

Fraud Prevention of Village Funds

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Abstract

Village funds refer to the allocation of funds distributed to villages as part of the government's efforts to improve the development and welfare of people in rural areas. However, there is often misuse of village funds by village officials, which results in cases of corruption of village funds within the village government. The purpose of this study was to obtain empirical evidence on the impact of individual morality and whistleblowing on the prevention of village fund fraud. This research is a quantitative-oriented study that uses primary data in the form of questionnaires given to 122 village apparatuses in Muara Kemumu District. Data processing is carried out using Smart Partial Least Squares (PLS). The results of this study show that individual morality and whistleblowing have a positive impact on preventing village fund fraud.

Keywords: village funds, fraud prevention, individual morality, whistleblowing

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1. Introduction

Village funds are part of the State Budget (APBN) intended for villages for the implementation of community development and empowerment (Banowati et al., 2022). The Indonesian government annually allocates increasing funds in the State Budget, with the aim of supporting village development and improving the welfare of rural communities throughout Indonesia. This is reflected in the policies that have been established from 2015 to 2023. Village funds have increased significantly from 2015 to 2023, starting from Rp. 20.8 trillion in 2015 to reach the latest allocation of Rp. 70 trillion in 2023. In total, village funds continue to increase from year to year (Kementerian Keuangan, 2023).

The phenomenon of increasing the amount of village funds distributed by the government is not in line with good management, especially because the presence of village funds is currently very vulnerable to potential fraud Atmadja et al., (2019). Based on a study conducted by Indonesia Corruption Watch (ICW) in 2015, corruption cases related to village funds caused state losses of around 40.1 billion rupiah. In 2022, there was a significant increase in village fund corruption cases, with losses reaching IDR 381 billion. The drastic increase in corruption cases in the village sector reflects a very concerning situation. These corruption cases show that villages, which were previously considered part of development efforts, have become new fields for acts of corruption (Wahyudi et al., 2022).

One of the corruption cases related to village fund management today is the Talang Tige village fund corruption case, Muara Kemumu District, Kepahiang Regency, Bengkulu. This corruption case stems from the Village Fund budget for Fiscal Year 2019 of Rp 1.1 billion allocated for two infrastructure activities. The results of the audit, state losses due to this corruption case reached IDR 400 million (Radar Kepahiang, 2023).

An increase in the allocation of funds can lead to corruption of village funds. Therefore, steps need to be taken to avoid cases of village fund corruption by taking preventive measures aimed at preventing misappropriation of village funds. Some steps that can be taken are minimizing the misuse of village funds through increasing transparency, accountability, independent reports, commitment, and collaboration of village officials. In addition, it is also important to implement preventive measures against village fund fraud to reduce the factors that cause fraud (Wahyudi *et al.*, 2022).

The first factor believed to influence the prevention of village fund fraud is individual morality. Morality is a system of values and principles that regulate and direct human behavior to consider what is considered right and wrong in decision making and action (Saputra et al., 2020). In general, low morality can lead to cheating, while individuals who prioritize morality will be more obedient to the rules. Therefore, a person who has high moral values can avoid acts of fraud or

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cheating because they tend to follow strong ethical principles and moral values in their actions and decisions. They behave honestly, fairly, and abide by applicable rules (Saputra *et al.*, 2022). The findings in research conducted by Saputra *et al.*, (2020); Dewi *et al.*, (2022) dan Wahyudi *et al.*, (2021) show that there is a positive relationship between individual morality and preventing village fund fraud. However, the results of research reported by Banowati *et al.*, (2022) indicate that there is no significant influence of individual morality on fraud prevention at the village level.

Whistleblowing is the second factor believed to have an influence on preventing village funding shortages. Whistleblowing is the disclosure of acts of violation or behavior contrary to the law that can harm the organization or interested parties (Mahdi *et al.*, 2021). Usually, this disclosure action is done confidentially or confidentially. The important thing is that disclosure is done in good faith and not as a form of ill-motivated individual protest (Wahyudi *et al.*, 2021). Effective whistleblowing can act as a highly efficient tool in preventing fraud and improving good governance and helping to create a clean and professional work environment (Susandya *et al.*, 2022). Results of research conducted by Mahdi *et al.*, (2021); Saputra *et al.*, (2020); Wahyudi *et al.*, (2022) show that whistleblowing has a positive impact on preventing village fund fraud. However, findings from research conducted by Dewi *et al.*, (2022) and Atmadja *et al.*, (2019) indicate that whistleblowing has no effect on preventing village fund fraud.

2. Literature Review

Morality is a good or bad behavior or attitude that arises from within each individual, and can be influenced by factors in the family environment and organizational environment (Laksmi, 2020). Internal factors described in attribution theory such as morality are able to influence an individual's ability to evaluate good and bad attitudes (Susandya *et al.*, 2022). Individuals who have good morality tend to exhibit behaviors that benefit others. This means that individuals who have good morality will prioritize the public interest and not just their own personal (Wahyudi *et al.*, 2022), in contrast to individuals who have bad morality can create rationalizations for corrupt behavior. This is in line with the concept of the fraud triangle, which includes rationalizing thoughts or reasons for such actions. An employee with low morality often looks for justifications or excuses for corrupt acts. They believe that corruption is an effective way to gain personal gain and feel it is right to do so. This kind of rationalization ignores the ethical values and regulations that apply (Banowati *et al.*, 2022).

Someone who works as a village apparatus with a high moral level has the potential to prevent fraud, because they tend to obey the rules in accordance with generally accepted ethical principles (Haliah, 2021). High individual morality in an agency will inhibit village officials from committing fraudulent actions because village officials who prioritize morals will tend to obey applicable norms in accordance with ethical principles (Islamiyah *et al.*, 2020), if individual morality in an institution is low, the possibility of fraud committed by village officials will increase (Dewi *et al.*, 2022). Based on the results of several supporting studies, such as those conducted by (Dewi *et al.*, 2022; Islamiyah *et al.*, 2020; Romadaniati *et al.*, 2020; Susandya *et al.*, 2022; Wahyudi *et al.*, 2022), found that morality has a positive influence on fraud prevention. Therefore, based on the above arguments, the hypothesis proposed is as follows:

H1: Individual morality has a positive effect on preventing village fund fraud

Whistleblowing is the process of reporting fraudulent or illegal actions that occur in an organization with good intentions carried out in secret (Dewi *et al.*, 2022). Whistleblowing is not only to report fraudulent acts but is also useful to provide a deterrent effect and motivate village officials not to cheat and jointly conduct supervision in the context of prevention (Saputra *et al.*, 2020). Collaborative supervision with village officials can reduce the opportunities contained in the concept of the fraud triangle. By reducing these opportunities, it will minimize the possibility for village officials to engage in fraudulent acts. Thus, the implementation of whistleblowing is an excellent step. This will encourage village officials to be more responsible in carrying out their duties and more careful in all actions related to village fund management. In addition, the presence of whistleblowing makes village officials feel supervised, which in turn reduces their chances of committing fraudulent acts. (Suandewi, 2021). Whistleblowing gives an opportunity to a whistleblower, or whistleblower, to disclose fraudulent acts or violations that occurred. The role of the whistleblower is crucial in exposing unlawful acts or unethical behavior (Prameswari *et al.*, 2022).

Attribution theory explains that the reasons behind a person's actions can stem from external factors. As explained by (Rifai & Mardijuwono, 2020), attribution theory can provide an understanding of the factors that encourage and motivate someone to report incidents through whistleblowing. A factor that can make an agency free from fraud is the existence of a whistleblowing system that functions properly (Romadaniati *et al.*, 2020). One of the whistleblowing works well, where someone dares to report fraud because there is good protection and support for whistleblowers so

that they avoid the risk of intimidation or repression. The higher the whistleblowing rate, it will contribute to increasing the effectiveness of fraud prevention (Dewi et al., 2022). Several studies show that whistleblowing plays an important role in fraud prevention (Mahdi et al., 2021; Mersa et al., 2021; Romadaniati et al., 2020; Saputra et al., 2020). Based on the above arguments, a hypothesis is proposed:

H2: Whistleblowing has a positive effect on preventing village fund fraud

3. Methods

This study adopts quantitative research methods by collecting primary data through the distribution of questionnaires to 122 village officials from 8 villages in Muara Kemumu District, Kepahiang Regency, Bengkulu Province. The questionnaire uses a 5-point Likert scale, in the context of individual morality, a score of 5 indicates that respondents have a very high level of morality and tend to behave honestly and with integrity in the management of village funds. Meanwhile, in the whistleblowing aspect, a score of 5 illustrates that respondents have a very high level of readiness to report every act of fraud they encounter and shows the more effective whistleblowing at the agency. Sampling is carried out by the census survey method, which aims to collect data from the entire target population, so that all members of the population become samples in the study. After the data is collected, the information will be processed using the SmartPLS 3.0 application. PLS makes it possible to explain the relationship between variables and perform several analyses in one test. The use of PLS aims to help researchers confirm theories and explain whether there is a relationship between latent variables or not (Ghozali, 2021). Research analysis involves the analysis of the outer model and inner model.

4. Result

4.1. Descriptive Statistical Analysis

Table 1. Descriptive Statistical Analysis

Variable	Theoretical		Current		Standard Deviation
	Range	Mean	Range	Mean	
Individual Morality	4 – 20	12	12 – 20	18.07	2.275
Whistleblowing	7 – 35	21	21 – 35	30.25	3.386
Village Fund Fraud Prevention	9 – 40	24,5	27 – 45	39.74	4.325

The variables in this study have a low theoretical average compared to the actual average. This indicates that the majority of respondents answered in agreement and have high morality and whistleblowing on the prevention of deficiencies. This suggests that research data have little variation and responses from respondents tend to be uniform.

4.2. Research Data Analysis

4.2.1. Convergent Validity

This test is used to determine whether a questionnaire is valid or not. The results of the questionnaire validity test can be found in the Table 2.

The results of data analysis in Table 2 show that all loading factors have values above 0.7. Therefore, no variables are removed from the model because they all meet the set criteria. Convergent validity can also be assessed based on the value of Average Variance Extracted, as shown on Table 3.

Based on the results in Table 3, it can be concluded that the convergent validity criterion, namely Average Variance Extracted (AVE) > 0.5, has been met. Therefore, such indicators are considered valid and can be used in subsequent analysis.

Table 2. Convergent Validity

	Individual Morality	Whistleblowing	Village Fund Fraud Prevention	Conclusion
XM1	0.929			Valid
XM2	0.888			Valid
XM3	0.925			Valid
XM4	0.896			Valid
XW1		0.817		Valid
XW2		0.872		Valid
XW3		0.749		Valid
XW4		0.787		Valid
XW5		0.797		Valid
XW6		0.768		Valid
XW7		0.705		Valid
YP1			0.759	Valid
YP2			0.743	Valid
YP3			0.789	Valid
YP4			0.761	Valid
YP5			0.786	Valid
YP6			0.79	Valid
YP7			0.705	Valid
YP8			0.778	Valid
YP9			0.761	Valid

Table 3. Value of Average Variance Extracted (AVE)

	Average Variance Extracted (AVE)
XM	0.828
XW	0.619
YP	0.584

4.2.2. *Discriminant Validity*

From the data listed in Table 4, it can be seen that the square root value of AVE (Average Variance Extracted) for each construct is higher than its correlation value. This shows that all constructs in the study have good discriminant validity.

Table 4. Discriminant Validity

	XM	XW	YP
XM	0.910		
XW	0.705	0.787	
YP	0.777	0.795	0.764

4.2.3. *Composite Reliability and Cronbach's Alpha*

Based on Cronbach's alpha and composite reliability tests (Table 5), it can be seen that independent and dependent constructs meet the criteria where each value is above 0.7. So it can be concluded that the variables used in this study have a good level of reliability.

4.2.4. *Path Coefficient*

Path Coefficient is a measure that indicates the extent to which the influence of a latent variable on other latent variables in the context of the model that has been formed. The result of path coefficient shown on Table 6.

Table 5. Composite Reliability and Cronbach's Alpha

	Cronbach's Alpha	rho_A	Composite Reliability	Conclusion
XM	0,931	0,932	0,951	Reliable
XW	0,896	0,897	0,919	Reliable
YP	0,911	0,911	0,927	Reliable

Table 6. Path Coefficient

	XM	XW	YP
XM			0,431
XW			0,491
YP			

Table 6 looks at the magnitude of the direct influence each construct has on each hypothesis.

4.2.5. Test the hypothesis

Table 7. Test the hypothesis

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ((O/STDEV))	P Values	Conclusion
XM -> YP	0,431	0,426	0,058	7,372	0,000	Accepted
XW -> YP	0,491	0,494	0,053	9,313	0,000	Accepted

R Square Adjusted = 0.721

Table 7 shows that two hypotheses have been supported or accepted. The results of hypothesis 1 test show that there is a significant relationship between individual morality and prevention of village fund fraud, with a t-statistic value of 7.372 (t-statistic > 1.96) and a p-value of 0.000 (p-value < 0.05). The original sample value showed a positive number of 0.431. The results of hypothesis 2 testing also show that there is a significant relationship between whistleblowing and prevention of village fund fraud, with a t-statistic value of 9.313 (t-statistic > 1.96) and a p-value of 0.000 (p-value < 0.05). The original sample value showed a positive number of 0.491.

The R-square value for the village fund fraud prevention variable is 0.725. These results suggest that 72.5% of village fund fraud prevention can be explained by individual morality and whistleblowing variables.

5. Discussions

5.1. The influence of individual morality on the prevention of village fund fraud

The results of this study were accepted, characterized by a significant t-statistic value of 7.372 and a p-value of 0.000. The effect of individual morality on the prevention of village fund fraud is positive, as can be seen from the original sample value of 0.431. This indicates that high individual morality in an agency will inhibit village officials from fraudulent behavior because the individual tends to comply with applicable norms in accordance with ethical principles.

The discussion is in line with attribution theory, morality can affect the ability of individuals to evaluate good and bad attitudes. Individuals who have good morality tend to exhibit behavior in accordance with ethical norms and principles, performing actions beneficial to others. This means that individuals who have good morality will prioritize the public interest and not just their own personal interests. The next theory supporting the first hypothesis is the fraud triangle theory, which is rationalization or justification for actions. An employee with low morality often looks for justifications or excuses for corrupt acts. They believe that corruption is an effective way to gain personal gain and feel it is right to do so. This kind of rationalization ignores the ethical and regulatory values that apply. The findings of this study are

also in line with previous research conducted by (Dewi et al., 2022; Islamiyah et al., 2020; Romadaniati et al., 2020; Susandya et al., 2022; Wahyudi et al., 2021).

5.2. *The effect of whistleblowing on the prevention of village fund fraud*

The results of this study were accepted, as reflected in the t-statistic value of 9.313 and the p-value of 0.491. The positive effect of whistleblowing on efforts to prevent village fund fraud can be observed from the original sample value of 0.000. That is, the better the implementation of whistleblowing in the agency, the higher the potential to improve fraud prevention efforts. Supervision collaboration with village officials can reduce the opportunities contained in the fraud triangle theory which can provide opportunities for village officials to commit fraud. Therefore, the application of whistleblowing is very well done, with effective whistleblowing practices, village officials will feel more responsible in carrying out their duties. They will be more careful in all aspects related to the management of village funds, and feel that they are always being supervised. This will make them reluctant to engage in fraudulent acts. This hypothesis is in line with attribution theory where someone who discloses unlawful acts through the whistleblowing system will have a positive impact on fraud prevention measures. Thus, the implementation of whistleblowing will result in improvements in fraud prevention efforts, which in turn will help reduce fraud incidents significantly. This finding is also in line with previous studies conducted by (Mahdi et al., 2021; Mersa et al., 2021; Romadaniati et al., 2020; Saputra et al., 2020).

6. Conclusion

Based on the results of research that has been conducted in the area of Muara Kemumu Village, Kepahiang Regency, Bengkulu Province, it can be concluded that statistical analysis shows a positive influence of individual morality on preventing village fund fraud. This is reinforced by a significance value smaller than 0.05, which is 0.000, which indicates that individuals with a high level of morality have a tendency to play a role in preventing village fund fraud. Individual morality influences behavior in village fund management, where village officials who have strong moral values are more likely to behave honestly, transparently, and with integrity in the use of village funds. In addition, the results of statistical analysis also show that whistleblowing has a positive impact on preventing village fund fraud. With a significance value of less than 0.05, which is 0.000, this indicates that whistleblowing plays an important role in reducing the risk of fraud in village fund management. Whistleblowing has a significant role in preventing village fund fraud and can be considered an effective control mechanism for reporting unethical acts or fraud. Effective whistleblowing is a key element in maintaining openness and accountability in village fund management.

Limitations in this study include the limited amount of data because it focuses on only one sub-district, as well as the reliance on questionnaires as a data collection tool, which may reflect different responses to the actual situation.

Due to the limitations in this study, it is expected that researchers in the future will be able to expand the research sample by increasing the number of research objects involved. In addition, researchers can further add additional independent variables that include external factors such as organizational culture, internal control systems, and compensation to ensure the data obtained is more valid and comprehensive.

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