



## RESEARCH ARTICLE

## Evaluation of Internal Control of Village Fund as Fraud Prevention (Study on the Village of Branta Tinggi)

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ARTICLE INFO	ABSTRACT
Received: Aug 24, 2024	This research aims to evaluate the internal control implemented by the Village Government in managing village funds and assess how effectively the internal control system can prevent fraud. This study uses qualitative research methods, collecting primary data directly from the village head, village secretary, and village treasurer. The results indicate that the internal control system applied by the Village Government in managing village funds in Branta Tinggi Village, Tlanakan District, Pamekasan Regency, complies with Government Regulation (PP) No. 60 of 2008 and adheres to applicable rules. Additionally, village funds are managed transparently and with high accountability. The internal control implemented in the financial management of the Branta Tinggi Village Fund is deemed successful in anticipating and preventing fraud. This demonstrates that a robust and well-functioning internal control system plays a significant role in safeguarding the integrity and security of village funds, thereby preventing unauthorized actions.
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### INTRODUCTION

Village funds are allocated by both the central and local governments to support development and community services at the village level (Adhivinna et al., 2022). The primary goal of village fund utilization is to enhance the welfare and progress of rural areas. These funds are designed to support infrastructure development and finance initiatives and programs that benefit the local community. The Village Law defines Village Funds as financial resources derived from the State Budget (APBN), specifically allocated for villages and distributed through the Regional Revenue and Expenditure Budget (APBD) of districts or municipalities. These funds are used to support governance, development projects, community activities, and empowerment at the village level (Biduri et al., 2022).

Village fund management refers to the aspects of budgeting, financial management, and reporting for the funds provided to village governments to support community development (Suryani, 2023). Oversight and transparency in the use of village funds are crucial to ensure compliance with regulations. Often, community participation processes are adopted, allowing village residents to be involved in the planning and decision-making regarding the use of village funds (Hulinggi et al., 2020). The principles of village fund financial management include transparency, participation,

accountability, and oversight to ensure the optimal use of funds for the village's benefit (Manisa et al., 2020).

According to Government Regulation No. 60 of 2014 on Village Funds sourced from the State Budget (APBN), the allocation of village funds is made fairly by considering several key factors. These factors include a basic allocation and calculations that take into account the population size, poverty levels, area size, and geographic difficulty level in each village within a district or municipality. The evaluation of internal control over village fund finances is an essential step in preventing fraud and misuse of village funds (Binawati & Affan, 2023). Internal control refers to the policies, processes, and actions implemented by village governments to safeguard financial assets, ensure compliance with laws and regulations, and mitigate the risk of fraud. The following steps are crucial in evaluating internal control over village fund finances to prevent fraud:

The village government must have clear written policies and procedures regarding the management of village funds. These documents should include rules on fund disbursements, approvals for financial transactions, authorized signatures, and the necessary verification steps before payments are made. The principle of separation of duties is key to reducing the risk of fraud. The village government must ensure that no single individual has complete control over the entire financial cycle (Herman & Ilham, 2018). For example, the person responsible for fund disbursement should not be the same person approving the payments. Internal oversight processes must be implemented to ensure that policies and procedures are followed properly. Oversight may include internal audits and regular reporting (Adhivinna et al., 2022). Staff responsible for oversight should be independent of those involved in fund disbursement. Accountability and transparency are essential in preventing fraud. The village government must publish financial reports and village fund usage reports regularly so that the public can monitor fund usage. Additionally, the village government must undergo regular external audits.

Providing training to staff and village officials on fraud prevention measures is critical. Awareness of the risks and impacts of fraud should also be increased among staff and village government members. Encouraging the safe and anonymous reporting of violations or fraud can help prevent fraudulent activities. The village government can implement reporting and protection policies for whistleblowers who report fraud (Sari, 2021). Conducting external audits by independent parties is a critical step in evaluating the effectiveness of internal controls and detecting potential fraud. Audit results can provide recommendations for improvements. Fraud prevention is the shared responsibility of the entire village community and the village government. By adhering to strong internal control principles, increasing transparency, and involving the community in village fund oversight, the risk of fraud can be significantly reduced.

## **LITERATURE REVIEW**

### **Mechanism for Village Fund Disbursement**

The village fund disbursement mechanism is divided into two stages: the first stage is the transfer mechanism from the State General Cash Account (RKUN) to the Regional General Cash Account (RKUD), and the second stage is the transfer mechanism from the RKUD to the village cash account (H Saiful Rijal, 2020). The village fund disbursement mechanism can vary significantly between countries and, in some cases, between regions within a country. The main principle is to ensure that village funds are used to improve the welfare of the village community, support local development, and increase community participation in decision-making related to the use of funds.

According to Langkun et al. (2019), the disbursement process and the distribution of Village Fund Allocations (ADD) are carried out in stages based on pre-established percentages. The first disbursement is proposed by the Village Head to the Regent through the district head and must be accompanied by administrative documents. After the first disbursement, the second disbursement

can be made as long as the use of funds in the first stage has been accounted for administratively, technically, and legally. Both the first and second disbursements involve transferring funds from the regional cash account to the respective village cash account. The distribution of Village Fund Allocations from the village cash account to activity implementers (leaders of activities) follows established procedures.

The procedure for village fund disbursement to activity implementers, according to Langkun et al. (2019), includes several important steps conducted in sequence. The village treasurer submits a Payment Request Letter (SPP) to the Village Head through the Village Secretary. The SPP must be accompanied by a Village Needs Plan (RKD) and evidence of previous fund disbursements. The Village Secretary verifies and checks the completeness of the SPP submitted. If the SPP is deemed complete and meets the specified requirements, the Village Secretary proceeds to the next step. After verification, the Village Secretary issues a Payment Order (SPM) signed by the Village Head. The SPM is the official authorization to make payments. After receiving the SPM and a recommendation letter from the District Head, the village treasurer disburses the funds to the designated bank. This means that the funds required for village needs will be withdrawn from the village cash account at the bank. The funds disbursed by the village treasurer are recorded in the Village Cash Book (BKU). The BKU is an official recording tool that documents all village financial transactions. The disbursed funds are then handed over to the activity or project leader for their intended purpose. This process must be accompanied by a receipt that records the acceptance of the funds. This ensures that village funds are managed transparently, accountably, and in accordance with applicable regulations. Through these stages, villages can ensure that village funds are used to support initiatives and programs that benefit the local community.

### **Village Financial Management**

Village financial management refers to the regulations outlined in the Minister of Home Affairs Regulation (Permendagri) No. 20 of 2018. Village finances encompass all rights and obligations held by a village that can be assessed in monetary terms, as well as all assets, whether in the form of money or goods, that are associated with the fulfillment of the village's rights and obligations. There are several key principles that must be followed in village financial management, including transparency, accountability, participation, and adherence to the budget in an orderly and disciplined manner. The Village Revenue and Expenditure Budget (APB Desa) serves as the primary foundation for village financial management over a one-year budget period, which runs from January 1 to December 31. These principles ensure that village finances are managed in a way that is open, accountable, involves active participation from the community, and is carried out with strict adherence to the budget. This is intended to ensure that village financial resources are used effectively and efficiently to improve village welfare and development.

### **Internal Control**

Internal control refers to the influence exerted by the board of directors, entity management, and other personnel on various processes that serve as guarantees for achieving the organization's objectives. Internal control encompasses operations, reporting, and compliance with applicable regulations (Adhivinna et al., 2022). According to Binawati and Affan (2023), the internal control system is defined as a framework that includes elements such as organizational structure, operating methods, and metrics, all of which are coordinated and aligned to achieve the goal of protecting the organization's assets, verifying the accuracy and reliability of accounting data, promoting operational efficiency, and supporting the implementation of company policies. According to Government Regulation No. 60 of 2008, which governs the Government Internal Control System (SPIP), government agencies, including central and local governments, are required to implement an internal control system to monitor the execution of government activities.

Defined by Suryani (2023), Fraud is a criminal act aimed at providing financial benefits to the perpetrator by deceiving or manipulating another party. The term "criminal" is used to describe fraud because the act is carried out with malicious intent. Fraud aims to provide financial gain to the perpetrator, while the victim suffers financial loss as a result (Biduri et al., 2022). This research aims to evaluate the internal control implemented by the Village Government in managing village funds. It also aims to assess whether the internal control system can prevent fraudulent activities.

## METHODOLOGY

This study uses a qualitative approach. The purpose of qualitative research is to understand changes in paradigms or views regarding the reality of certain phenomena (Miles et al., 2014). The research was conducted in Branta Tinggi Village, Tlanakan Sub-district, Pamekasan Regency. Branta Tinggi Village is a village that has carried out targeted budgeting and formulated a Medium-Term Village Development Plan (RPJM Desa), which serves as a guide in planning and using funds according to the needs and interests of the village community. The research period lasted approximately one year, starting from January 2022.

This research utilizes qualitative data, consisting of subject data (self-report data) and documentary data. The primary data sources in this study are firsthand data obtained through direct interviews with individuals who have expertise in managing Village Fund finances in Branta Tinggi Village, Tlanakan Sub-district, Pamekasan Regency. Informant selection was conducted using a purposive sampling method, a sampling approach with specific considerations based on predetermined criteria. This was done to ensure that the selected informants have relevant knowledge and expertise in Village Fund financial management. The informants in this study include the Village Head, Village Secretary (Sekdes), Village Treasurer, and the Chair of the Village Consultative Body (BPD).

Data collection techniques used in this study include observation, interviews, and documentation. The data processing and analysis process in this research consists of three continuous stages. The Data Reduction Stage involves simplifying and organizing the collected data. This stage includes selecting relevant data, organizing the data, and classifying the obtained information. The second stage is Data Display, which aims to present the data in a more understandable form. This may involve arranging the data into tables, graphs, or narratives to help illustrate the key findings of the research. The third stage is Conclusion Drawing/Verification, the final stage of data analysis. This stage involves analyzing the presented data and drawing conclusions or verifying the identified findings (Moleong, 2013).

Researchers conduct triangulation of data and triangulation of methods in this research. Data triangulation involves cross-checking the answers provided by the informants. The researcher evaluates the results from the data and then draws conclusions, which will be explained in the research findings and discussed in the analysis section. Methodological triangulation is conducted through observation, interviews, and documentation to ensure that the actual conditions in Branta Tinggi Village, Tlanakan Sub-district, Pamekasan Regency, are accurately captured.

## RESULTS AND DISCUSSION

Based on the findings of the research on the Evaluation of Internal Control over Village Fund Finance as a Form of Fraud Prevention (Study on Branta Tinggi Village, Tlanakan Sub-district, Pamekasan Regency), several important steps were identified to ensure the sustainability and integrity of village fund management to prevent fraud or misuse of funds. The researcher highlights ten (10) indicators in evaluating internal control and fraud prevention in Branta Tinggi Village:

**Risk Identification:** The results of risk identification in the management of village funds in Branta Tinggi Village show no significant risks of document forgery, fund misuse, or conflicts of interest. The

financial management of Village Fund in Branta Tinggi has been executed appropriately by avoiding risks and fraud.

**Policies and Procedures:** The researcher found that the village government has reviewed the policies and procedures in Branta Tinggi Village related to village fund management. The village government, consisting of the Village Head, Village Secretary, Village Treasurer, and the Chair of the Village Consultative Body (BPD), recognizes that these policies cover separation of duties, approval procedures for fund disbursements, and verification steps to avoid fraud.

**Interviews and Observations:** The researcher conducted interviews with village officials, staff, and parties involved in village fund management. During observations of the budgeting, management, and financial reporting processes, potential weaknesses in the system were identified. Some residents of Branta Tinggi Village may not actively participate in decision-making regarding village fund management, which can reduce the oversight and control that the community can exert on the village government.

**Separation of Duties:** The research findings indicate that the village government understands the importance of separating responsibilities related to village fund finances. Each member of the village government has their duties, and these responsibilities are clearly separated. However, the study also found that in some cases, the person submitting a payment request was also the one approving it. This creates a conflict of interest, which undermines the separation of duties within the village government.

**Internal Oversight:** The research found that internal oversight procedures have been adequately implemented in managing village funds. The Branta Tinggi Village Government has a sufficient oversight process, and the results are documented. The Village Head maintains records of all oversight activities, and any fraud detected during the process is addressed with the responsible parties. Internal oversight is crucial in ensuring proper village fund management. By involving competent staff, clear separation of duties, and effective oversight procedures, internal monitoring can help prevent fraud, misuse, and errors in village fund usage.

**Accountability and Transparency:** The research found that the accountability of Village Fund management in Branta Tinggi Village involves the village government being responsible for the management and the outcomes. This fosters an environment where village officials and staff feel accountable for the village government's actions and decisions. In the context of village funds, accountability means that the village government and the staff involved in fund management must be willing to explain their actions and decisions to the authorities, whether to the local government or the local community. Branta Tinggi Village has established clear rules, including a code of ethics and conflict-of-interest policies, which help ensure that all parties involved in fund management understand what is expected of them.

**Training and Awareness:** The research revealed that the entire Branta Tinggi Village government had received training on village fund management and fraud risks. The Village Head stated that training on village fund management and fraud risks is critical to enhancing the understanding, competence, and awareness of the village government, staff, and the community about the actions that can be taken to prevent fund misuse. Proper training enables Branta Tinggi Village to manage its funds more effectively and be better prepared to prevent fraud and misuse.

**Internal Audit:** Village fund management is also subject to internal audits. The research found that external audit results for Branta Tinggi Village were reviewed and that recommendations from the audits were implemented, though not always promptly. The study also found that Branta Tinggi Village has a policy for reporting fraud or misconduct. This policy helps anticipate and prevent fraud and provides protection for whistleblowers.

**Whistleblower Policy:** The Village Government of Branta Tinggi has established a policy for whistleblowers, which allows individuals to report fraudulent activities or misconduct without fear of retaliation. This policy is part of the village's efforts to strengthen internal control and prevent fraud. It ensures that individuals who are aware of or involved in the internal processes can report issues confidentially, which is essential in detecting fraud early and maintaining integrity.

**Community Involvement:** The study emphasizes that engaging the community in oversight and decision-making regarding village funds is a crucial part of ensuring transparency and accountability. However, the research found that in Branta Tinggi Village, not all residents actively participate in decisions about village fund management, reducing the potential for public oversight. Increasing public participation would enhance transparency and reduce the risk of fraud by involving more stakeholders in the monitoring process.

## CONCLUSION

Based on the research findings on internal control over Village Fund management in 2022 in Branta Tinggi Village, Tlanakan Sub-district, Pamekasan Regency, it can be concluded that the implementation of the Government Internal Control System (SPIP) in the management of village funds, as viewed through Government Regulation No. 60 of 2008, plays a significant role in preventing fraud. The better the internal control system, the more effectively fraud is prevented in Branta Tinggi Village, and vice versa. The research also suggests that Branta Tinggi Village Government should continue to improve village fund management and apply internal control policies to take preventive measures against fraud.

## Suggestions:

- The village government should increase efforts to train staff continuously, ensuring that all personnel involved in the management of village funds are equipped with up-to-date knowledge on fraud prevention.
- The village government should strengthen the separation of duties to avoid any conflict of interest, ensuring that no single individual is involved in both the submission and approval of fund requests.
- Enhancing community participation in village fund management and decision-making processes is crucial to promoting transparency and enabling more comprehensive public oversight.
- The village should expedite the implementation of external audit recommendations to address any weaknesses promptly, thereby reinforcing internal control systems.
- Strengthening the whistleblower policy to encourage safe and anonymous reporting of fraud or misconduct can further help in preventing fraud.

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