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**THE EFFECT OF INTERNAL CONTROL SYSTEM AND INDIVIDUAL MORALITY ON FRAUD IN VILLAGE FUND MANAGEMENT**<sup>1</sup>Elex Sarmigi, <sup>2</sup>Tiara Lilis Surya, <sup>3</sup>Maryanto, <sup>4</sup>Ica Salsabela<sup>1</sup>Faculty of Islamic Economics and Business, Institut Agama Islam Negeri Kerinci<sup>2,3</sup>STIE Sakti Alam Kerinci<sup>4</sup>Student of Manajemen Bisnis Syariah, Institut Agama Islam Negeri Kerinci[elexsarmigi@gmail.com](mailto:elexsarmigi@gmail.com)**Abstract**

This study aims to determine the effect of the internal control system and individual morality on the tendency to fraud in managing village funds in the Kumun Debai sub-district, Sungai Penuh City. The sample of this study was all employees of the village government head office of Kumun Debai Sub-District, Sungai Penuh City, totaling 72 people, who were determined by the full sampling method. Testing the research data was analyzed with multiple linear regression. This study found that the internal control system had a negative and significant effect on the tendency to engage in fraud when managing village funds. Meanwhile, individual morality has no significant effect on the tendency of fraud in managing village funds. The magnitude of the influence of the internal control system and individual morality on the tendency of fraud in managing village funds is 40.5%.

**Keywords:** Fraud; Internal Control System; Individual Morality; Village Fund

**INTRODUCTION**

Fraud is a threat to organizations, and various types of practices have been widespread, creating chaos for centuries. Despite the millions of efforts and prevention methods that have been implemented over the years, the threat of fraud is still the biggest concern in running a business. Accounting science, which is increasingly developing following current developments, can contribute to organizations but also has the potential to provide opportunities for anyone who can commit acts of fraud. Fraud is behavior carried out intentionally to result in material misstatements in financial statements. Misstatements arising from fraudulent financial reporting, such as manipulation, fraud, changes in accounting records, or supporting documents of financial reports so that financial reports are not presented in all material respects based on generally accepted accounting principles (GAAP).

In the accounting field, fraud is accounting procedures not by the entity's rules, impacting its financial reporting. Corruption is a fraud that is difficult to control and unavoidable because it is related to personal interests and power (Bowman & Gilligan,

2007). (Choi, 2018) revealed that weak institutions will be a challenge in preventing corruption, which can hinder democratic progress and harm the public. This is the reason why controlling and preventing corruption is not an easy task. What must be done is to create accountability and cultural responsibility for institutions through awareness to reveal fraud (Hende, 2001).

In Indonesia, attention to the level of corruption is still a significant issue. In 2021, according to Transparency International, corruption in Indonesia surveyed 180 countries regarding corruption. A global non-governmental organization released the results of its survey in 2021 that Indonesia's Corruption Perception Index (CPI) is 38, or only an increase of 1 point from the previous achievement, and is still far from the global average score, namely 43. (Prabowo & Cooper, 2016) revealed that corruption is difficult to eradicate in Indonesia because of weak democracy and lack of transparency to the public, so the examination of criminal acts of corruption becomes ineffective due to behavioral and cultural factors. Corrupt behavior and culture are considered normal in Indonesian ministries.

According to ICW, various cases of village financial corruption after COVID-19 experienced a massive boom compared to before the pandemic. The total number of corruption cases in the village budget in 2019 changed to 16.97% of most corruption cases and increased rapidly in 2020 to 26.04%. This act of fraud proves that there is a disregard for ethics in the accounting profession and business people in general. Rizani (2018) stated that these various phenomena also illustrate that there are still many violations of ethical fundamentals.

Village funds provided by the central government aim to support the village government when implementing various development programs in the village, this is a manifestation of one of the programs for villages that the central government provides (Arthana, 2019). The government hopes that with village funds, public services can be improved in a better direction, village communities can be empowered and advanced, and most importantly, villages can become subjects of development. Apart from calculating the results and positive effects of village funds, an important and necessary topic of discussion is related to upcoming problems and future challenges. Because village funds have a relatively large budget, irresponsible parties often misuse these funds for personal or group interests, resulting in losses for the state (Masni & Sari, 2023).

Village funds have a very tempting potential for specific individuals to commit acts of corruption, because the scope of the area is small and remote, so village funds need supervision in their management. The KPK invites the community to participate starting from planning and reporting the financial use of village funds. Coordination and supervision regarding village funds is important considering that the budget set for 2022 is quite large, amounting to IDR 68 trillion, and allocated to 74,961 villages in 434 districts/cities throughout Indonesia (setkab.go.id). Several evidences of cases of criminal corruption in village funds in Sungai Banyak City have involved both active and non-active officials, for example, the former village head (Kades) and secretary of Air Teluh Village, Sungai Full City, Jambi were detained by the local District Attorney (Kejari) in a case of alleged criminal activity. village fund corruption Rp. 310 million for the 2017-2018 Fiscal Year (www.merdeka.com).

Apart from that, there are allegations of corruption in using the Kumun Debai sub-district Village Fund (DD) Budget for the 2017-2018 Fiscal Year. In the use of the 2017-2018 village budget, unlawful actions were found by purchasing land for the construction of arts and culture buildings. However, this activity turned out to be fictitious. Apart from that, investigators also found expenses that were not accompanied by proof of responsibility (SPJ). There is also a volume shortage for some physical work and excess payment of honorariums to institutions that cannot be accounted for, with an estimated loss of Rp. 310,919,002.10 (Metrotvnews.com). From the phenomena described above, it can be seen that many government entities work inefficiently. The inefficient performance produced by government agencies will fail to achieve the stated goals. The problems that arise are irregularities committed by government agencies in budget management as well as other administrative irregularities caused by weak internal control systems in these government agencies.

## **LITERATURE REVIEW**

### **Fraud Triangle Theory**

Cressey said that fraud in accounting can occur due to 3 factors: pressure, opportunity, and rationalization (MachadoIvan & Gartner, 2018). Pressure can give rise to someone's motivation to commit fraud. Pressure regarding financial needs is often considered a very urgent need and cannot be shared with other people to solve it together.

According to (Zimbelman et al., 2014) there are six main factors that can increase a person's opportunity to commit fraud, namely weak internal control, inability to assess the quality of work, lack of strict sanctions, lack of access to information: neglect and apathy, and a lack of effort to conduct an audit trail. Opportunity is a basic thing that can happen at any time, requiring more supervision in each part of a company. The existence of an effective control framework in an organization can function to prevent and detect fraud, as well as place employees in certain positions so that they cannot commit fraud. Rationalization is a justification for fraud committed, such as "everyone is also corrupt" (Tuanakotta, 2014). Rationalization is essential because it is a mechanism that allows ethical individuals to justify unethical behavior. Some use rationalization to eliminate inconsistencies between what they have done and what they should do (Zimbelman et al., 2014).

### **Fraud**

Financial Audit Agency (BPK) Regulation Number 1 of 2017 states that fraud is an action that contains intent or an element of deliberate intent that can benefit oneself or other people, fraud, manipulation or embezzlement, and abuse of trust that aims to obtain profits by illegal means. can be in the form of money, goods/property, services, and not paying for services performed by one or more parties responsible for governance, employees, or third parties. Fraud is an attempt to intentionally manipulate to steal another party's property or rights. The Indonesian Accountants Association (IAI) explains that fraud is an act that is contrary to the law and carried out intentionally with the aim of manipulation to gain profit, directly or indirectly causing harm to other parties. Indications of fraud in an organization are characterized by 1) Manipulation, falsification, or changes in accounting records of other supporting documents, 2) Misstatement, 3) Intentional misapplication of principles, and 4) Inaccuracy of assets.

### **Internal Control System**

Rae & Subramaniam (2008) said that the internal control system is a process influenced by human resources and information technology systems, designed to help an organization achieve a particular goal or objective. A good internal control system is

reflected through 1) Effectiveness and efficiency of operations, 2) Reliability of financial reporting, and 3) Compliance with applicable laws and regulations.

Implementation of the elements of internal control, namely the existence of a structure that can separate functional responsibilities clearly and firmly, a system of authority and recording procedures that protect the elements of financial reports, carrying out the duties and functions of the unit in a healthy manner and the quality of employees who can carry out their responsibilities can prevent fraud (Putra et al., 2021). Therefore, by implementing an excellent internal control system, efforts to prevent village fraud will be maximized (Yusuf et al., 2021).

Reasonable internal control can reduce or even close the opportunity for accounting tendencies. An adequate internal control system is when no one makes it possible for him to commit fraud and commit fraud continuously without being noticed within a certain period. Fraud in village financial management can be minimized and prevented by paying attention to the internal control system. The internal control system is a process that is carried out to provide confidence in achieving the reliability of financial reports and compliance with the law (Anggara et al., 2020).

**H1: Internal Control Systems Have a Negative Influence on Fraud Tendencies.**

### **Individual Morality**

Ritzer & Douglas (2007) say that individual morality is the ability to understand right and wrong, meaning having these beliefs, so that people will behave correctly or honorably. Good individual morality can be seen from indicators such as 1) Discipline, 2) Attachment to society, and 3) Autonomy responsible for the actions taken.

Morality is essential in preventing fraud or fraud, especially in managing village finances; if someone has good morality, the use and management of village funds can proceed according to prioritized needs (Biduri et al., 2022). The better a person's morality, the better the village's financial system. The village financial system is run by humans, where when a person has good morality, he has a sense of responsibility and obeys the rules that apply where he works. This means that if someone has good morality, he can run the village financial system correctly and adequately to prevent fraud in managing village funds (Fathia & Mirna, 2022). A person with good morals will not commit actions that

can harm others, society, and the country. Village officials with good morals will certainly not abuse the mandate given by the government in managing village funds. Village funds will not be misappropriated (Yusuf et al., 2021).

**H2: Individual morality has a negative influence on fraud tendencies.**

**RESEARCH METHOD**

This research uses a quantitative approach to reveal the influence of internal control and individual morality on fraud using information data and occurring phenomena. The research sample was the entire village apparatus of Kumun Debai District, Sungai Penuh City, 72 people. This research sample was taken using a complete sampling method, namely, using the entire population as a sample. This research data is in the form of primary data collected using a questionnaire as a research instrument.

**Data analysis technique**

Multiple linear regression analysis is used to measure the direction of influence of the internal control system and individual morality on the tendency for fraud in village fund management. The relationship between these variables is described through the following equation:

$$KF = \alpha + \beta_1 SPI_1 + \beta_2 MI_2 + \varepsilon$$

Information:

- $\alpha$  = Constant
- $\beta$  = Regression Coefficients
- KF = Fraud Tendencies
- SPI = Internal Control System
- MI = Individual Morality
- $\varepsilon$  = Error Term

**RESULTS AND DISCUSSION**

**Research Instrument Test Results**

The results of the validity test can be seen in Table 1 below.

**Table 1. Validity Test Results**

Variable	Number of Items	Information
Fraud Tendencies (Y)	8	Valid
Internal Control System (X <sub>1</sub> )	10	Valid
Individual Morality (X <sub>2</sub> )	6	Valid

Source: Data processed with SPSS.26

From the table above, it is known that all question items for each variable are declared valid. Meanwhile, the results of the reliability test can be seen in Table 2 below.

**Table 2. Reliability Test Results**

Variable	Cronbach's Alpha	Cutt of Point	Information
Fraud Tendencies (Y)	0,867	0,600	Reliable
Internal Control System (X1)	0,645	0,600	Reliable
Individual Morality (X2)	0,669	0,600	Reliable

Source: Data processed with SPSS.26

Table 2 shows that Cronbach's Alpha value of all variables is more significant than 0.6, so it can be concluded that the instrument from the questionnaire used to explain the variables of fraud tendencies, internal control, and individual morality is declared reliable as a variable measuring tool.

**Classic Assumption Test Results**

**Normality Test Results**

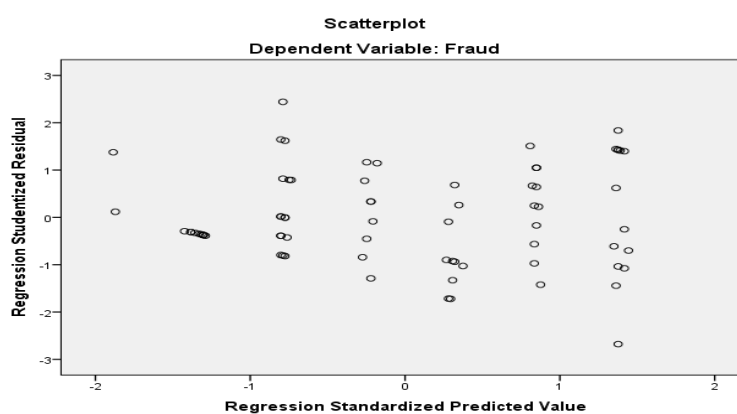
**Table 3. Normality Test Results**

Assymp.Sig	$\alpha$	Keterangan
0,200	0,05	Normally Distributed Data

Source: Data processed with SPSS.26

Table 3 provides information that the residual values are normally distributed. This is proven by a significance value that is greater than alpha.

**Heteroscedasticity Test Results**



**Figure 1. Heteroscedasticity Test Results**

The scatterplot graph of this research appears to be spread randomly, and both above and below the number 0 on the Y axis; this shows that heteroscedasticity does not occur in the regression model.

**Multicollinearity Test Results**

**Table 4. Multicollinearity Test Results**

Variable	Tolerance	VIF	Information
Internal Control System (X1)	0,605	1,654	There is no correlation between the independent variables
Individual Morality (X2)	0,605	1,654	

Source: Data processed with SPSS.26

Table 4 shows that the tolerance value is 0.605, which means tolerance > 0.10, and the VIF value is 1.654, which means the VIF value < 10. So, it can be explained that there is no multicollinearity in the regression model in this study, which means there is no correlation between independent variables (independent).

**Multiple Linear Regression Analysis**

Multiple linear regression analysis was carried out to see the independent variable's influence on the dependent variable. The results of the data analysis process are as follows.

**Table 5. Results of Multiple Linear Regression Analysis**

	Regression Coefficients	t-test	Sig.
Constant	-17,673		0,001
Internal Control System (X1)	-0,694	-3,488	0,000
Individual Morality (X2)	-0,122	-0,202	0,841
Adj. R Square	0,405		

Source: Data processed with SPSS.26

$$Y = -17,673 - 0,098X1 + 1,222X2$$

The constant value is -17.673 (negative), which means that if there is no change in the internal control system and individual morality, the tendency for fraud to be committed by village officials in Kumun Debai District is very small (negative). Meanwhile, the regression coefficient value of the internal control system is -0.694 (negative), and the t value is -3.488 with a significance value of 0.000, so Hypothesis 1 is accepted. This means that the internal control system has a negative and significant effect on the tendency for fraud; in other words, the better the internal control system will minimize the tendency for fraud in managing village funds. The results of testing hypothesis 2 found that the regression coefficient value for individual morality was -0.122 (negative) and tcount was -2.202 with a significance value of 0.841, so hypothesis 2 was rejected. This means that individual morality does not influence the tendency for fraud in



village fund management. The influence of the internal control system and individual morality on the tendency for fraud in village fund management is 40.5%.

## **RESULT AND DISCUSSION**

### **The Influence of Internal Control on Fraud Tendencies in Village Fund Management**

The results of hypothesis testing in this research provide evidence that the internal control system has a negative and significant effect on the tendency for fraud in village fund management. This means that the internal control system at the village government office is classified as good; this shows that the control environment, risk assessment, control activities, information and communication, and monitoring are running well. So, with a sound internal control system, the tendency for fraud in village fund management can be minimized.

The results of this research are in line with research conducted by (Anggara et al., 2020); (Yusuf et al., 2021), and (Biduri et al., 2022), who say that fraud can be prevented through proper division of work and suitable control structures providing evaluations of activities that have been carried out and supervision that is carried out well. The internal control system can act as a guide and supervision of the work system that has been prepared.

### **The Influence of Individual Morality on Fraud Tendencies in Village Fund Management**

The results of hypothesis testing in this study provide evidence that individual morality does not affect fraud tendencies. Government office employees have good morals and discipline in completing tasks on time. Morality is an important thing that can influence an individual's behavior (Hadi et al., 2021). A person with good morals will not commit actions that can harm others, society, and the country. Village officials with good morals will certainly not abuse the mandate given by the government in managing village funds. Village funds will not be misappropriated (Yusuf et al., 2021). An immoral person tends to commit fraud that harms or even endangers others. One of the individual motivations for committing fraud is the desire to gain personal gain. Individuals with low moral reasoning tend to exploit these conditions for their interests (self-interest). These

conditions are by those at the pre-conventional level in the theory of moral development. If an agency has high individual employee morality, it will not encourage its officers to commit acts of fraud (Anggara et al., 2020).

### Conclusion

1. The internal control system significantly adversely affects the tendency for fraud in village fund management. This means that the better the internal control system, the more likely it is to minimize the tendency for fraudulent management of village funds.
2. Individual morality does not affect the tendency for fraud in village fund management.

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