

The Role of Moral Sensitivity in Moderating Factors for Preventing Village Fund Fraud

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297

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ABSTRACT

This study examines the influence of the competence of village officials, government compliance in reporting, and internal control system on the prevention of misappropriation of village funds, with moral sensitivity as a moderation variable. This study uses a quantitative methodology to examine the relationship between stock prices (independent variables) and dependent variables—working capital turnover, profitability, liquidity, and solvency. Primary data involved 48 village devices selected through purposive sampling. Data collection was carried out through questionnaires that were distributed to village officials involved in the management of village funds and analyzed using descriptive statistics. Data quality was assessed through validity and reliability tests, classical assumption tests, and multiple linear regression analysis using SPSS 26. The results showed that the competence of village officials and internal control systems had a significant effect on the prevention of misappropriation of village funds, while government compliance in reporting did not show a significant influence. Moral sensitivity moderates the relationship between the competence of village officials and compliance in reporting on the prevention of misappropriation of village funds, but does not moderate the relationship between the internal control system and the prevention of misappropriation of village funds

Keywords: *Competence, Fraud Prevention, Government Compliance, Internal Control, Moral Sensitivity*

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ABSTRAK

Penelitian ini mengkaji tentang pengaruh kompetensi perangkat desa, kepatuhan pemerintah dalam pelaporan, dan sistem pengendalian internal terhadap pencegahan penyelewengan dana desa, dengan kepekaan moral sebagai variabel moderasi. Penelitian ini menggunakan metodologi kuantitatif untuk mengkaji hubungan antara harga saham (variabel independen) dan variabel dependen—perputaran modal kerja, profitabilitas, likuiditas, dan solvabilitas. Data primer melibatkan 48 perangkat desa yang dipilih melalui purposive sampling. Pengumpulan data dilakukan melalui kuesioner yang disebarakan kepada perangkat desa yang terlibat dalam pengelolaan dana desa dan dianalisis menggunakan statistik deskriptif. Kualitas data dinilai melalui uji validitas dan reliabilitas, uji asumsi klasik, dan analisis regresi linier berganda dengan menggunakan SPSS 26. Hasil penelitian menunjukkan bahwa kompetensi perangkat desa dan sistem pengendalian internal berpengaruh signifikan terhadap pencegahan penyelewengan dana desa, sedangkan kepatuhan pemerintah dalam pelaporan tidak menunjukkan pengaruh yang signifikan. Kepekaan moral memoderasi hubungan antara kompetensi perangkat desa dan kepatuhan dalam pelaporan terhadap pencegahan penyelewengan dana desa, tetapi tidak memoderasi hubungan antara sistem pengendalian internal dan pencegahan penyelewengan dana desa

Kata kunci: Kepekaan Moral, Kepatuhan Pemerintah, Kompetensi, Pencegahan Penipuan, Pengendalian Internal

INTRODUCTION

Village funds, established under Indonesia's Law Number 6 of 2014, represent a cornerstone of the nation's commitment to rural development, aiming to bridge regional disparities and elevate community welfare. These funds, allocated annually to villages, empower local governments to address infrastructure, education, health, and economic needs. In 2023 alone, the Indonesian government disbursed over IDR 70 trillion to approximately 75,000 villages, underscoring the scale and significance of this initiative. However, the substantial financial resources have also exposed vulnerabilities, with fraud and mismanagement posing persistent threats. The Corruption Eradication Commission (*Komisi Pemberantasan Korupsi/KPK*) documented over 900 cases of village fund fraud between 2015 and 2024, resulting in losses exceeding IDR 1.5 trillion. These incidents highlight systemic weaknesses in rural financial governance, particularly in regions like Pantai Cermin District, where preliminary audits reveal ongoing challenges in fund oversight and accountability.

The prevalence of fraud in village fund management undermines public trust and hampers development goals, necessitating robust prevention strategies. The Fraud Triangle theory provides a theoretical lens for understanding fraud, positing that it emerges from three elements: pressure, opportunity, and rationalization. Effective fraud prevention, therefore, requires minimizing opportunities through competent personnel, transparent reporting, and stringent internal controls, while addressing rationalization through ethical awareness. Village officials' competence, encompassing financial literacy and managerial skills, is critical for ensuring proper fund allocation and reducing errors or intentional misconduct. Similarly, government compliance in reporting fosters transparency, enabling oversight and accountability. Internal control systems, including audits and standardized procedures, further safeguard funds by limiting opportunities for misappropriation. Moral sensitivity, reflecting officials' ethical awareness, may amplify these mechanisms by guiding decision-making and reinforcing integrity.

Despite extensive research on fraud prevention, gaps remain in understanding the interplay of these factors in rural contexts, particularly the role of moral sensitivity as a moderating variable. Prior studies, such as Alfada (2021), emphasize the importance of officials' competence, while Wijaya and Suardana (2023) highlight compliance in reporting as a deterrent to fraud. Nadila and Aisyah (2023) underscore the efficacy of

internal controls, yet few studies explore how moral sensitivity influences these relationships. This study addresses this gap by examining how village officials' competence, government reporting compliance, and internal control systems prevent village fund fraud, with moral sensitivity as a moderating factor. By focusing on Pantai Cermin District, a region emblematic of rural Indonesia's governance challenges, the research offers insights into localized dynamics while contributing to broader policy discussions.

This study's significance lies in its theoretical and practical contributions. Theoretically, it extends the Fraud Triangle framework by integrating moral sensitivity, offering a nuanced perspective on fraud prevention in decentralized governance. Practically, it provides evidence-based recommendations for policymakers to strengthen rural financial management through targeted training, enhanced reporting systems, and robust controls. The research questions guiding this study are to what extent do village officials' competence, government reporting compliance, and internal control systems influence village fund fraud prevention and whether moral sensitivity moderates the relationship. By answering these questions, this study aims to inform strategies that reduce the risk of fraud, ensuring village funds effectively serve their developmental purposes.

LITERATURE REVIEW

Village Officials' Competence and Village Fund Fraud Prevention

Village officials' competence, defined as the combination of financial literacy, managerial skills, and knowledge of governance procedures, plays a critical role in preventing village fund fraud. Alfada (2021) argues that technically competent officials improve the effectiveness of fund management by ensuring accurate budgeting and expenditure tracking, thereby reducing the risk of errors or intentional mismanagement. Arsana and Mahadewi (2022) emphasize that officials with high financial literacy are better equipped to identify and mitigate potential misappropriation, such as unauthorized fund diversions. Lisdiono et al. (2023) further support this, noting that competence, encompassing integrity and practical skills, directly addresses the opportunity component of the Fraud Triangle by limiting avenues for fraudulent behavior. Wong et al. (2023) add that continuous training enhances officials' ability to navigate complex financial regulations, fostering accountability. However, Purnomo and Cahaya (2023) caution that institutional constraints, such as inadequate oversight or resource limitations, may diminish the impact of competence, suggesting a need to examine its interaction with ethical and structural factors. Kartikaningdyah and Saputra (2023) also highlight that competence development programs significantly improve performance in rural financial governance, reinforcing the link between skilled officials and fraud prevention.

H1: Village officials' competence positively and significantly affects village fund fraud prevention.

Government Reporting Compliance and Village Fund Fraud Prevention

Government reporting compliance, characterized by adherence to standardized financial reporting protocols, is essential for ensuring transparency and accountability in village fund management. Wijaya and Suardana (2023) assert that compliance with reporting regulations minimizes fraud risks by enabling external oversight and public scrutiny, which deter misconduct. Dorotinsky and Pradhan (2023) provide evidence from Southeast Asia, demonstrating that systematic and timely reporting significantly reduces opportunities for fraudulent activities in rural governance. Yulian and Mudiharso (2022) underscore that compliance with principles of transparency, accountability, and budgetary discipline is critical for maintaining public trust and preventing fund misappropriation. Johnson et al. (2022) further note that transparent reporting systems create a culture of accountability, discouraging officials from engaging in fraudulent practices. However, Olken and Pande (2018) argue that the effectiveness of reporting compliance varies across contexts, particularly in regions with weak enforcement

mechanisms, suggesting that compliance alone may not suffice without robust institutional support. Kosec and Wantchekon (2023) add that integrating technology in reporting processes can enhance compliance, but challenges like limited digital literacy in rural areas must be addressed to maximize its impact.

H2: Government reporting compliance positively and significantly affects village fund fraud prevention.

Internal Control Systems and Village Fund Fraud Prevention

Internal control systems, encompassing audits, segregation of duties, and standardized financial procedures, are vital for safeguarding village funds against fraud. Nadila and Aisyah (2023) demonstrate that well-designed control mechanisms, such as regular internal audits and clear procedural guidelines, significantly reduce opportunities for misconduct by ensuring accountability at every stage of fund management. Rahman and Chen (2023) highlight that internal control frameworks are most effective when embedded within comprehensive governance structures, as they provide systematic checks and balances. Setiawan et al. (2023) argue that robust controls not only prevent fraud but also optimize the absorption of village expenditure budgets, ensuring funds are used as intended. Rothstein et al. (2018) and Ferraz and Finan (2023) further confirm that internal controls, when consistently enforced, enhance financial integrity and public trust in rural governance. However, Bardhan and Mookherjee (2022) caution that internal controls may be ineffective in settings with weak institutional capacity or pervasive corruption, emphasizing the need for supportive governance environments. Martinez-Vazquez et al. (2023) suggest that combining internal controls with external audits can amplify their effectiveness, particularly in decentralized systems like Indonesia's village fund program.

H3: Internal control systems positively and significantly affect village fund fraud prevention.

H4: Competence, compliance, and internal control systems collectively affect village fund fraud prevention.

Moral Sensitivity as a Moderator

Moral sensitivity, defined as the ethical awareness and ability to recognize moral dilemmas, is increasingly recognized as a potential moderator in fraud prevention. Hernandez and Thompson (2022) argue that moral sensitivity amplifies the effect of officials' competence by guiding ethical decision-making, particularly in decentralized financial governance where discretion is high. Dewi and Apandi (2022) find that moral sensitivity strengthens the relationship between government reporting compliance and fraud prevention by fostering a commitment to integrity and transparency. Noviyanti and Mulyani (2021) support this, noting that officials with high moral sensitivity are more likely to adhere to ethical standards in financial reporting, reducing fraud risks. However, Liu and Nakamura (2021) contend that formalized control mechanisms often outperform reliance on individual moral judgment, as ethical awareness alone may not suffice in complex governance systems. Banerjee et al. (2020) further argue that moral sensitivity may weaken the effectiveness of internal control systems by introducing subjective ethical considerations that conflict with standardized procedures. Rodriguez-Powell (2023) suggests that while moral sensitivity enhances compliance behaviors, an overemphasis on subjective ethics can undermine structured frameworks, highlighting the need to balance ethical awareness with institutional rigor. These conflicting findings underscore the complex role of moral sensitivity, warranting further exploration in rural financial governance contexts.

H5: Moral sensitivity moderates the effect of competence on village fund fraud prevention.

H6: Moral sensitivity moderates the effect of government reporting compliance on village fund fraud prevention.
H7: Moral sensitivity moderates the effect of internal control systems on village fund fraud prevention.

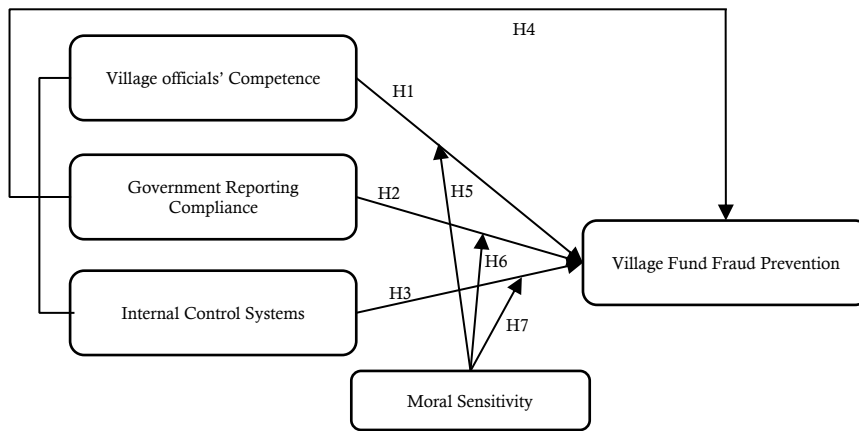


Figure 1. Conceptual Frameworks

Figure 1 illustrates how village officials' competence, government reporting compliance, and internal control systems directly influence village fund fraud prevention, with moral sensitivity moderating these relationships. Competence ensures effective fund management, compliance enhances transparency, and internal controls provide oversight, collectively reducing fraud opportunities. Moral sensitivity strengthens these effects by fostering ethical behavior, aligning with the Fraud Triangle's rationalization component.

METHODS

This study employs a quantitative approach to examine the influence of village officials' competence, government reporting compliance, and internal control systems on village fund fraud prevention, with moral sensitivity as a moderating variable. Conducted in Pantai Cermin District, Indonesia, the research targets village officials involved in fund management. The population consists of officials across villages in the district, with a sample of 48 respondents selected through purposive sampling, ensuring participants have direct experience in financial governance. This sampling method enhances the relevance of responses by focusing on key decision-makers. Primary data were collected using structured questionnaires distributed to respondents, designed to measure competence, compliance, internal controls, moral sensitivity, and fraud prevention outcomes. To ensure data quality, validity and reliability tests were conducted, confirming the instrument's accuracy and consistency. Classical assumption tests, including normality, multicollinearity, autocorrelation, and heteroscedasticity, were performed to validate the regression model's assumptions. Data analysis was conducted using multiple linear regression with SPSS 26, assessing the direct effects of independent variables on fraud prevention and the moderating role of moral sensitivity.

RESULTS

Table 1 presents a descriptive statistical overview for each of the variables studied, including village apparatus competence, government reporting compliance, internal control systems, prevention of village fund fraud, and moral sensitivity. Each variable is displayed with the number of respondents (N), minimum and maximum values, and a measure of data centralization in the form of an average and a measure of data dispersion in the form of a standard deviation. These descriptive statistics aim to provide an initial understanding of the characteristics of the data before further analysis is carried out.

Table 1. Descriptive Statistics

Variable	N	Min	Max	Mean	Std. Deviation
Village officials' Competence	48	31.00	40.00	36.0625	2.98511
Government Reporting Compliance	48	21.00	30.00	25.7083	2.67342
Internal Control System	48	16.00	25.00	21.1875	1.78238
Village Fund Fraud Prevention	48	18.00	25.00	22.1250	2.21816
Moral Sensitivity	48	16.00	25.00	21.7500	2.55576
Valid N (listwise)	48				

The statistical analysis in Table 1 shows a consistent patterns for all variables studied. In each case—Village officials' Competence (36.0625 > 2.98511), Government Reporting Compliance (25.7083 > 2.67342), Internal Control System (21.1875 > 1.78238), Village Fund Fraud Prevention (22.1250 > 2.21816), and Moral Sensitivity (21.7500 > 2.55576)—mean values substantially exceed standard deviations. This indicates well-distributed data clustered around central values, confirming appropriate distribution characteristics for regression analysis.

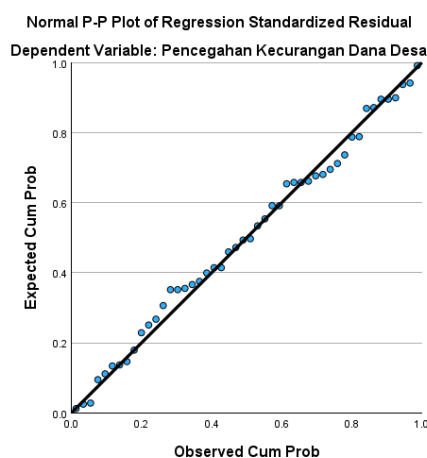


Figure 2. Results of Normality Test

Based on Figure 2, the normal P-P plot analysis shows that the data is normally distributed. This is evidenced by the data points that are spread around the diagonal line. The pattern of the distribution follows the direction of the diagonal line quite consistently. There are no significant deviations from the diagonal line that would indicate a non-normal distribution. Therefore, it can be concluded that the assumption of normality has been fulfilled in this data.

Table 2. Results of Autocorrelation Test and Coefficient of Determination

Analysis	Test
R	0.854 ^a
R Square	0.730
Adjusted R Square	0.712
Std. Error of the Estimate	1.19140
Durbin-Watson	1.910

Bsaed on Table 2, the Durbin-Watson value of 1.910 falls between dL (1.4943) and 4-dU (2.2650), confirming the absence of both positive and negative autocorrelation in the regression model. Additionally, the scatterplot examination shows data points randomly distributed above and below zero on the Y axis without forming any discernible pattern, indicating no heteroscedasticity issues in the regression model. Based on Table 3, the coefficient of determination test reveals an R² value of 0.730, meaning that 73.0% of the variation in Village Fund Fraud Prevention is accounted for by Village officials' Competence (X1), Government Reporting Compliance (X2), and Internal Control

System (X3). The remaining 27.0% stems from unexamined factors, suggesting these variables significantly shape fraud prevention, though other influences also play a role.

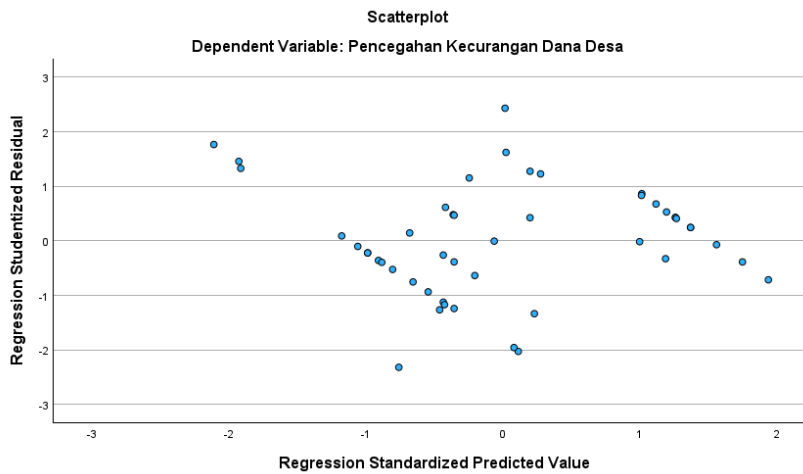


Figure 3. Results of Heteroscedasticity Test

Based on Table 3, the scatterplot analysis reveals data points randomly dispersed above and below zero on the Y axis without forming any identifiable pattern or systematic arrangement. This random distribution confirms the absence of heteroscedasticity in the regression model. This study employs regression analysis to investigate the relationship between one dependent variable and multiple independent variables, aiming to assess each independent variable’s role in influencing the dependent variable, aligning with the research objectives and hypotheses. The analysis evaluates how factors such as working capital turnover, profitability, liquidity, and solvency impact share price, providing insights into their individual contributions to financial performance in the telecommunications sector. So it produces the following analysis:

Table 3. Results of Multicollinearity Test and Regression Test

Variables	Un-Std. Coef. B	Un-Std. Coef. Std. Error	Std. Coef. Beta	t	Sig.	T	VIF
(Constant)	-1.916	2.370		-808	0.423		
Village officials' Competence	0.209	0.078	0.282	2.672	0.011	0.552	1.810
Government Reporting Compliance	0.346	0.094	0.417	3.660	0.000	0.473	2.112
Internal Control System	0.359	0.130	0.288	2.752	0.009	0.559	1.789

The results of the multicollinearity test on Table 3 indicate that there are no multicollinearity problems among the independent variables used in the model. This is indicated by the Tolerance value of all variables which are above 0.1, which is between 0.473 to 0.559, and the Variance Inflation Factor (VIF) value which is all below 10, which is between 1.789 to 2.112. The unstandardized regression coefficient (B) shows that the three variables, namely village apparatus competence, government reporting compliance, and internal control systems, have a positive effect on the dependent variable. In addition, all variables are statistically significant because they have a significance value below 0.05. The t value of each variable also shows the strength of the contribution to the model. Thus, it can be concluded that the regression model used is free from multicollinearity symptoms and is worthy of further analysis. These results support the validity of the model in explaining the influence of independent variables on the dependent variable simultaneously

From the Table 3, a multiple linear regression equation is obtained as follows:
 $Y = -1.916 + 0.209 X_1 + 0.346 X_2 + 0.359 X_3 + e$

Research indicates that Village officials' Competence (X1), Government Reporting Compliance (X2), and Internal Control System (X3) each significantly impact Village Fund Fraud Prevention (Y). Regression analysis reveals that Village officials' Competence yields a t-value of 2.672, surpassing the t-table value of 1.699 (2.672 > 1.699, two-tailed) with a significance level of 0.011 (p < 0.05). This suggests that the skills and expertise of village officials play a crucial role in reducing fraudulent activities in village fund management.

Similarly, Government Reporting Compliance demonstrates a strong influence, with a t-value of 3.660, exceeding the t-table value of 1.699 (3.660 > 1.699) and a significance level of 0.000 (p < 0.05). This highlights that adherence to reporting regulations enhances transparency and accountability, thereby mitigating fraud risks. Likewise, the Internal Control System shows a t-value of 2.752, greater than 1.699 (2.752 > 1.699, two-tailed), with a significance level of 0.009 (p < 0.05), underscoring the importance of robust internal mechanisms in safeguarding funds.

Collectively, these variables such as Village officials' Competence, Government Reporting Compliance, and Internal Control System exert a combined effect on Village Fund Fraud Prevention. The regression analysis yields an F-value of 39.639, significantly higher than the F-table value of 2.50 (39.639 > 2.50), with a significance level of 0.000 (p < 0.05). This confirms that the synergistic impact of competent village officials, strict reporting compliance, and effective internal controls is vital for preventing mismanagement and fraud in village funds, ensuring resources are utilized transparently and efficiently for community benefit.

Table 4 Result of F Test

Analysis	Sum of Squares	Df	Mean Square	F	Sig.
Regression	168.795	3	151.758	39.639	000 ^b
Residual	62.455	44	1.419		
Total	231.250	47			

Based on Table 4, the F-test yields a significance level of 0.000 (p < 0.05) and an F-value of 39.639, surpassing the F-table value of 2.50 for a 48-data sample. This indicates that Village officials' Competence, Government Reporting Compliance, and Internal Control System collectively exert a significant influence on Village Fund Fraud Prevention, highlighting their combined role in enhancing transparency and reducing fraudulent activities in village fund management.

The moderation regression analysis examines whether Moral Sensitivity moderates the relationship between the independent variables (Village officials' Competence, Government Reporting Compliance, and Internal Control System) and the dependent variable (Village Fund Fraud Prevention). However, you haven't provided the actual results of the moderation regression test for me to summarize.

Table 5. Moderation Regression Analysis

Variable	Un-Std. Coef. B	Un-Std. Coef. Std. Error	Std. Coef. Beta	t	Sig.	Tolerance	VIF
(Constant)	-1.442	1.897		-0.760	0.451		
X1	-1.474	0.129	-1.984	-11.405	0.000	0.034	29.277
X2	2.264	0.378	2.728	5.996	0.000	0.005	200.360
X3	0.884	0.422	0.711	2.094	0.042	0.009	111.416
X1_Z	0.075	0.005	4.814	14.011	0.000	0.009	114.258
X2_Z	-0.084	0.017	-4.323	-4.956	0.000	0.001	736.498
X3_Z	-0.026	0.020	-0.973	-1.274	0.210	0.002	564.008

Based on the output in Table 5, it explains the moderated regression analysis equation for the moderation model, namely:

$$Y = -1.442 - 1.474X1 + 2.264X2 + 0.884X3 + 0.075X1Z - 0.084X2Z - 0.026X3Z + e$$

The moderated regression analysis reveals the influence of independent variables on village fund fraud prevention, moderated by moral sensitivity. The constant value (α) of -1.442 indicates that, with village officials' competence, government reporting compliance, and internal control systems held constant, village fund fraud prevention is -1.442. A one-unit increase in village officials' competence ($b_1 = -1.474$) decreases fraud prevention by 1.474 units, suggesting a counterintuitive negative effect. Conversely, a one-unit increase in government reporting compliance ($b_2 = 2.264$) increases fraud prevention by 2.264 units, and a one-unit increase in internal control systems ($b_3 = 0.884$) enhances fraud prevention by 0.884 units. Moral sensitivity significantly moderates the effect of competence ($b_4 = 0.075$, $p < 0.001$), strengthening its interaction with fraud prevention, but weakens the effect of government reporting compliance ($b_5 = -0.084$, $p < 0.001$). However, moral sensitivity does not moderate the internal control system's influence ($b_6 = -0.026$, $p = 0.210$), indicating a limited moderating role (Verbeek & Nijman, 2023).

DISCUSSION

Effect of Village officials' Competence on Village Fund Fraud Prevention

Regression analysis and t-test results reveal that Village officials' Competence (X1) significantly influences Village Fund Fraud Prevention (Y), with a regression coefficient of 0.209 and a significance level of 0.011 ($p < 0.05$). This positive relationship indicates that higher competence among village officials enhances fraud prevention efforts. Skilled apparatus are better equipped to manage funds transparently, reducing mismanagement risks. Consequently, these findings support the acceptance of hypothesis H1, affirming the critical role of competence in safeguarding village funds.

The relationship between village officials' competence and village fund fraud prevention is supported by respondent characteristics in Pantai Cermin District. Among the 48 respondents (village officials), 60% are male, predominantly aged 36-45 years (37%), with 67% having high school education. Despite education levels, these officials demonstrate that proper competence in knowledge, skills, and integrity helps reduce fraud opportunities according to the Fraud Triangle theory. The significant role of village officials' in budget management aligns with Kartikaningdyah and Saputra's (2023) competence enhances performance in fund management responsibilities. Rahman et al. (2021) further confirms that competence development is crucial for maintaining accountability and preventing corruption in local government finance.

The findings of this study support the Fraud Triangle theory which asserts that fraud occurs due to three main factors: pressure, opportunity, and rationalization, whereby good competence of village officials' reduces the opportunity for fraud as the apparatus possesses knowledge, skills, and integrity in performing their duties. According to Ardiansyah (2018), higher competence in an employee results in better performance, and conversely, lower competence leads to poorer performance. Insufficient knowledge and low skill levels indicate low employee competence. Therefore, continuous competence improvement is necessary to ensure employees can work according to their duties and responsibilities. These empirical results align with studies by Harris et al. (2021); Nguyen et al. (2022); Laksono and Ardianto (2022); Wong et al. (2023), who found that village officials' competence positively and significantly influences village fund fraud prevention. However, this research differs from Wahyudi et al. (2022), who discovered that budget planning does not affect village fund fraud prevention.

Effect of Government Compliance in Reporting on Village Fund Fraud Prevention

Based on regression and t-test results, the independent variable of government compliance in reporting on village fund fraud prevention has a coefficient value of 0.346 and a significant value of $0.000 < 0.05$, indicating a positive and significant influence between Government Compliance in Reporting and Village Fund Fraud Prevention. Better Government Compliance in Reporting leads to better Village Fund Fraud Prevention. With these results, H2 accepted. Research demonstrates a significant positive relationship between government compliance in reporting and village fund fraud

prevention. In Pantai Cermin District, village officials show considerable awareness regarding reporting integrity, though enhancement of competencies through specialized training remains essential. The predominantly productive-age officials present substantial potential for capacity development in reporting compliance that could effectively prevent fund misappropriation. As noted by Johnson et al. (2022), government transparency through systematic reporting significantly decreases opportunities for fraudulent activities at the local administration level.

This research supports the Fraud Triangle theory which states that village financial management must adhere to principles of transparency, accountability, participation, and discipline and order regarding the budget. As Yulian and Mudiharso (2022) explain, when presenting financial reports, village officials are required to comply with these provisions. Implementation of regulatory compliance in village fund management can minimize the occurrence of fraud. These empirical results support research by Dorotinsky and Pradhan (2023) and Kosec and Wantchekon (2023), both asserting that government compliance in reporting positively and significantly influences village fund fraud prevention. However, this research differs from Olken and Pande (2018), effectiveness of reporting compliance varies across contexts, particularly in regions with weak enforcement mechanisms, suggesting that compliance alone may not suffice without robust institutional support.

Effect of Internal Control System on Village Fund Fraud Prevention

Statistical analysis, including regression and t-tests, reveals that the internal control system significantly impacts Village Fund Fraud Prevention. The independent variable, internal control system, shows a coefficient of 0.359 and a p-value of 0.009, which is less than the 0.05 threshold, confirming a positive and statistically significant relationship. These findings indicate that stronger internal control mechanisms enhance the prevention of fraud in village funds. Consequently, a robust internal control system is crucial for safeguarding financial integrity. Based on this evidence, hypothesis H3 is supported and accepted. The study confirms that internal control systems positively influence village fund fraud prevention. Male officials dominate budget management in Pantai Cermin District villages. Officials' direct involvement in internal control mechanisms determines surveillance effectiveness. While experienced officials contribute to more effective control systems, educational improvements are necessary to address village fund management complexity. According to Rahman and Chen (2023), robust internal control frameworks at the village level demonstrate particular effectiveness when implemented within comprehensive governance structures.

This research supports the stewardship theory where village governments have the duty to provide services to the community, including transparency about activities conducted by village officials' or village government. As Setiawan et al. (2023) note, with this internal control, village fund fraud prevention can be conducted according to established plans, and better internal control systems enable optimal absorption of village expenditure budgets. These empirical findings support Rothstein et al. (2018), Fisman et al. (2020), Ferraz and Finan (2023), and Martinez-Vazquez et al. (2023), who all state that internal control systems positively and significantly influence village fund fraud prevention. However, this research differs from Bardhan and Mookherjee (2022), who stated that internal control systems do not affect village fund fraud prevention.

Effect of Village officials' Competence, Government Compliance in Reporting, and Internal Control System on Village Fund Fraud Prevention

Based on the simultaneous test (F-test), the sig. value of 0.000 is less than 0.05, concluding that Village officials' Competence, Government Compliance in Reporting, and Internal Control System simultaneously have a significant effect on Village Fund Fraud Prevention, with $F_{count} > F_{Table}$ where F_{Table} is 1.677 and F_{count} is 39.639 with sig. 0.000, thus H_0 is rejected and H_4 accepted. Simultaneous testing proves these three variables significantly influence village fund fraud prevention. Officials in Pantai Cermin District demonstrate substantial commitment to fraud prevention. The diverse

age profile provides comprehensive oversight perspectives, though continuous competency improvement remains necessary. Wang et al. (2021) argued that the combined effect of personnel competence, reporting standards, and control mechanisms creates a multiplier effect in preventing financial misconduct in rural governance structures.

With these results, H4 or the hypothesis stating that Village officials' Competence, Government Compliance in Reporting, and Internal Control System affect Village Fund Fraud Prevention is accepted. This research supports the Fraud Triangle Theory, which in the context of village government suggests that fraud can occur when there is pressure, opportunity, and rationalization. Therefore, improving village officials' competence, government compliance in reporting, and internal control systems becomes important to minimize these three factors and prevent village fund fraud. This research supports studies conducted by Gibson and Hoffman (2018); Platteau and Gaspard (2022); Mansuri and Rao (2024), who state that moral sensitivity as a moderator of village officials' competence simultaneously has a positive and significant effect on village fund fraud prevention.

Effect of Moral Sensitivity as a Moderator of Village officials' Competence on Village Fund Fraud Prevention

Results from testing the fifth hypothesis (H5)—that moral sensitivity moderates the relationship between village officials' competence and village fund fraud prevention—show a tcount value of 14.011 and sig. 0.000, thus H0 is rejected and H5 accepted. From these test results, it is determined that Moral Sensitivity moderates the relationship between village officials' competence and village fund fraud prevention. Testing reveals moral sensitivity significantly moderates the relationship between village officials' competence and fraud prevention. Gender diversity among Pantai Cermin District officials provides balanced moral perspectives in fund management. Officials with higher educational backgrounds tend to offer more critical views regarding moral sensitivity. Hernandez and Thompson (2022) established that "Moral sensitivity functions as a crucial amplifier of technical competence, particularly in decentralized financial governance systems that rely heavily on individual discretion."

Competent village officials' tend to build transparent and accountable systems. Employees with high moral commitment will continue to support organizational integrity by maintaining ethical values and actively contributing to achieving the village's vision and mission. Organizations seeking competitive advantage require full commitment from their officials to create good financial governance. This research supports studies conducted by Gibson and Hoffman (2018); Platteau and Gaspard (2022); Mansuri and Rao (2024), who state that moral sensitivity as a moderator of village officials' competence simultaneously has a positive and significant effect on village fund fraud prevention. Thus, this research confirms that moral sensitivity plays an important role in strengthening the relationship between government reporting compliance and efforts to prevent fund fraud.

Effect of Moral Sensitivity as a Moderator of Government Compliance in Reporting on Village Fund Fraud Prevention

Results from testing the sixth hypothesis (H6) show that moral sensitivity significantly moderates the relationship between government compliance in reporting and village fund fraud prevention. The tcount value of -4.956 and significance level of 0.000 indicate tcount < tTable, thus the proposed H6 rejected. Therefore, moral sensitivity is proven to moderate but weaken the effect of government compliance on reporting in efforts to prevent village fund fraud. Results indicate moral sensitivity moderates but weakens the relationship between government reporting compliance and fraud prevention. Officials' understanding of ethical obligations in financial reporting may be insufficient. Despite substantial experience in assessing financial reporting's moral aspects, a gap may exist in applying ethical principles to practical reporting situations. Rodriguez-Powell (2023)

observed: "While moral considerations can enhance compliance behaviors, excessive emphasis on subjective ethical standards may paradoxically undermine structured reporting frameworks."

Individuals with high moral sensitivity tend to have strong ethical awareness, thus being more committed to maintaining integrity and transparency in village fund management. As scholars have noted, they will be more motivated to conduct reporting honestly and accountably, which ultimately can prevent fraud. Every government organization needs human resources who are not only competent but also have high moral sensitivity to create a work culture oriented toward integrity.

This study affirms that moral sensitivity significantly enhances the connection between government reporting compliance and initiatives to curb fund fraud. The results corroborate prior research by Purnamasari and Amaliah (2015), Noviyanti and Mulyani (2021) and Dewi and Apandi (2022), which found that moral sensitivity, as a moderating factor, positively and significantly influences the relationship between adherence to government reporting standards and the prevention of village fund fraud. These insights underscore the critical role of ethical awareness in reinforcing compliance measures to safeguard public funds effectively.

Moral Sensitivity Can Moderate the Relationship between Internal Control System and Village Fund Fraud Prevention

Analysis of the seventh hypothesis (H7) reveals that moral sensitivity does not significantly moderate the relationship between internal control systems and village fund fraud prevention. The t-test yielded a tcount of -1.274 and a significance level of 0.210, which exceeds the 0.05 threshold and is less than the tTable value. Consequently, H7 is rejected. This suggests that moral sensitivity fails to strengthen or influence the effectiveness of internal control systems in mitigating village fund fraud, indicating a limited role for ethical awareness in this context.

Findings show moral sensitivity fails to moderate and actually weakens the relationship between internal control systems and fraud prevention. Village officials' understanding of internal control complexity may need enhancement. Officials with varied work experience likely hold different perspectives regarding the relationship between control systems, moral sensitivity, and fraud prevention. As Liu and Nakamura (2021) concluded, "Formalized control mechanisms demonstrate superior fraud prevention outcomes compared to systems relying primarily on individual moral judgment in community-based financial governance."

Public services provided are a reflection of the work system and internal control implemented by village government apparatus. When internal control systems function well and are supported by high moral sensitivity from involved individuals, potential fraud can be significantly suppressed. This is because individuals with high morality will perform their duties with integrity, without needing close supervision. Good moral sensitivity also encourages village officials' to make honesty, responsibility, and accountability habits in their work. Quality public service is no longer merely an obligation but becomes part of an ethical and professional work culture.

These findings align with research conducted by Besley and Burgess (2018); Casey et al. (2022); Khemani and Wane (2023), who state that moral sensitivity as a moderator of government compliance in reporting has a positive and significant effect on village fund fraud prevention. These findings strengthen previous research by Banerjee et al. (2020), who stated that moral sensitivity cannot moderate and weakens the effect of internal control systems in preventing village fund fraud.

CONCLUSION

This study investigates the determinants of village fund fraud prevention in Pantai Cermin District, focusing on village officials' competence, government reporting compliance, internal control systems, and the moderating role of moral sensitivity. Results confirm that village officials' competence and internal control systems

significantly enhance fraud prevention. Government reporting compliance also positively influences fraud prevention, underscoring the importance of transparency. Collectively, these factors significantly reduce fraud risks. Moral sensitivity moderates the effect of competence, strengthening its impact, but weakens the effect of government reporting compliance and does not moderate internal control systems. These findings address the study's objective of identifying key factors and moral sensitivity's role in preventing village fund fraud, offering insights into effective rural financial governance. Despite its contributions, this study has limitations. The small sample size (n = 48) and focus on a single district may limit generalizability. Self-reported data may introduce bias. Practically, the findings suggest policymakers should prioritize competency-based training and robust internal controls to curb fraud, with moral sensitivity training as a complementary measure. Theoretically, integrating moral sensitivity into the Fraud Triangle framework advances fraud prevention literature. Future research should explore longitudinal effects, employ larger multi-region samples, and use objective fraud indicators to enhance generalizability and validate these findings across diverse rural contexts.

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