


Article

Prevention Village Fund Fraud in Indonesia: Moral Sensitivity as a Moderating Variable

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Abstract: This study aims to examine the effectiveness of the internal control system, appropriate compensation, and the competency of the village apparatus regarding the prevention of village fund fraud with moral sensitivity as a moderating variable. This research is a quantitative method using hypothesis–inference to answer exploratory, descriptive, explanatory, and predictive analysis questions. Primary data are mainly used in this study. Data were collected using a survey method in a questionnaire with questions given to respondents to collect information. The sample of this research is the village office in 16 (sixteen) districts in Sumowono, Semarang Regency, Central Java, Indonesia, with 289 participants. Data analysis was carried out using Warp-PLS 7.0 application software. The results showed that the village apparatus’s internal control system, appropriate compensation, and competency prevented village fund fraud. Furthermore, the novelty of this research is to add a moderating variable, moral sensitivity, which can strengthen the relationship between the internal control system, appropriate compensation, and competency of the village apparatus regarding the prevention of village fund fraud.

Keywords: internal control system; appropriate compensation; competency of village apparatus; village fund fraud; moral sensitivity



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1. Introduction

The village is the Government body closest to the community, and as a result, it aids in implementing village development so that the programs implemented by the village directly benefit the community’s economic growth. The village represents the unity of society and becomes an inseparable part of an ordered nation’s life. A form of the central Government’s commitment to clarifying the functions and village authority and strengthening the position of the village and village community is realized by the birth of Law No. 6 of 2014 concerning villages. To support the implementation of Law No. 60, in 2014, various realizations were published; one of the policies issued is related to village financial management, namely regarding village funds sourced from state revenue and expenditure budget (APBN) (Wahyudi et al. 2021). However, these funds are not always used in accordance with the Government’s goals. In several villages in Indonesia, they have been misused by irresponsible people, including both the Village Head and the Village Apparatus. The introduction of Law No. 6/01 manifests the Government’s commitment to rural development in Indonesia. The Indonesia Corruption Watch (ICW) found that village fund fraud was one of the most significant contributors to corruption cases, costing the Government 37.2 billion in 2018 out of 96 cases in village funds (Antaraneews 2019).

The budget lists state corruption in a total of five corruption cases. This village budget corruption cases came from the infrastructure sector (as many as nine cases with

an estimated loss of 1.1 million USD) and the non-infrastructure sector (as many as seven cases with an estimated government loss of 1.4 million USD). The Indonesian Corruption Watch report (2018) shows that corruption cases in villages increase by 100% every year (Antaranews 2019). Since the impact of misappropriating village funds is hazardous, it is necessary to take preventive measures. Corruption and abuse of power are essential issues in village governance (Setiabudhi and Putra 2020). Fraud has become commonplace in Indonesia, as evidenced by the many alleged corruption cases involving various officials at the central and regional levels. The suitability of compensation given to employees can motivate employees to do their jobs correctly and adequately and help reduce fraud. This is an example of fraud in the public sector or Government and has received much media attention at home and abroad. This study focuses on preventing fraud in managing village funds, which is currently a strategic issue. The Indonesian Corruption Watch (ICW) found that there were six cases of corruption in the village budget sector out of a total of 271 corruption cases in 2019. Corruption in the village budget has been proven to have cost the Government up to 2.2 million USD (Kompas.com 2020).

Several factors are believed to prevent the embezzlement of village funds, including the internal control system, the capacity of village officials, and conditions of compensation. Atmadja et al. (2019) on village funds show that the apparatus has adequate power. A good spirit supports a sound internal control system to avoid all forms of fraud in the management of village funds. Salaries commensurate with employees' work can make employees feel accomplished, increasing performance and preventing fraud (Alwi et al. 2021). One of the prevention efforts is to strengthen the village government's internal control system. The internal control system provides procedures tailored to village needs to enable systematic monitoring of the performance of all village government activities. These aspects are designed to minimize the possibility of fraud by irresponsible individuals. Weak supervision has even become an outlet for embezzlement of village funds. To prevent corruption, vigilance must be increased (Lash and Batavia 2019). The strategy to prevent fraud in village financial management is that the village government needs to build an internal control system. To protect village financial managers from fraudulent activities, a sound internal control system is required to prevent all fraudulent activities.

Putri and Sujana (2018) noted that the internal control system directly impacted preventing the embezzlement of village funds. Laksmi (2020) argues that in managing village governance, villages need to maintain the sincerity of all parties and provide the broadest possible scope, ensuring that the internal control system reaches all parties. The embezzlement of village budgets is the most significant contributor to corruption cases in Indonesia. It indirectly shows the village government's weak supervision and transparency of village budgets, and it also shows that the community is not involved in monitoring the village budget for appropriate village priority activities. According to Atmadja et al. (2019), other factors that can improve fraud prevention are companies with reasonable internal control in the organization. Internal control is designed to provide reasonable assurance in achieving operational objectives, provide reliable financial reporting, and comply with applicable laws and regulations (Monteiro et al. 2021). Internal control plays a vital role in fraud prevention and detection (Yusrianti et al. 2020). The research findings of Rukmana (2018) and Setiawan (2018) show that the correct internal control system can reduce the possibility of fraud cases and assist in fraud prevention.

Furthermore, village heads can manage their finances properly according to the principles of transparency and accountability because many village heads cannot manage finances correctly and according to applicable standards. According to several previous studies, fraud prevention can include increasing the capacity of human resources. Research by Atmadja et al. (2019) concluded that good equipment skills can improve organizational performance and play a role in professional, tight, and controlled financial supervision and review. Dung and Tuan (2019) argue that human resource capacity is considered adequate if the responsibility to increase the budget is accompanied by an increase in both the quantity and quality of village financial reports, which can fulfill all obligations correctly

and avoid fraud. Meanwhile, Nyide and Lekhanya's (2016) research shows that staff skills with little accounting knowledge can lead to unprofessional financial management, leading to fraud. This means that internal controls and equipment capabilities must work together to prevent fraud. Generally, poor internal management, dishonest employees without a reputation, and governance models with fraudulent behavior are at the root of fraud. Efforts to prevent fraud in village financial management require village heads to be experienced in managing village finances. In addition, improving the quality of internal control can also help prevent fraud. According to Halbouni et al. (2016), good personal integrity also contributes to forming an excellent internal control system. The higher the morale of a person, the more they are attracted to a greater relevance beyond their interests or just the organization's interests. The number of cases of embezzlement of village funds in several villages shows that instances of tax evasion are still relatively high. So, tax compliance becomes low, and the efforts made to instill in taxpayers' a "culture of compliance" and cooperation are needed (Nichita and Bătrâncea 2012; Nichita et al. 2019).

The novelty of this research, when compared to previous research, is placing moral sensitivity as a moderating variable. Previous studies were only limited to examining the relationship between factors that influence village fund fraud, such as the internal control system, appropriate compensation, and the competency of the village apparatus. In some previous studies, there are still weaknesses in the form of inconsistencies in research findings such as those of Kiswanto et al. (2020); Liu (2018); Monteiro et al. (2021); and Pamungkas et al. (2019), which show that the internal control system has a positive and significant effect on preventing fraud. The weakness of previous research is that the variables included are pretty small, so additional variables must be developed or further explored to check the consistency of these variables. Based on the gap between the survey results and falsified village funds, the reason for this research is to identify the factors that can prevent the misappropriation of village funds by placing moral sensitivity as a moderating variable.

The urgency of this research is given the increasing prevalence of village fund fraud. So, it is necessary to know what factors influence the prevention of misappropriation of village funds. Morality can be seen from a person's personality and mindset in upholding honesty and justice. This mindset can reduce an individual's desire to commit fraud (Fernandhytia and Muslichah 2020). This is supported by research conducted by Atmadja et al. (2018) that morality is able to prevent fraud. This is in line with research conducted by Putri and Irwandi (2017) and Setiawan (2018) that shows that morality affects fraud prevention. This study aims to examine moral sensitivity as a moderating variable on the relationship between the internal control system, appropriate compensation, and the competence of village officials to prevent village funds fraud.

The rest of this paper is divided into four sections: the literature review is outlined in Section 2. Section 3 presents the methodology and data, describing the variables. Next, Section 4 includes the results and discussion. The conclusion is given in the last part.

2. Literature Review

This study supports the fraud triangle theory (Cressey 1953), which explains that fraud can be caused by a weak internal control system (Opportunity). Fraud prevention is part of the internal control system that includes efforts to prevent and reduce the risk of potential fraud (Wahyudi et al. 2021). Opportunities are a trigger factor for employees to commit fraud. If the opportunity arises, employees who initially have no intention of committing fraud will be more likely to commit fraud. Opportunities arise through weaknesses in the supervision of an agency's internal control system. To be effective, an internal control system must have good quality and be supported by employee compliance with the control system. The results of this study support the triangle fraud theory and support the results of previous studies (Putri and Irwandi 2017; Kiswanto et al. 2020), which shows that the effectiveness of the internal control system affects the occurrence of fraud. Internal control is the benchmark for the success of every organization; if internal

control is weak, a lot of fraud has been committed. According to [Atmadja et al. \(2019\)](#), internal control is the first fraud prevention measure. Fraud prevention is generally an activity carried out as part of the definition of policies and systems. [Monteiro et al. \(2021\)](#) developed the control system framework, focusing on formal procedures and information systems capable of maintaining or modifying business models that achieve goals and innovate. These structures are levers of control, namely belief systems, border systems, diagnostic control systems, and interactive control systems that work together for the organization's benefit. Opportunity in Fraud Diamond Theory is an opportunity that exists in an organization that fraud perpetrators exploit to commit fraudulent acts that are supported by a weak internal control system, lack of employee discipline, and weak audit mechanisms ([Wolfe and Hermanson 2004](#)). The research results by [Laksmi \(2020\)](#) show that internal control significantly prevents fraud. This indicates that improving the internal control system is an effective fraud prevention measure.

[Purnomo and Khafid \(2017\)](#) compensation is what employees/registrars/workers receive in return for their work, which is hourly or fixed compensation designed and managed by the HR department. With compensation conformity, it is hoped that village fund fraud can be avoided and minimized. Compensation can help companies achieve their goals as well as attract and retain employees. On the other hand, if the salary is deemed insufficient, the employee will likely leave. According to [Rijsenbilt \(2011\)](#), compensation is a set of remuneration received by employees for services that employees have provided; in other words, remuneration is a set of remuneration (tangible and intangible) provided by the company. For employee services, compensation can generally be described as compensation for workers' industrial relations performance and productivity. Compensation is referred to as an award form of recognition given to employees in return for their contribution to the company ([Rijsenbilt 2011](#)). Appropriate compensation can reduce accounting fraud. Individuals should be satisfied with their balance and not engage in accounting fraud to maximize their gain. According to [Appuhami and Bhuyan \(2015\)](#), remuneration is all income in the form of money and goods received by employees directly or indirectly in return for services provided to the company. If well-managed compensation helps the company achieve its goals and attract and retain employees, it is more likely that other employees will leave the company without adequate compensation. Due to dissatisfaction with payments that are considered inadequate and unfair, performance decreases, complaints increase, and strikes are called, leading to physical and psychological actions such as increased absenteeism and cheating ([Abdallah et al. 2016](#)). [Mardjono et al. \(2020\)](#) explain that providing adequate compensation encourages management to act by shareholders' wishes, namely providing the correct information about the company's health. This compensation is intended to reduce the risk of fraud.

Competence can be defined as the capacity of people, organizations, and societies to act successfully, define and achieve their goals, and modify, if necessary, the essential elements for sustainability, development, and progress ([Rukmana 2018](#)). Capability in Fraud Diamond Theory is the behavior possessed by fraud perpetrators to commit fraudulent actions supported by existing opportunities. Individual abilities are traits possessed by a person's personality and abilities that encourage fraud perpetrators to execute fraudulent activities ([Wolfe and Hermanson 2004](#)). The village apparatus is a determining factor in adequately implementing the assigned tasks. One aspect of increasing the capacity of village managers is the mastery of knowledge, skills, and understanding gained through education, training, learning, and experience. The village head must have three skill levels: (1) basic skills, (2) management skills, and (3) technical skills. The basic skills that the village head must possess include understanding village conventions and knowledge.

The inhibiting factor in implementing village financial management is the village government's low level of human resource education. The understanding of the population in decision making and coaching is still feeble. [Wahyudi et al. \(2019\)](#) identified problems faced by village officials in managing village funds. The main problem that arises is the understanding and knowledge of the village head regarding village financial management.

In addition, there is a lack of assistant staff to help manage the village treasury. Their research examined the vulnerability of fraud in village financial management in Indonesia and how appropriate anti-fraud strategies prevent it. Thus, the results of their study indicate that the possibility of fraud for the Indonesian tax authorities is quite concerning, including in planning, implementation, and reporting. Potential problems exist in regulations and institutions, management, supervision, and personnel. Anti-fraud strategies that can apply include budgeting in village finances, improving the skills of human resource managers, and outlining the role of village financial assistants. The research of [Atmadja et al. \(2019\)](#) examines the effect of changes in the capacity of the apparatus and the internal control system on the prevention of fraud in village financial management with ethical moderating variables. The results showed that the power of the device and the internal control system had a significant effect in preventing fraud in village financial management. Next, it shows the spirit of adjusting the influence of capacity and internal control in the village fraud prevention system.

Ethics include individuals' mental and emotional attitudes as members of social groups in carrying out their duties and loyalty to their groups ([Setiawan 2018](#)). Ethical sensitivity refers to the perception of how one's actions affect others. Moral sensitivity includes knowledge of activities and how they may involve stakeholders. Ethical sensitivity includes imaginative situations, understanding of causal chains, empathy, and the ability to take on roles. The four-component deep rest model was first introduced due to research in moral psychology ([Jordan 2007](#)). Furthermore, it was developed in [Jordan \(2007\)](#) to model the components that are thought to underlie all righteous actions. Psychological research concerns the study of the consideration of individual moral processes and thought behavior. Rest states that an individual goes through. There are four basic psychological processes for ethical behavior, namely ethical sensitivity, moral judgment, ethical dynamics, and honest character. The cognitive moral theory introduced by [Althof and Berkowitz \(2006\)](#) considers that ethical considerations/reasons can be assessed using a three-level framework consisting of (1) prior agreement, (2) agreement level, and (3) post-agreement.

Good governance contributes to various development goals through internal changes in how power is managed, from the usual state control and command to a new, more balanced way of connecting with different stakeholders ([Handayani et al. 2020](#); [Ekananda and Suryanto 2021](#)). Based on this statement, every organization must practice good governance and not rule out the possibility at the village government level. The village fund, if not corrupted, is very beneficial for the village community. For example, it is used for infrastructure development to improve economic performance, increase labor productivity, stimulate trade, increase job opportunities, and encourage rapid economic growth ([Elfaki et al. 2021](#); [Khadim et al. 2021](#)). The importance of implementing village government to realize good village governance will also lead to efforts to improve and perfect the government management process to increase government efficiency. To encourage the achievement of good village governance, it is essential to integrate good governance into good village governance ([Wahyudi et al. 2019](#)).

Research that shows the relationship between ethics and internal control systems comes from [Husnawati et al. \(2017\)](#), who argue that people with good ethics and internal control systems tend to prevent bookkeeping and fraud. Ethics consists of personal or cultural values, moral codes, or social customs distinguishing good from bad. Therefore, ethics plays a vital role for a public official as an executor of government obligations and creates a constitution for the benefit of the people in a transparent and accountable manner that is not corrupt ([Hayati and Amalia 2021](#)). The results of [Halbouni et al. \(2016\)](#) show that ethics has a significant influence on accounting fraud prevention. The higher the morale of the property apparatus, the greater the possibility of government accounting fraud. In another study, [Basri et al. \(2021\)](#) suggest that machine morale strongly influences the tendency to fraud.

3. Methodology

3.1. Population and Sample

The population in this study is in the Village District Sumowono, Semarang Regency Government, Central Java, Indonesia. In this study, researchers took samples using a sampling technique they could not use with a sampling target, namely sampling with specific criteria. According to Ghozali (2016), the sampling design may not have population items that show the same changes as the sample. The number of the population is unknown, while the objective sample is used to collect specific samples and groups as desired. The criteria used by researchers can provide the desired information. The respondents of this research are village officials who are directly related to the management and reporting of village funds. The village officials include the village head, village secretary, and village assistants because they have the main task of managing village finances; these officials include the Head of the Government & Public Service Section, Head of the Peace, Order & Environment Section, Head of the Community Empowerment Section, and all members of the Village Consultative Body.

3.2. Research Design and Data Sources

These studies are quantitative or hypothetical inference methods in response to exploratory, descriptive, explanatory, and predictive research. The data source used in this study is primary data, which comes directly from research subjects' respondents. Data were collected using a survey method in a questionnaire containing a list of reports given to respondents to be completed to obtain information from respondents. We measured respondents' responses using a Likert scale or a summation scale. Secondary data included supporting data from books and other works on the subject under study.

3.3. Definition of Transformation Activities

An explanation of the magnitude of change, variation index, and scale is described in Table 1. below:

Table 1. Variable operational definition.

No.	Variable	Definition	Indicator
1	Internal Control System (X1) (Putri and Irwandi 2017)	The internal control system is an integral process of continuously carrying out actions and activities to provide adequate confidence in achieving organizational goals.	<ol style="list-style-type: none"> 1. Control environment 2. Risk assessment 3. Control standard 4. Information and communication 5. Monitoring
2	Appropriate Compensation (X2) (Purnomo and Khafid 2017)	The financial reward system (wages payment) is designed to attract, retain, and encourage employees to work productively.	<ol style="list-style-type: none"> 1. Financial compensation 2. Company recognition for success in carrying out work 3. Promotion 4. Completion of tasks, 5. Personal development.
3	Village Apparatus Competence (X3) (Atmadja et al. 2018)	An apparatus's capabilities are in the form of personality foundation, workability, knowledge, skills, attitudes, behavior, and an understanding of the rules of social life needed in carrying out their duties.	<ol style="list-style-type: none"> 1. Educational background and level 2. Principles of good governance 3. Attitudes and behavior of apparatus 4. The role of the community apparatus 5. Mastery of knowledge and expertise ability to work

Table 1. Cont.

No.	Variable	Definition	Indicator
4	Village Fund Fraud Prevention (Y) (Atmadja et al. 2019)	Prevention of village fund fraud is an effort to eliminate the causes of the fraud.	<ol style="list-style-type: none"> 1. Corruption 2. Asset misappropriation 3. Fraudulent financial statement
5	Moral Sensitivity (Z) (Myyry 2003)	Morality refers to personal or cultural values, codes of ethics, or social customs that distinguish between right and wrong, so that character in an apparatus plays an essential role as a holder of a commitment to the governance and development by the constitution, in favor of the interests of the people, in a manner that is transparent, accountable, and not corrupt.	<ol style="list-style-type: none"> 1. Moral reasoning is based on rewards (gifts) and self-interest 2. Do good to be treated well by the environment 3. Realizing their obligation to implement existing norms and maintain their importance 4. Moral reasoning is based on laws and regulations 5. Carry out activities according to actual conditions

Source: Primary data processed, 2021.

3.4. Data Analysis Method

The data analysis tool in this study used a Structural Equation Modeling (SEM) approach with the Least Partial Squares (PLS) method using Warp-PLS 7.0 partial software (Ned Kock, Texas, USA). PLS-SEM was used to simultaneously examine the relationship between latent structures in linear or nonlinear relationships with multiple indices in reflectance, format, and MIMIC. Unlike conventional multivariate analysis, PLS is more powerful because it can build research models with many variables and indices (Ghozali 2016). This study uses Warp PLS version 7.0 because it offers a variety of flexibility. There are various advantages of Regression in PLS. First, we can use it in theory development to test and validate the exploratory model. Second, it fits in a variety of prediction-oriented research models. Third, it can aid in estimating a model that is complex with a variety of manifest and latent variables. Fourth, it does not require normality. Fifth, it does not require a large sample. Sixth, it can hold formative and reflective indicators as well as measurement models (Ghozali 2016).

PLS is a powerful analysis method (sort modeling) because it eliminates Ordinary Least Square (OLS) regression assumptions, such as requiring the data to be generally distributed in a multivariate manner, and there are no problems related to multicollinearity between exogenous variables. PLS-SEM has the consequence that the test can be carried out even without a strong theoretical basis and various assumptions (non-parametric) and the parameters of the accuracy of the prediction model if one sees a value of the coefficient of determination (*R*-square).

4. Results and Discussion

4.1. Descriptive Statistical Analysis Results

This study uses primary data sources from respondents' responses to all questions in the research questionnaire. The distribution of the questionnaires was carried out directly by the author. When completing the questionnaires, the authors also directly collected them from each village office in 16 (sixteen) districts in Sumowono. Altogether, 16 villages completed 20 questionnaires each for a total of 320 questionnaires. This study distributed 320 questionnaires to village officials in Sumowono Regency with a total of 90.31% questionnaires returned (up to 289 questionnaires). A summary of the distribution and return of questionnaires is shown in Table 2, and the statistics descriptions are provided in Table 3. for the average of all indicators on each variable.

Table 2. Summary of distribution and return of questionnaires.

No	District Name	Number of Villages	Number of Questionnaires
1	Questionnaire Distribution	16	320
2	Query Not Returned	16	23
3	Returning Questionnaire	16	297
4	Broken Questionnaire	16	8
5	Processable Questionnaire	16	289

Source: Primary Data, 2021.

Table 3. Statistics descriptions.

Variable	N	Min	Max	Mean	Std. Deviation	Skewness	Kurtosis
Internal Control System	289	3.77	5.00	4.34	0.432	0.331	0.637
Appropriate Compensation	289	3.54	4.80	4.21	0.349	0.044	0.076
Competency of Village Apparatus	289	3.65	4.65	4.23	0.323	0.184	0.303
Village Fund Fraud	289	3.78	5.00	4.47	0.336	0.226	0.438
Moral Sensitivity	289	3.40	4.58	4.12	0.343	0.443	0.871

Source: Primary Data processed, 2021.

The stages of analysis using PLS-SEM are through a six-stage process such as conceptualization of the model, determining the analysis algorithm, determining the resampling method in Table 4, and drawing the path diagram. Results of the latent variable coefficients output are shown in Table 5. Next, we will carry out in two stages evaluation of the model in PLS-SEM: first, the outer model or evaluation of the measurement model; second, the inner model or evaluation of the structural model. The fit index and model quality are shown in Table 6, the output path coefficients and the direct effects of the model are shown in Table 7. Furthermore, the output path coefficients and the model indirect effects are shown in Table 8. The outer model was conducted to assess the reliability and validity of the latent construct forming indicators. In comparison, the inner model aims to predict the relationship between latent variables by seeing how we can explain most of the variance and determine the significance of the p-value. After the model has been estimated and evaluated, the last step is to report and communicate the results of the analysis that has been carried out.

Table 4. Discriminant validity.

	Internal Control System	Appropriate Compensation	Competency of Village Apparatus	Village Fund Fraud	Moral Sensitivity	Moral Sensitivity × Village Fund Fraud
Internal Control System	0.813	−0.631	−0.423	0.348	−0.381	−0.017
Appropriate Compensation	−0.631	0.845	0.466	−0.573	0.517	−0.067
Competency of Village Apparatus	−0.423	0.466	0.833	−0.486	0.506	−0.083
Village Fund Fraud	0.348	−0.573	−0.486	0.805	−0.476	0.142
Moral Sensitivity	−0.381	0.517	0.506	−0.476	0.741	−0.101
Village Fund Fraud × Moral Sensitivity	−0.017	−0.067	−0.083	0.142	−0.101	0.518

Source: Data processing results Warp-PLS 7.0, 2021.

Table 5. Results of latent variable coefficients and output.

	Internal Control System	Appropriate Compensation	Competency	Village Fund Fraud	Moral Sensitivity
R-squared				0.579	0.898
Adj. R-Squared				0.343	0.545
Composite Reliab.	0.831	0.847	0.897	0.786	0.548
Cronbach's alpha	0.735	0.796	0.847	0.842	0.436
Avg. Var. Extrac.	0.495	0.457	0.438	0.555	0.312
Full collim.VIF	1.546	1.514	1.486	1.456	1.443
Q-squared				0.165	

Source: Primary data processed, 2021.

Table 6. Model fit and quality indices.

Model Fit and Quality Indices	Index	Criteria	Result
Average Path Coefficient (APC)	0.095	$p < 0.05$	Fit Model
Average R-Squared (ARS)	0.132	$p < 0.05$	Fit Model
Average Adjusted R-Squared	0.104	$p < 0.05$	Fit Model
Average Block Variance Inflation Factor (AVIF)	1.339	≤ 5 and ideally 3.3	Fit Model
Average Full Collinearity VIF (AFVIF)	1.478	≤ 5 and ideally 3.3	Fit Model
Tenenhaus GoF (GoF)	0.218	small ≥ 0.1 , medium ≥ 0.25 , large ≥ 0.36	Fit Model
Simpson's Paradox Ratio (SPR)	1.465	≥ 0.7 and ideally = 1	Fit Model
R-Squared Contribution Ratio (RSCR)	0.963	≥ 0.9 and ideally = 1	Fit Model
Statistical Suppression Ratio (SSR)	1.000	≥ 0.7	Fit Model
Nonlinear Bivariate Causality Direction Ratio (NLBCDR)	1.000	≥ 0.7	Fit Model

Source: Primary data processed, 2021.

Table 7. Output path coefficients model direct effect.

Correlation	Path Coefficients	p-Value	Information
Internal Control System → Village Fund Fraud	0.111	0.07	Accepted
Appropriate Compensation → Village Fund Fraud	0.216	0.03	Accepted
Competency → Village Fund Fraud	0.060	0.08	Accepted

Source: Primary data processed, 2021.

Table 8. Output path coefficients model indirect effect.

Correlation	Path Coefficients	p-Value	Information
Moral Sensitivity × Internal Control System → Village Fund Fraud	0.118	0.05	Accepted
Moral Sensitivity × Internal Control System → Village Fund Fraud	0.279	0.04	Accepted
Moral Sensitivity × Competency → Village Fund Fraud	0.087	0.01	Accepted

Source: Primary data processed, 2021.

4.2. Discussion

4.2.1. Internal Control System on the Prevention of Village Fund Fraud

Testing the first hypothesis in Table 8 shows that the internal control system positively affects village fund fraud prevention. The findings of this study support the fraud triangle theory, which explains that fraud can be caused by a weak internal control system (Opportunity). When the internal control system is weak, there are opportunities for fraud (Pamungkas et al. 2020). Therefore, a robust internal control system is needed to prevent fraud. This study combines the results of Husnawati et al. (2017) and Laksmi (2020), explaining that the internal control system has a positive effect in preventing village fund fraud. A sound internal control system can eliminate fraudulent practices. Establishing an internal control system is a commitment to creating good corporate governance. A sound internal control system can control and monitor employees to prevent fraud. According to Monteiro et al. (2021), the internal control system includes organizational structure, methods, and coordinated actions to maintain corporate wealth and verify accounting data's accuracy and reliability. Adequate controls can minimize the level of accounting fraud. This study indicates that fraud prevention will increase as the internal control system becomes more effective. The results of this study support the conclusions of Atmadja et al. (2018), who conclude that the internal control system impacts preventing fraud in village financial management. Indeed, it can avoid all types of financial fraud in an organization or Government through an adequate internal control system.

The Government's internal control system affects accountability in the management of village funds because the Government's internal control system can minimize errors or fraud in the management of village funds, bookkeeping data, etc. According to Yusrianti et al. (2020), the opportunity is a situation where opportunities are open to employees that allow fraud to occur. These opportunities are due to weak internal control, weak supervision, and weak law enforcement within the institution. This finding indicates that implementing an increasingly effective internal control system reduces village fund fraud, specifically in Sumowono District, Semarang Regency. An effective internal control system can affect the smooth operation of the finance department. Appropriate division of authority and responsibility, authorization from authorized parties, including supporting documents for transactions, physical inspection of assets, proper recording of each activity, and thorough supervision evaluation of operational activities will reduce the level of fraud in village funds. The implication of the findings of this study is to prevent the trend of fraudulent village funds in village administrations in Sumowono District, Semarang Regency. So, it is necessary to implement an effective internal control system. One of the efforts to prevent fraud is to build an adequate internal control system. Internal control in an agency or organization does cover not only accounting and financial activities but also all operational aspects of the organization.

4.2.2. Appropriate Compensation on Prevention Village Fund Fraud

The results of this study indicate that the appropriate compensation affects fraud in village funds. The results of this study are in line with research conducted by Putri and Irwandi (2017) that the appropriate compensation involves the prevention of village fund fraud. This shows that employees are not satisfied with the payment received, which creates fraud in village funds. Jensen and Meckling (1976) explained that the principal could resolve the problem between the principal and agent by offering adequate compensation to the primary agent by bearing the cost of supervision. Appropriate compensation can minimize fraudulent village funds. This study is similar to the research conducted by Purnomo and Khafid (2017), which explains that the appropriate compensation has a negative effect on preventing village fund fraud. If the compensation received is less, they will tend to cheat village funds.

4.2.3. Village Apparatus Competence on the Prevention of Village Fund Fraud

The results of hypothesis testing show that the competency of the village apparatus has a significant effect on preventing village fund fraud. The results of this study are similar to previous studies by [Atmadja et al. \(2018\)](#), which clearly show that village apparatus competence has a significant effect on village fund fraud. The apparatus must have knowledge, skills, attitudes, and behaviors in the village financial management process to carry out their duties and responsibilities. To improve the competence of village apparatus by attending training courses, consulting or following the district/regency government's training plan, and increasing knowledge and understanding of financial management, the apparatus can attend seminars, workshops, etc. Activities are related to village financial management organized by the authorities. The results of this study are in line with research conducted by [Laksmi \(2020\)](#) that indicate that the device's capacity has a significant effect on preventing village fund fraud. According to [Idie Widigdo \(2013\)](#), tools without accounting knowledge can lead to unprofessional financial management and a high possibility of fraud. With the expertise of competent village officials in Sumowono District, Semarang Regency, the risk of fraud or fraud in managing village funds is lower.

A person's competence can be seen from the level of creativity he has, the innovation he makes, and his ability to solve problems. Competence is generally defined as a form of skill, knowledge, talent, and behavior in carrying out a task. As revealed by [Rahmatika et al. \(2019\)](#) from various sources, among others, competence is a combination of motivation, characteristics, talents, aspects of one's self-image or social role. In other words, competence is any personal trait that can be associated with successful performance ([Rukmana 2018](#)). Regulation of the Head of the State Civil Service Agency no. 8 of 2013 concerning Development of Technical Competency Standards for Civil Servants clearly states that technical capacity is the work capacity of every civil servant, which includes knowledge, skills, and work attitudes. They are necessary for the fulfillment of their function. Therefore, competent officials in village fund management will have more potential to prevent fraud in the direction of village funds. The results of this study are in line with the results of research by [Lastanti \(2020\)](#), which confirm that the device's capacity has a significant effect on fraud prevention. These are consistent with the results of [Apriliana and Agustina \(2017\)](#), which confirm that when the capacity of village apparatus human resources, in this case from an educational perspective, is weak, it becomes an obstacle in managing village finances, so fraud is very likely to occur.

With adequate institutional capacity in managing village finances, it is hoped that officials can achieve the economic and social objectives of the village government. [Atmadja et al. \(2018\)](#) argues that the capacity of the apparatus is sufficient if the quantity and quality of responsibilities increases proportionally. Thus, responsibilities are distributed adequately and avoid any fraud. This research is in line with [Wang et al. \(2017\)](#), which indicates the ability of the device to have an anti-fraud effect. Paying attention to the level of skill possessed by the apparatus can prevent fraud because the apparatus has the ability to meet organizational needs and carry out their duties properly according to Standard Operating Procedures. Based on the standard concept of the third fraud triangle, rationalization can create opportunities for fraud to occur because the perpetrator shows an attitude that justifies the actions taken. However, rationalizing attitudes and behavior does not necessarily lead to greedy behavior. Behavior is essentially goal-oriented, in the sense that people's behavior is generally motivated by a desire to achieve specific goals, but these goals are not always realized by the individual concerned; a worker allows for good performance ([Widigdo 2013](#)). These personal aspects include traits, motivations, value systems, attitudes, knowledge, and skills where competence will guide behavior, while behavior will drive performance.

The results of [Petraşcu et al. \(2015\)](#) show that human resource capacity significantly influences fraud detection. The study results by [Purnamasari and Amaliah \(2015\)](#) show that competence of the apparatus already have knowledge and understanding about fraud prevention. Based on this concept, it is proven that competence of the apparatus capacity

and fraud prevention are directly proportional; if competence of the apparatus is getting better, employees will not cheat. The higher the skill level of human resources, the better the understanding of fraud in fraud prevention and detection efforts, and the lower the possibility of fraud. Therefore, human resource capacity has a positive and significant impact on fraud prevention. The ability or skill of village officials is an essential factor in preventing the misappropriation of village funds. Therefore, the local Government seeks to continue to increase its capacity both through education and training related to the management of village funds.

4.2.4. Moral Sensitivity as Moderating Effect of Internal Control System on Preventing Village Fund Fraud

Based on the results of the hypothesis obtained, individual morality strengthens the influence of the internal control system on preventing fraud in the village government. This is because the morality possessed by the village apparatus is classified as very good. It can improve the implementation of the internal control system in the village government ultimately and adequately prevent fraud. According to [Muslih and Umar \(2020\)](#), the performance of a suitable control environment in the internal control system can prevent corruption. Establishing a conducive control environment is very important in avoiding corruption because the main elements in the control environment are integrity, honesty, and the development of a code of ethics and ethical values. A person with integrity lives their life by upholding and carrying out their principles, code of ethics, and moral values. The results of this study are in accordance with the research of [Atmadja et al. \(2018\)](#), which concluded that morality succeeded in moderating the influence of the internal control system on fraud prevention in village financial management. A reliable internal control system must also support good character and adequate competence of the apparatus to prevent fraud in village financial management by analyzing the belief system. The author explored the vision-mission statement and ascertained that these values guide the implementation of the tasks and deliver the vision, mission, and ideals from superiors to all village officials. Based on the diversity of perceptions of responses from informants to statements about the method of delivering the activities carried out, there may have been obstacles/obstacles in the communication, so it might be ineffective and unable to be achieved. On the other hand, communicating organizational values through direct examples given by the leadership has been quite effective in conveying values to village officials.

The results of this test are in line with the concept of competence. According to [Putri and Yadiati \(2020\)](#), the competence of the apparatus needs to be considered in the prevention of village fund fraud. Competence is the basis of a person's characteristics and indicates how to behave, think, equate situations, and provide support for long periods. In other words, competence is something that a person demonstrates at work every day. When the apparatus has good moral sensitivity and is equipped with good competence, it can prevent fraud. Based on the results of the hypothesis, it is ascertained that individual morality strengthens the influence of village apparatus competence on fraud prevention in village government. This is because the morality possessed by the village apparatus is classified as very good. It can improve the competence of the village apparatus in the village government well and ultimately prevent fraud. The results of this test are in line with previous research conducted by [Wahyudi et al. \(2021\)](#), which stated that competence has a negative effect on the tendency of accounting fraud. This shows that the higher a person's competence, the lower the tendency for accounting fraud to be. The results of this study are also in line with the research of [Sawaka K and Ramantha \(2020\)](#), which states that human resource competence negatively affects the tendency of fraud to occur. The lower the competence of human resources in managing village finances, the higher the tendency for fraud to occur in village financial management.

In managing village finances, human resources must have competence, which means the abilities that an apparatus must have in the form of knowledge, skills, attitudes, and behaviors needed for carrying out their duties. This needs to be done in addition to good

financial and village governance, which must coexist and avoid information asymmetry. Village funds are funds provided by the central Government that require professionalism in their management to be right on target and avoid violating predetermined rules. They are adjusted to the interests of the village Government in synergy with the community to achieve optimal village income and enable the village community to prosper. Adequate competence of the apparatus in terms of quantity and quality will increase the accountability of the budget realization report at the village financial level so that all responsibilities can be carried out correctly and all acts of fraud can be avoided. The results of this study are consistent with previous research from [Atmadja et al. \(2018\)](#); [Laksmi \(2020\)](#); and [Rukmana \(2018\)](#), who essentially state that the competence of the apparatus has a significant influence on the fraud prevention process in financial management.

Based on the hypothesis, it is obtained that individual morality strengthens the influence of village apparatus competence on preventing village fund fraud. This means that the higher the competence of the village apparatus, the more likely the individual is to improve his morality, do the right thing, and prevent fraud. It can be said that the higher the individual's morality, the lower his tendency to commit fraud. The human resource factor, namely quality apparatus, is the most crucial. One element that shows how good the quality of the device is in carrying out its duties is how well the machine can understand and apply the values of integrity within each of them. Using these integrity values can prevent corruption because, according to [Halbouni et al. \(2016\)](#), integrity is compatible with what a person says and their actions. The words he says must be in accordance with their ethics and moral values. The results of this study are in line with the research of [Atmadja et al. \(2018\)](#), which concluded that morality managed to moderate the influence of apparatus competence on fraud prevention in village financial management. This is because one's competence or ability to manage finances is often misused to commit fraud accompanied by good morality. The results of this study are in line with previous research conducted by [Basri et al. \(2021\)](#), which stated that morality affects fraud prevention, meaning the stronger the moral sensitivity of the village government apparatus, the higher the competence possessed by the device itself to prevent fraud.

5. Conclusions

The results of this study are based on each village office in 16 (sixteen) districts in Sumowono. These findings indicate that implementing an increasingly effective internal control system reduces village fund fraud, specifically in the Sumowono District, Semarang Regency. An effective internal control system can affect the smooth operation of the finance department. The study results indicate that internal control, appropriate compensation, and the competency of village apparatus impact the prevention of village fund fraud. In addition, moral sensitivity can strengthen the relationship between internal control, appropriate compensation, and the village apparatus' competency to prevent village fund fraud. With an adequate internal control system, preparing financial reports or accountability reports reduces the risk of error, resulting in quality financial statements or accountability. A sound internal control system is supported by a controlled environment (management actions, policies, and procedures), risk assessment/risk analysis, control, information and communication, and an assessment strategy carried out by the Village Advisory Board. Implementing and maintaining internal controls can reduce fraud in the management of village funds to create targeted, precise, and fast activities and at the same time save costs in managing village funds. An adequate internal control system is believed to have the potential to strengthen efforts to prevent village fund fraud. Since organizations have adequate internal controls to prevent people from acting fraudulently in the face of the temptation to commit fraud, it is the village Government's responsibility to establish and maintain internal control to prevent fraud in the management of village funds. The competency of the village apparatus affects the prevention of village fund fraud. This means that the ability of the village apparatus has a vital role in managing village finances to achieve the

common goal of improving the welfare of the community through enhancing the village economy, society, culture, and other fields.

Research Limitations

The current research still has many gaps and limitations; this research is a survey method that uses a questionnaire without interviews or oral questions. Research results cannot be confirmed and explained in more detail, especially for reporting compliance variables. The role of village assistants has not been maximized because of the leadership culture in the village Government environment. There are always inconsistent responses to the questionnaire based on the researcher's observations. Because respondents' answers tend to be less in-depth and there are inconsistencies in the answers to the questionnaire. Researchers can predict this by helping and monitoring respondents in choosing answers so that respondents focus on the answers to the following questions. The results of this study should indicate that the capacity of village officials and financial reporting compliance has a significant influence on preventing village fund fraud. At the same time, the internal control system established trust tools that do not prevent fraud. The use of the ethical vulnerability variable is not a control variable because theoretically, the attitude or behavior of people cannot be measured as a reinforcing or reinforcing variable, weakening the employee's independent variable. Village officials can improve skills through training and technical counseling workshops and subsequently help prevent the fraudulent use of village funds. In addition, it is important to always consider moral or ethical values as a factor in managing village finances.

The variables used in this study were very few: namely, only three variables. Therefore, further research can add other variables related to fraud prevention. The results can provide a broader picture of the factors that influence fraud prevention outside their authority, compliance with financial statements, and internal control systems such as organizational culture or leadership commitment and the role of colleagues. Can use the internal control system developed to prevent fraud. The questionnaire used by the researcher was limited, and the report was full of gaps. The skills of village officials affect the prevention of fraud; the internal control system affects the prevention of fraud as well.

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