

Fraud Prevention Using Village Financial Management Control System

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Abstract— The study aims at exploring the Internal Control System in preventing fraud in village financial management. This research applied qualitative exploratory with a case study method. The Data of this research were primary and secondary data through interviews, documentation, and observation from Ketapang Village Government, BPD, DPMD, BPKAD, and Inspectorate of Banyuwangi Regency. The results indicated that the implementation of an internal control system could prevent fraud in village financial management. The internal control system has five indicators, that is (1) Environment Control; (2) Risk Assessment; (3) Control Activities; (4) Information and Communication; (5) Monitoring. For suggestion, there should be standards of ethics and behaviour accompanied by intense monitoring to avoid financial abuse village.

Keywords—*fraud; village financial management; internal control system.*

I. INTRODUCTION

Village financial management is the whole activity, which includes planning, implementing, administering, reporting, and village financial accountability. Based on PP No. 43 of 2014 concerning the implementing regulations of Law No. 6 of 2014 concerning Villages, village financial management is carried out by the village government [1]. It also being supervised by the regional inspectorate as of the Aparat Pengawasan Internal Pemerintah (APIP). Together with the community empowerment agency, along with sub-district and village consultative bodies.

According to ICW, the sectors most prone to corruption are the Village budget, which includes the Village Fund Budget (ADD), Village Fund (DD), and Village Original Income (PADes). In 2017 corruption cases have reached 98 cases which caused state losses of 39.3 billion. During 2018 there were 49 cases of infrastructure corruption that caused state losses of Rp. 17.1 billion and 47 non-infrastructure corruption cases which caused state losses of Rp. 20 billion. Despite reducing state losses due to corruption in the 2018 village budget, corruption in the village budget sector is still the top five sectors that are prone to corruption, according to the ICW mapping results.

Based on the above conditions, the need for a study of fraud prevention efforts in village financial management. This research makes Ketapang Village, Kalipuro District, Banyuwangi Regency as the object of research. Ketapang Village has a good history of Village Government, ranging from achievements that have been created, to government innovations that inspired other villages. Also, Ketapang Village is recommended by the Dewan Pemberdayaan Masyarakat dan Desa (DPMD) and the Banyuwangi District Inspectorate because they have managed well village financial.

II. LITERATURE REVIEW

A. The Fraud Triangle Theory

Cressey (1953) explains that three factors will cause fraud, namely Pressure, Opportunity, and Rationalization.

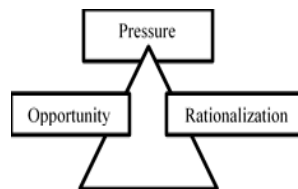


Fig. 1. *Fraud Triangle*

The perceived pressure refers to factors that cause unethical behaviour. Opportunities arise when organizational governance systems are ineffective. Rationalization is a concept that requires acceptable formulating ideas or justification before conducting unethical behaviour [2].

B. Fraud Prevention

The most basic level, fraud prevention in organizations is a matter of reasonable internal control [3]. However, due to the increasing complexity of information technology, the application of internal control now requires a unique Information Security Management System (ISMS). The system has three general objectives. The first is confidentiality, where data is only available to authorized persons. Then integrity, where data must be accurate and complete. Also, availability, i.e., data is available when and where it is needed.

Fraud prevention is when the board of commissioners, management, and other company personnel have established policies, systems and procedures. It should help reach three main objectives. They are the fairness of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

C. Fraud Prevention

The control concept recommended by COSO is the concept of internal control as an integrated framework. This framework has been adapted as a basis for the formulation of the Government Internal Control System in Indonesia which has been regulated in Government Regulation of the Republic of Indonesia number 60 of 2008 concerning Government Internal Control System (SPIP) [3].

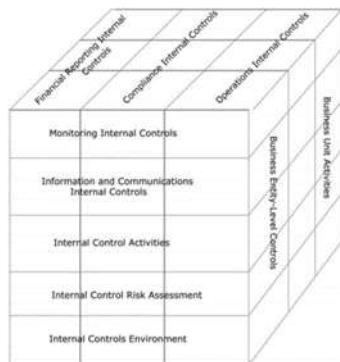


Fig. 2. COSO Internal Control Framework

Source: Brink's Modern International Auditing Book: A Common Body of Knowledge [5]

Internal Control System is an integral process of actions and activities carried out continuously by the leadership and all employees to provide adequate confidence in the achievement of organizational goals through effective and efficient activities, reliability of financial reporting, securing state assets, and adherence to laws and regulations. Invitation. The SPIP components adapted in Government Regulation Number 60 the Year 2008 are as follows [4]:

- 1) Control environment, namely the Leadership of Government Agencies and all employees must create and maintain an environment in the whole organization that causes positive behavior and supports healthy internal control and management.
- 2) Risk assessment, namely internal control, must provide an assessment of the risks faced by organizational units both from outside and inside.
- 3) Control activities namely control activities help ensure that the direction of the leadership of Government Agencies is carried out. Control activities must be efficient and effective in achieving organizational goals.
- 4) Information and communication, i.e., Information, must be recorded and reported to the leadership of Government Agencies and other determined parties.

Information is presented in a certain form and means and on time to enable the leadership of Government Agencies to carry out their control and responsibilities.

- 5) Monitoring, i.e., Monitoring, must be able to assess the quality of performance over time and ensure that recommendations on audit results and other reviews can be followed up immediately.

III. RESEARCH METHODS

A. Research Approach

This study uses a qualitative exploratory approach with a case study method. Qualitative methods are used to obtain and investigate a problem and phenomenon that occurs in society [6]. The case study approach describes that a researcher establishes a direct relationship with the object of research by looking at activities, activities, and processes which then the researcher develops an in-depth analysis [7]. Data sources used in the study are primary and secondary sources.

The objects of this research are the Ketapang Village Government, Kalipuro District, Banyuwangi Regency and the Banyuwangi Government which are related to Village Financial Management which consists of the Community and Village Empowerment Agency (DPMD), the Regional Financial and Asset Management Agency (BPKAD) and the Directorate.

B. Data Collection Procedure

According to Creswell [7], to obtain information on data collection procedures, there are four basic types, namely qualitative observation, qualitative interviews, qualitative documents, and qualitative audio and visual materials. In this study, researchers used the four procedures in getting the data needed to draw a conclusion related to the effectiveness of EVB information systems in preventing fraud, namely Qualitative Observation, Qualitative Interviews, Qualitative Documents, Qualitative Audio, and Visual Materials.

C. Analysis and Interpretation Techniques

Data analysis and interpretation are part of the process of withdrawing information after collecting research data. Steps taken by researchers in analyzing research data, along with a description of the steps taken, (1) Organizing and preparing data to be analyzed, such as interview transcripts, supporting documents and also material in the form of information through the website of the research object, (2) Reading all data analyzed to obtain information and core points from the data obtained, (3) Initiating the coding of all data, (4) Using the coding process to describe in general according to the category or theme of the analysis (5) Describe the coding results in a qualitative narrative form to understand in-depth the information that has been analyzed, (6) The last stage the researcher will interpret the results of the analysis and findings so that they can draw conclusions on the research that has been done.

IV DISCUSSION

A. Village Financial Management Policies

Village financial management has been regulated in detail in Domestic Regulation No. 113 of 2014, which was amended by Domestic Regulation No. 20 of 2018 concerning Village Financial Management [8]. The village financial management process is based on the principles of transparency, accountability, participation, and is carried out in an orderly and disciplined budget. Village financial management consists of 5 stages, namely planning and budgeting, implementation, administration, reporting, and accountability. The holder of power in financial activities is held by the village head and assisted by the Village Financial Management Technical Implementer (PTPKD). The PTPKD consists of the Village Secretary, Section Chief and Treasurer.

The village financial cycle involves several parties including the village community, the Village Consultative Body (BPD), the village apparatus and the village head. Starting from the preparation of village planning, compiling the Village Government Work Plan (RKPDs) to the preparation of the APBDs that were carried out in the previous year. Furthermore, the implementation in the current year is from January to December. This implementation activity illustrates the income and expenditure budget of the village fund or the so-called use of the budget that is wasted in the Village Revenue and Expenditure Budget (APBDs). Then the administration activities by the Village Treasurer or the Finance Bureau will record every use of the budget in the village general cash book. After administration activities, it is then reporting activities. The Village Head will report on the implementation of the APBDs to the Regent / Mayor, which consists of the APBDs implementation report and the realization report of the activities. The final stage is accountability; the village head submits an accountability report to the Regent or Mayor through the Camat at the end of the fiscal year.

B. Causes of Village Financial Management Fraud

There are three causes of fraud, namely the pressure (Pressure), Opportunity (Opportunity), and Rationality (Rationalisation). This theory is known as the Fraud Triangle theory.

1) *Pressure (Pressure)*: The pressure is identical to the existence of incentives/demands/ needs to commit fraud. Pressures or demands that encourage fraud can be categorized more specifically, as follows:

a) *Financial Pressures*, pressures that are common things that encourage someone to commit fraud. Namely, the nature of greed, living under the will of others, have a lot of debt, personal economic losses, and a sudden need for money.

b) *Personal financial needs* is a pressure that arises because of having habits that exceed the limits such as fond of gambling, drug users, alcoholism, and excessive family lifestyle (luxury).

c) *Financial targets*, is a form of the financial pressure that arises because they feel unappreciated for the results of their work, have a fear of losing their jobs, are dissatisfied with work, are afraid of not getting a promotion and feel undervalued economically.

d) *Another pressure* is desired. This form of reluctance is like the pressure from a couple who wants to live in luxury, wants to make parents happy, and other pressures not covered by the three points above

2) *Opportunity*: Fraud does not only occur due to pressure but also due to opportunities to commit fraud. There are several main factors that encourage someone to commit fraud, namely the lack of control to prevent and detect deviant behavior, the inability to judge the quality of performance appropriately, failure to discipline the perpetrators of fraud, lack of information, and ignorance, apathy and inability and lack of audit trail. The opportunity factor is a basic thing that can happen at any time, so it requires supervision from the structure of the Village Government and SKPD above it. The village government needs to develop a process, procedure, and control to put the village apparatus in a position unable to commit fraud and which can effectively detect fraudulent activities if that happens.

3) *Rationalization*: Rationalization is an important component in many frauds that occur. The tendency of perpetrators of fraud is to justify their actions with certain mindsets such as "no one will be harmed," "the company owes me," "everyone does the same," and other reasons. Rationalization is the most difficult part of triangle fraud to measure. According to the Head of Ketapang Village, the reason for fraud in village financial management starts with the negative intention of the village apparatus which then launches their actions by collaborating with other devices that have the same goals. Thus, the many causes and modes of fraud in village financial management need to be taken. Prevention through active means by the community, village officials, and local officials who are directly involved in the village financial management process.

C. Form of Internal Control Systems in Village Financial Management

The Internal Control System in Village financial management is closely related to the role of the government. In the implementation of village financial management, the Village Government deals directly with the institutions above it, both related to the management process to the cooperative relationship to realize the reliability of transparent, accountable and participatory Financial Statements. Village financial management can be carried out properly, of course, must be supported, among others, by competent and quality human resources and adequate financial systems and procedures. The involvement of the central government, provinces, and districts shows that there is control through the regulations and policies that apply to village financial management. The role of village financial management control through the role of district government agencies. Following

are the roles that researchers can conclude from the analysis of data in this study.

By the classification of roles in each of the subjects in village financial management above, researchers formulated five things that have been implemented by the Ketapang Village Government in carrying out internal control of village financial management.

1) *Compliance with Regulations and Policies:* The Village Government has the duties and responsibilities that have been regulated in Domestic Regulation Number 113 of 2014, which has been changed to Domestic Regulation Number 20 of 2018. According to Mr. Saeho as Regional Superintendent Inspector Banyuwangi Regency Village financial management has been regulated in Government legislation, Local Government to Village Regulation. Compliance with laws and regulations is one indicator of the implementation of the government's internal control system. The internal control system implemented by the village government follows the regulations set by the regional and central government. Standard Operating Procedure (SOP) for village financial management becomes a critical point in the implementation of an internal control system for village financial management. This SOP of financial management has been regulated in central and regional government regulations, through domestic regulations, minister of finance regulations, regent regulations on village financial management. Village financial management has been regulated in detail in Central Regulations to Regional Regulations. The village government is only obliged to carry out by what has been stipulated in these regulations. Rika, Chief of Finance in the Ketapang Village, also said that it had been regulated in a statutory regulation by the government regarding village financial management. Each village financial report preparation, namely Village APB, Village RKP, and Village Budget Realization Accountability Report, will be determined as a village regulation, and accountable to BPD and related agencies.

2) *Classification of Village Government Work Programs:* Planning is a very important initial step in the village financial management cycle. The village government can launch a work program that is needed and adjusted to the budget of funds owned. The formulation of village government work programs is contained in the Village Government Work Plan (RKP Desa). The Ketapang Village Government in formulating a work plan divides the work program with several classifications. Starting from Super Priority, priority, second priority, and third priority. But there are also urgent classifications such as disasters. The Ketapang Village Government will take precedence if the urgent need becomes the priority for the community. This classification division is a form of risk identification and analysis activities. How can Ketapang village government manage and formulate a work plan properly. This shows that the village government in formulating a work plan through careful consideration and assessing the needs of community proposals. The division of village government classification programs is accompanied by the distribution of duties and responsibilities to village

officials. This division of work has been arranged in the village head's regulation concerning the Organization Structure and Administration of the Ketapang Village Government. Thus the implementation of the work plan is appropriate and right on target.

3) *Village Finance Application:* In addition to laws and regulations, the form of internal control of village financial management has been applied to the application of the village financial system (SISKEUDS) which has been launched by the Financial and Development Supervisory Agency (BPKP). However, the Banyuwangi Regency Government has implemented the E-Village Budgeting (E-VB) application system as the village financial management system application. The information system in the form of E-VB and E-MS is a control tool that has an inseparable function. E-VB as a tool in carrying out the administration function and E-MS as a tool in carrying out the supervisory function. E-Village Budgeting (E-VB) is a website-based application developed to meet the needs of villages in managing village finances so that accountability and transparency can be realized. E-VB has been implemented from 2015 until now. In its development, the output or output generated through the development of the E-VB application, (1) EVB can be accessed through the website address: evb.banyuwangikab.go.id by all villages, (2) Ease of evaluating reports on the realization of the use of the village budget as a whole, (3) Efficiency and Effectiveness of the control function, (4) Follow-up efforts from Regent Regulations No. 15 of 2015, (5) Increasing efforts to build transparency and accountability in village finances throughout Banyuwangi Regency. The output of the EVB application is in the form of financial statements that are presented in one entry only.

4) *Coaching and Assistance:* Forms of human resource development carried out in the form of assistance and training/coaching by the government that has been assigned. In this case, the assistance function lies with the Regional Work Unit (SKPD) of the Regional Financial and Asset Management Agency (BPKAD) and the Office of Community and Village Empowerment (DPM Desa). Assistance is carried out by DPMD through a consultation clinic. Through the Alokasi Dana Desa and Desa Dana consultation clinics, DPMD also carries out the role of fostering village financial management. The Accounting Clinic organized by the DPMDes is one of the mentoring efforts in the village financial management process. Assistance services are carried out every working day. The form of training/coaching is socialization when there are changes in regulations in village financial management. This socialization is not separate from technical training by the changes that occur. Apart from the DPMD, BPKAD also carries out a coaching function in the form of assistance. According to Anin, as a staff member of BPKAD Accounting, the assistance program for the preparation of the village government financial statements was not carried out in all villages in Banyuwangi Regency, but sampling was considered as a promoter or pilot village for other villages totaling 50 villages. In addition to assisting with the preparation of financial reports, BPKAD is also a

facilitator for village governments in consulting issues in the preparation of year-end financial statements. The form of guidance and assistance that has been followed by the village government is a form of control activities in village financial management. Thus the village government can carry out their duties and responsibilities appropriately and appropriately.

5) *Supervision*: The oversight function is carried out by the Regional Government through the Inspectorate, through the Camat and the community through the BPD. The form of supervision that occurs in village financial management starts from planning, which is when capturing community proposals in the formulation of government work plans, this oversight function is carried out by the BPD in the Musrenbangdes forum. This Musrenbangdes involves the Village Government, BPD, Community Institutions and the community itself. In addition to planning, the supervisory function is also in the implementation stage. At the implementation stage, the supervision that occurs becomes wider. In addition to the BPD, the Kecamatan Pimpina Forum (Forpinka) also carries out a supervisory function. Supervision is carried out by forpinka through the Electronic Monitoring System (EMS). This supervision prioritizes the physical development of the village. Supporting applications in controlling activities, in addition to EVB, also through

6) EMS which is managed by the District. E-Monitoring System (EMS) is a system built for monitoring efforts (monitoring) of development in the village area, namely

physical development. E-MS has been integrated with E-VB in terms of its operations. Operators managing E-MS are in the District. Functional E-MS is a form of monitoring and evaluation (Monev) from the sub-district. Supervision in the management of village finances, as a whole, is carried out at every stage, from planning to implementation to post-implementation. This oversight function is held as a form of control in realizing transparent and accountable financial reporting.

D. The Role of Internal Control Systems in Preventing Fraud in Village Financial Management

Prevention of fraud management of village finances is easier than overcoming fraud that has occurred. The village government has a large role in controlling financial management. The Ketapang Village Government, through the Village Head, said that it had succeeded in preventing fraud in matters of village financial management. Rika, Chief of Finance in the Ketapang Village, also said that the internal control system was instrumental in preventing fraud in village financial management.

Based on the information that has been analyzed through interviews and questionnaires regarding the role of the internal control system in preventing fraud in village financial management in Ketapang Village, the following information is obtained:

TABLE I. INDICATORS OF THE INTERNAL CONTROL SYSTEM IN PREVENTING FRAUD IN VILLAGE FINANCIAL MANAGEMENT

No	Indicator	Form	Content Analysis
1.	Control Environment	Compliance with applicable rules and policies	One of the causes of fraud is the pressure at work. A positive atmosphere in the work environment can help village officials to work in accordance with the duties and regulations that apply, with high integrity.
2.	Risk Assessment	Work Program Classification	Risk assessment in the financial management process is always associated with actions of rationality. But the risk assessment process can prevent fraud when there is a proper identification and analysis of risks in every activity or activity to be carried out.
3.	Control Activities	Guidance and Assistance	Control activities carried out in accordance with needs can prevent fraud. Through competency development, the provision of work incentives, the use of information systems in carrying out tasks and others.
4.	Information and Communication	Use of the Village Finance system application through EVB	The use of integrated technology is a form of effective and efficient work implementation. The use of EVB that is integrated directly into the SKPD shows that there is direct control carried out by agencies above the Village Government. So as to minimize the occurrence of fraud.
5.	Monitoring	Involvement of BPD, SKPD in the oversight function.	Opportunity is one of the main causes of cheating. However, the involvement of various elements in the supervisory function is also responsible for issues related to the quality of life of the community.

IV CONCLUSION

Prevention of fraud in village financial management can be done by knowing the basic causes of fraud, namely Pressure (Pressure) Opportunity (Opportunity) and Rationalization (Rationalization). Then this cause is minimized by implementing an internal control system. There are five forms of internal control system indicators that have been carried out by the Ketapang Village Government to prevent fraud in village financial management, namely:

- 1) Control environment through village government compliance with village financial management policies and regulations, starting from planning and budgeting, implementation, administration, reporting, and accountability.
- 2) Risk assessment through workprogram classification activities at the planning stage in village financial management.
- 3) Control activities through the participation of the Village Government in the training and assistance

program so that the quality of Human Resources can be maintained and improved.

- 4) Information and communication through the use of technology using Website-based applications, namely EVB, which has been integrated with the SKPD above.
- 5) Monitoring through the involvement of many parties in supervision, starting from the community represented by BPD, Camat, Inspectorate, and SKPD related to village financial management.

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