), and the p-value is 0.008 (below 0.05). This suggests that an effective whistleblowing system enhances fraud prevention in managing village funds, showing a direct positive impact.

3.3 Implications

The quality of apparatus competence, individual morality, internal control system and a good whistleblowing system greatly influence the prevention of fraud in managing village funds. So it is hoped that village officials will continue to increase their sense of responsibility, reduce mistakes, increase supervision in managing village funds. The results of this research can be used as a reference for all Village Governments in Ruteng District. It is hoped that they will improve apparatus competency, individual morality, internal control systems, and whistleblowing systems so that they can improve fraud prevention in managing village funds.

4. CONCLUSION

Apparatus competence has a positive effect on preventing fraud in managing village funds. A competent official will carry out work in managing village funds with full responsibility and in preparing financial reports it is hoped that there will be no mistakes.

Individual morality has a positive effect on preventing fraud in managing village funds. Officials who have high morality will tend to stay away from bad actions, this can increase fraud prevention in managing village funds.

The internal control system has a positive effect on preventing fraud in managing village funds. Weak internal controls can give rise to the possibility of fraud. Through good supervision, village management activities can be directed and monitored to avoid fraud in the management of village funds.

The whistleblowing system has a positive effect on preventing fraud in managing village funds. The whistleblowing system is a means of external supervision, with external supervision, village officials will be reluctant to commit acts of fraud

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