

# The Impact of Village Financial Systems and Staff Competence on Village Financial Report Quality: The Role of Fraud Prevention as a Mediator

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## ABSTRACT

*This research aims to examine how village financial systems and staff competence impact the quality of village financial reports, with fraud prevention playing a key role. This study is crucial for promoting transparency and accountability in village financial management. Using path modeling with smart partial least squares (PLS), the study reveals important findings. Village financial systems and staff competence do not directly influence the quality of financial reports significantly. However, both factors have a significant impact on fraud prevention. This research is urgent because it addresses the critical need to ensure trustworthy financial reporting by village administrations. The findings underscore the importance of effective strategies for managing financial risks at the village level. Moreover, the study demonstrates that village financial systems and staff competence significantly influence financial report quality through their effects on fraud prevention. Conducted in the South and North Morotai Districts, Pulau Morotai Regency, this study aims to contribute positively to enhancing the efficiency and transparency of village financial governance.*

## ABSTRAK

*Penelitian ini bertujuan untuk mengkaji bagaimana sistem keuangan desa dan kompetensi staf desa memengaruhi kualitas laporan keuangan desa, dengan pencegahan fraud sebagai faktor kunci. Penelitian ini sangat penting untuk meningkatkan transparansi dan akuntabilitas dalam pengelolaan keuangan desa. Menggunakan metode pemodelan jalur dengan smart partial least squares (PLS), penelitian ini mengungkapkan temuan penting. Sistem keuangan desa dan kompetensi staf desa tidak berpengaruh langsung secara signifikan terhadap kualitas laporan keuangan. Namun, keduanya memiliki dampak signifikan terhadap pencegahan fraud. Penelitian ini mendesak karena menangani kebutuhan penting untuk memastikan pelaporan keuangan yang dapat dipercaya oleh pemerintah desa. Temuan ini menegaskan pentingnya strategi efektif dalam mengelola risiko keuangan di tingkat desa. Selain itu, penelitian ini juga menunjukkan bahwa sistem keuangan desa dan kompetensi staf desa berpengaruh signifikan terhadap kualitas laporan keuangan melalui pengaruhnya terhadap pencegahan fraud. Dilaksanakan di Kecamatan Morotai Selatan dan Morotai Utara, Kabupaten Pulau Morotai, penelitian ini diharapkan dapat memberikan kontribusi positif dalam meningkatkan efisiensi dan transparansi dalam tata kelola keuangan desa.*



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## INTRODUCTION

The Law Number 6 of 2014 concerning Villages stipulates that a Village is a legal community unit within defined boundaries authorized to manage local government affairs and community interests based on community initiatives, customary rights, and/or traditional rights recognized within the Unitary State of the Republic of Indonesia's governance system. According to the law, Village Governance entails the administration of local government affairs and interests under Indonesia's governance system. The Village Head, or by any other name, is assisted by village officials in governing the village. Village affairs are regulated through village regulations formulated through village deliberations involving the Village Head, the Village Consultative Body (BPD), village officials, and community elements.

Village finances encompass all village rights and obligations that can be valued in monetary terms, along with all matters involving the execution of village rights and obligations. Village financial management includes planning, implementation, accounting, reporting, and financial accountability. The Village Government Work Plan (RKPDesa) details the medium-term development plan for the village over a one-year period, while the Village Budget (APBDesa) outlines the annual financial plan of the village government. Further regulations governing village financial management are established by the Regent/Mayor.

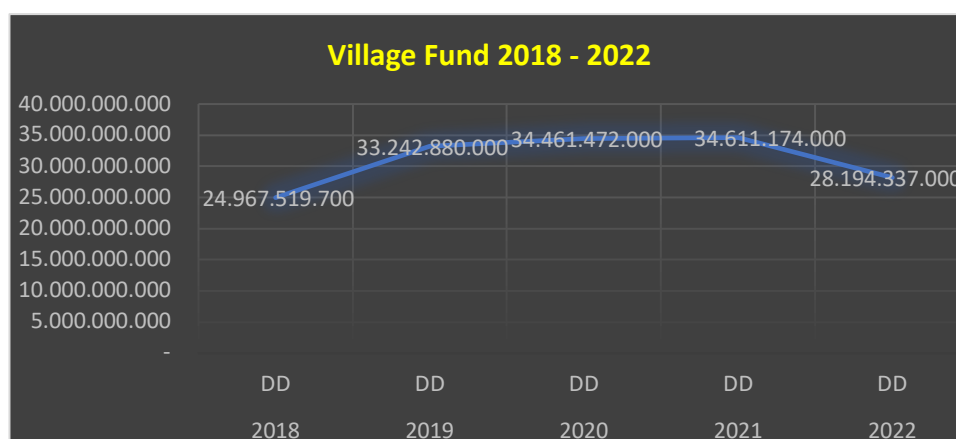
The report on village financial management outcomes serves as a form of accountability for performance to the community in accordance with the Minister of Home Affairs Regulation Number 20 of 2018 concerning Village Financial Management. Each village financial report presented must be of high quality and accountable to the public. The quality of financial reports is crucial as they serve as a guide for policymaking and decision-making in governance. Proper presentation of financial reports based on financial accounting standards and traceable transaction evidence is a key indicator of report quality. High-quality financial reporting can enhance public trust in the village government's financial management efforts.

The Siskeudes application was implemented in Pulau Morotai District in 2016, but its effective operation began in 2017. During this period, it lacked support from village staff competence and supportive infrastructure. Consequently, village heads sought assistance from village facilitators and other designated parties for operating the system and preparing village financial reports. This led to indications of fraud, where payments for services provided by facilitators and other designated parties were sourced from other budget items, disrupting effective budget allocation. This situation also resulted in the creation of fictitious SPJs (Surat Pertanggungjawaban) or accountability letters.

Village officials play a crucial role in ensuring the quality of financial reports. They are responsible for planning, implementing, and controlling financial management within their jurisdiction. To effectively manage finances, village officials need skills, knowledge, and capabilities to fulfill their duties (Wati, et al., 2014). In achieving organizational goals,

village officials in the Budong-Budong sub-district office should possess adequate skills to meet their obligations. Therefore, enhancing their skills and expertise is crucial for performing their duties effectively. It is essential for village officials or personnel to be proficient in their field and accountable in serving and meeting the needs of the community. Managers and leaders can enhance the quality of their personnel through development programs, knowledge enhancement, and skill training to ensure optimal performance.

Observations indicate that the competence of village officials in South and North Morotai Districts does not yet meet desired standards. This was confirmed in an interview with Ahdad Hi Hasan, S.Pi., M.M., Head of the DPMD (Regional Apparatus Work Unit) of Pulau Morotai District, who stated that although Siskeudes has been used since 2016, issues such as slow internet connections in some villages hinder its operation. Consequently, some villages with poor internet connectivity use Siskeudes offline, which often leads to undetected errors in the village financial system.



**Figure 1** *Allocation of Village Funds in South Morotai and North Morotai Districts, Morotai Island Regency*

The Village Fund, allocated by the government in the State Budget starting from the fiscal year 2015, has consistently increased annually, benefiting communities across villages throughout Indonesia. However, it is acknowledged that villages face limitations in carrying out development under the "Village Development" perspective. These limitations manifest in the capacity of village government officials and the community, the quality of village governance, and supporting systems established through regulations and government policies related to villages.

According to the fraud triangle theory, there are three primary motivators for fraudulent actions: pressure, opportunity, and rationalization. Pressure can trigger individuals or groups to engage in unethical behaviors such as corruption or fraud. In addition to pressure, as noted by Zimbelman, Albrecht, & Albrecht (2014), another variable that can lead to fraud is the availability of opportunity. Opportunities arise due to weak internal controls, incompetent work quality assessments, lenient sanctions, and other factors. The third variable that can lead to fraud is rationalization, which involves justifying fraudulent actions, such as the belief that "everyone does it" (Tuanakotta, 2014).

Based on the background above, the research problem is formulated as follows: Does the village financial system influence the quality of financial reports? Does the competence of village officials influence the quality of financial reports? Does the village financial system influence fraud prevention? Does the competence of village officials influence fraud prevention? Does fraud prevention influence the quality of village financial accountability reports? Does the village financial system influence the quality of village financial reports through fraud prevention? Does the competence of village officials influence the quality of village financial reports through fraud prevention?

## **THEORITICAL FRAMEWORK**

Financial management in villages, as stipulated in the Ministry of Home Affairs Regulation No. 20 of 2018, encompasses everything, whether in the form of money or goods, related to the implementation of village rights and obligations. The foundation of village financial management for each fiscal year is the Village Budget (APBDes). The structure of APBDes consists of village revenues, village expenditures, and village financing obtained from Village Own Revenues (PAD), Village Funds sourced from the State Budget (APBN), Village Allocation Funds (ADD), Revenue Sharing Funds originating from taxes and regional levies, financial assistance from districts or provinces, and other revenues. Village revenues derived from transfers include village funds from the APBN, portions of local taxes and levies from district/city revenues, village fund allocations from districts/cities, and financial aid from provincial and district/city budgets. The financial management process adheres to several principles: transparency, accountability, participatory management, and budgetary order and discipline.

Based on Government Regulation No. 8 of 2016, the second amendment to Government Regulation No. 60 of 2014 concerning Village Funds sourced from the APBN, village funds are those derived from the APBN allocated to villages through district/city budgets, aimed at financing development, governance, community empowerment, and social development, transferred from the Central Government. Village financial management encompasses all activities involving planning, implementation, record-keeping, reporting, and accountability (BPKP, 2015). According to Soleh and Rochmansjah (2014), achieving effectiveness and efficiency in village financial management requires adherence to guiding principles: unity, universality, annual basis, specificity, accountability, proportionality, professionalism, transparency, financial audit by the Supreme Audit Agency (BPK), value for money, honesty, control, orderliness, responsibility, and justice.

In achieving effective, efficient, transparent, and accountable village financial management, the Ministry of Home Affairs, in collaboration with the Financial and Development Supervisory Agency (BPKP), introduced the Siskeudes System to oversee village financial management accountability and assist all village officials in ensuring financial accountability. As noted by Sinta & Gayatri (2021), higher quality systems and reliable information lead to quality financial reporting. The Siskeudes Village Financial System features essential tools for village financial management due to its simplicity and

user-friendliness, facilitating easy operation (Puspasari & Purnama, 2018). The Siskeudes application has been periodically implemented across all villages in Indonesia.

According to Wahyudi & Hasri (2021), high-quality financial reports require adherence to guidelines, where village governments must prepare mid-year and year-end reports, as well as reports on the realization of Village Budget expenditure accountabilities. Setyowati et al. (2016) state that high-quality village financial reports demonstrate that the Village Head is accountable within the delegated authority for managing the organization. The reporting entity consists of a governance unit comprising one or more accounting entities required to present Village Budget accountability reports.

The Indonesian Institute of Public Accountants (IAPI), 2013, defines fraud as an intentional act by one or more individuals in management, responsible parties for governance, employees, or third parties, involving deceitful schemes to gain unfair advantage or violate the law. Fraud prevention integrates efforts to mitigate the factors causing fraud (fraud triangle) (Sawardi and Yulianto, 2008: 37-38): (1) Reducing opportunities for fraudulent behavior; (2) Reducing pressure on employees to meet needs; (3) Eliminating reasons for justifying fraudulent acts (rationalization). (Kivaayatul et al, 2022). Organizational fraud creates negative impacts on the investment climate in the country. This can also affect local, state, or national trust in economic conditions based on the scale of businesses affected by organizational fraud. Therefore, the prevention of fraud is crucial for the organizational image of the national economy, and efficient mechanisms and strict enforcement should be implemented to identify and stop ongoing incidents (Suandewi, 2021).

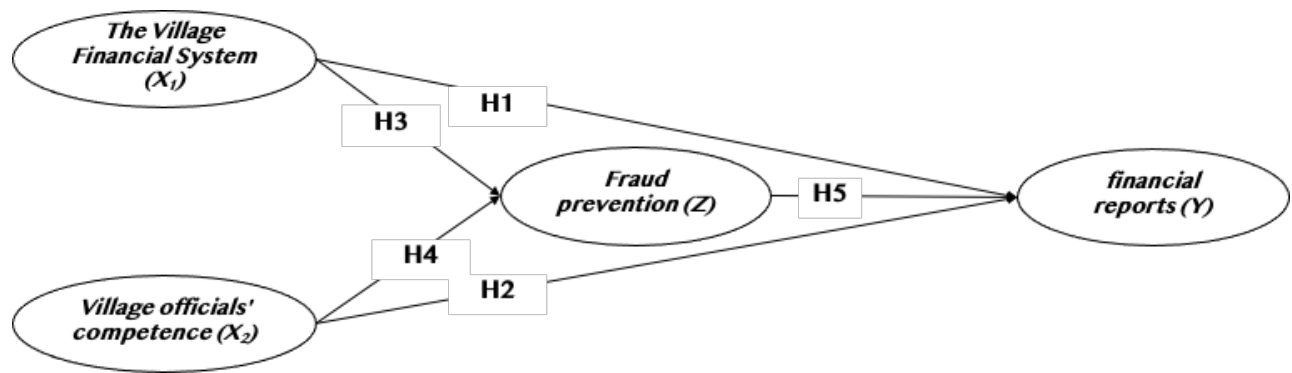
The Siskeudes application is intended for village government officials to facilitate village financial management from planning to reporting/accountability stages. The procedure for using the Siskeudes application by village governments involves a request from local governments for its use to the Ministry of Home Affairs or local BPKP representatives. The goal is to coordinate Siskeudes application use by local governments so that it can be implemented in all villages within their respective jurisdictions. Approval for using the Siskeudes application is granted by providing the local government with an official SML code issued by BPKP and the Ministry of Home Affairs (Siskeudes, 2018).

Based on the opinions above, the researcher concludes that implementing Siskeudes in the South Morotai and North Morotai Districts can assist village officials in effectively managing village finances. It is expected that village officials have the ability to operate Siskeudes independently, minimizing the need for technical/administrative assistance in the disbursement and accountability processes of village funds, thereby reducing the likelihood of fraud.

Competence is fundamentally defined as capability, skill, or ability. Being competent means that village officials are capable, skilled, or proficient. Competence refers to the attributes or characteristics of an individual that enable them to succeed in their job (Widyatama, 2017). According to Wahyudi and Anggeraini (2021), quality village officials



need to have the capacity to fulfill their functions or authorities effectively and efficiently. The quality of village officials is their ability to carry out assigned tasks and responsibilities, supported by adequate education, training, and experience. Officials with a high understanding of their tasks and functions, as well as obstacles encountered in data processing, also impact financial report presentation.



**Figure 2 Research Framework**

Hypothesis Development;

- H1: The Village Financial System affects fraud prevention.
- H2: Village officials' competence affects fraud prevention.
- H3: Fraud prevention affects the quality of village financial reports.
- H4: The Village Financial System affects the quality of village financial reports.
- H5: Village officials' competence affects the quality of village financial reports.

## RESEARCH METHODS

This study employs a quantitative causal research design to measure the influence of the village financial system and village officials' competence on the quality of village financial reports through fraud prevention. The research was conducted in Pulau Morotai Regency, specifically focusing on the districts of Morotai Selatan and Morotai Utara. The sample consists of 117 respondents selected using purposive sampling, targeting village officials who qualify as per the research criteria, such as village secretaries, treasurers/finance officers, and development officers.

Data collection utilized a questionnaire distributed via Google Forms. The analytical model employed is path analysis using Smart Partial Least Squares (PLS) Inner Model, which depicts relationships between latent variables based on substantive theory. The structural model is evaluated using R-square for dependent constructs, Stone-Geisser Q-square test for predictive relevance, and t-tests to determine the significance of structural path coefficients.

In assessing the PLS model, the evaluation begins by examining R-square values for each dependent latent variable, interpreted similarly to regression analysis. Additionally, the model's predictive relevance is evaluated through Q-square, which measures how well the model's observations match its predictions and the estimations of its parameters.

## RESULTS and DISCUSSION

### Characteristics Respondent

**Table 1 Respondent's of Research**

<b>Gender</b>	Man	93	79
	Woman	24	21
<b>Total</b>		<b>117</b>	<b>100</b>
<b>Age</b>	< 30 years	28	24
	31 - 40 years	49	42
	41 - 50 years	29	25
	> 50 years	11	9
<b>Total</b>		<b>117</b>	<b>100</b>
<b>Last Education</b>	SD	1	1
	SMP	6	5
	SMA	58	50
	Diploma	5	4
	Strata 1 (S1)	47	40
<b>Total</b>		<b>177</b>	<b>100</b>
<b>Length of Time in Position</b>	0 - 2 years	71	61
	2 - 5 years	30	26
	5 - 10 years	11	9
	> 10 years	5	4
<b>Total</b>		<b>177</b>	<b>100</b>

Table shows that the village officials are predominantly male, constituting 79% of the governance structure. The most common age group among them is 30 to 40 years old, comprising 42% of the total, indicating that village officials are mostly in their productive years, capable of advancing their careers in village governance. The highest educational attainment is at the secondary level or higher (SMA), accounting for 50%, suggesting that village officials have opportunities to pursue further education, which can enhance their knowledge of village financial management. Regarding length of tenure in office, the majority have served for 5-10 years, indicating that longer tenure correlates with greater knowledge of village financial management.

**Table 2** *Validity and Reliability Results test*

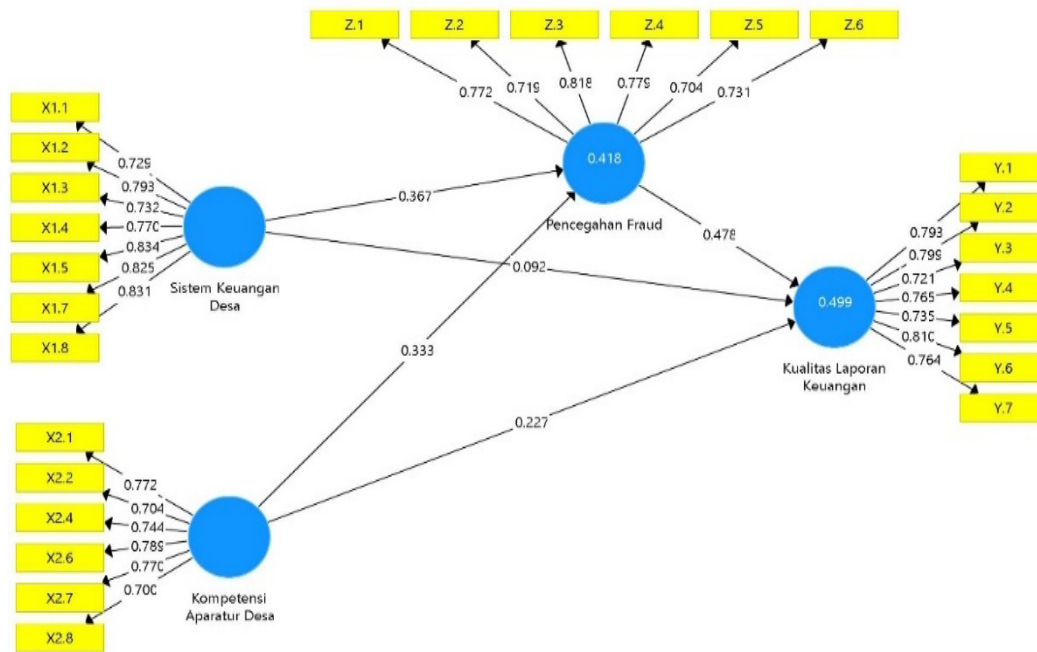
	Items	Outer Loading Factor	AVE	Cronbach Alpha	Composite Reliability
<b>The Village Financial System</b>	X1.1	0,729	0.622	0.899	0.920
	X1.2	0,793			
	X1.3	0,732			
	X1.4	0,770			
	X1.5	0,834			
	X1.7	0,825			
	X1.8	0,831			
<b>Village officials' competence</b>	X2.1	0,772	0.559	0.842	0.883
	X2.2	0,704			
	X2.4	0,744			
	X2.6	0,789			
	X2.7	0,770			
	X2.8	0,700			
<b>Quality of reports</b>	Y.1	0,793	0.593	0.885	0.911
	Y.2	0,799			
	Y.3	0,721			
	Y.4	0,765			
	Y.5	0,735			
	Y.6	0,810			
	Y.7	0,764			
<b>Fraud Prevention</b>	Z.1	0,772	0.570	0.849	0.888
	Z.2	0,719			
	Z.3	0,818			
	Z.4	0,779			
	Z.5	0,704			
	Z.6	0,731			

Based on the table above, it can be concluded that the validity test in PLS with reflective indicators is adequate. This is because all loading factors of the research variables' indicators are above 0.7, as recommended by Chin (1998) for convergent validity. Furthermore, the average variance extracted (AVE) values for the variables System of Village Finance, Competence of Village Apparatus, Quality of Financial Reports, and Fraud Prevention are all greater than the loading factor threshold of 0.5.

Construct reliability is evaluated through Composite Reliability (CR), which should exceed 0.6, and Cronbach's Alpha, which is also expected to be above 0.6 to ensure data reliability. The SmartPLS output indicates that all constructs meet these reliability standards, as suggested by Jogyanto (2011). Therefore, it can be concluded that the constructs in this study are considered to have good reliability. While Hair et al. (2011)



suggest that alpha or composite reliability values ideally exceed 0.7, values above 0.6 are still acceptable.



**Figure 3 PLS Result Test**

Based on Figure 3, which shows the results of the PLS algorithm, which presents the results of PLS bootstrapping, it can be interpreted that after conducting validity and reliability tests, the coefficient loading values of all indicators for each variable are greater than 0.7. Next, we examine the Hypothesis test as follows:

**Table 3 Statistical Result Test**

	Original Sample (O)	Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values	Information
The Village Financial System → quality of village financial reports.	0.092	0.093	0.094	0.977	0.329	Not Significant
Village officials' competence → quality of village financial reports.	0.227	0.238	0.124	1.835	0.067	Not Significant
The Village Financial System → fraud prevention	0.367	0.374	0.083	4.427	0.000	Significant
Village officials' competence → fraud prevention	0.333	0.343	0.099	3.374	0.001	Significant
Fraud prevention → the quality of village financial reports	0.478	0.474	0.099	4.803	0.000	Significant
Village Financial System → Fraud	0.175	0.175	0.049	3.559	0.000	Significant

Prevention → Financial Report Quality							
Village officials' competence → Fraud Prevention → Financial Report Quality	0.159	0.164	0.062	2.575	0.000	Significant	
	R Square			Adjusted R-Square			
Fraud Prevention	0.418			0.408			
Financial Report Quality	0.499			0.486			

The path coefficient values from the inner model indicate the significance level in hypothesis testing. The explanations of the path coefficients are as follows:

Firstly, the village financial system does not influence the quality of financial reports, evidenced by a t-statistic value less than 0.997, lower than 1.96, or a P-value more significant than alpha 0.329, bigger than 0.05. This indicates that the village financial system does not affect the quality of financial reports. Secondly, village apparatus competence does not affect the quality of financial reports, as indicated by a t-statistic value less than 1.835, lower than 1.96, or a P-value more significant than alpha 0.067 bigger than 0.05. This suggests that village apparatus competence is independent of the quality of financial reports. Thirdly, the village financial system significantly affects fraud prevention, with a t-statistic value greater than 4.427, more significant than 1.96, and a P-value less than alpha 0.000 lower than 0.05. This demonstrates that the village financial system significantly influences fraud prevention. Fourthly, village apparatus competence significantly affects fraud prevention, with a t-statistic value greater than 3.374, bigger than 1.96, and a P-value less than alpha 0.001 lower than 0.05. This indicates that village apparatus competence significantly influences fraud prevention. Fifthly, fraud prevention significantly influences the quality of financial reports, with a t-statistic value greater than 4.803, more significant than 1.96, and a P-value less than alpha 0.000, lower than 0.05. This shows that fraud prevention significantly influences the quality of financial reports.

Sixthly, the village financial system influences financial reports mediated by fraud prevention, confirming the mediation effect. Lastly, village apparatus competence influences the quality of financial reports mediated by fraud prevention, confirming the mediation effect.

Based on the R-square values, the fraud prevention variable (Z) is 0.418, indicating that 41.80% of the variance in fraud prevention is explained by the village financial system and village apparatus competence, while the remaining 58.20% is influenced by other variables not studied in this research. Furthermore, the quality of financial reports variable (Z) is 0.499, meaning that 49.90% of the variance in financial report quality in the North Morotai and South Morotai Districts of Pulau Morotai is explained by the village financial system and village apparatus competence, with the remaining 50.10% influenced by other

unexamined variables. The model's predictive relevance is also assessed through Q-Square Predictive Relevance (Q2), calculated as follows:

$$Q2 = 1 - (1 - R1) \times (1 - R2)$$

$$Q2 = 1 - (1 - 0.418) \times (1 - 0.499)$$

$$Q2 = 0.708$$

Based on this calculation, the Q-Square value of 0.708 indicates that the model effectively explains the research data.

## Discussion

### The Influence of Village Financial Systems on the Quality of Financial Reports

The hypothesis testing results indicate that the village financial system does not significantly influence the quality of financial reports. This suggests that currently, the village financial system has not made a substantial contribution to improving the quality of financial reports. These findings are consistent with the average variable score of 4.30, as stated by Ahdad Hi Hasan, S.Pi., M.M., Head of the DPMD of Pulau Morotai District, indicating that Siskeudes still faces challenges such as inadequate server capacity, limiting its use both online and offline. Abutar Galela, a village treasurer, also stated that he is not proficient in using computers, with his main task being to sign documents such as SPP and accountability reports. This research also aligns with agency theory, which highlights the relationship between principals (those who delegate authority) and agents (those who execute authority), where difficulties in reaching agreements on preferences, trust, and information hinder cooperation for common interests. The purpose of the village financial system, as mentioned by Sulina et al. (2017), is to facilitate financial reporting, optimize village financial management, and serve as a control tool to ensure compliance with regulations.

Irfan Ridwan Maksum (2019) emphasizes that village financial management should prioritize principles of transparency, accountability, participation, and budget discipline. To support these principles, BPKP and the Directorate General of Regional Autonomy have innovated by creating Siskeudes, a system that assists villages in budgeting, financial administration, and reporting processes. Siskeudes automatically generates required reports, reduces fraud and error risks, and aids in data aggregation, both online and offline, depending on village resource conditions (Permendagri 20 of 2018). These findings are supported by Puspa Sari (2018), who explains that Siskeudes applications help villages become more self-reliant in managing finances effectively and enhance transparency in financial accountability. However, this study indicates that the use of village financial systems is still suboptimal in effectively managing village finances and improving the quality of financial reports.

These research results differ from those of Atika (2019), who found that village financial systems significantly influence the quality of village financial reports, and Gayatri et al.

(2017), who support Siskeudes as a factor in improving the quality of financial reports through effective input, process, and output mechanisms.

### **The Impact of Village Officials' Competence on Financial Report Quality**

The hypothesis testing showed that the competence of village officials does not significantly affect the quality of financial reports. This indicates that their current skills do not yet improve financial reporting quality effectively. Competence refers to their ability to perform their roles efficiently, influencing financial report quality. Agency theory suggests that village governments (agents) manage finances and are accountable based on their competence, aiming to produce high-quality financial reports. Oversight by local governments (principals) ensures smooth financial management by village officials, aligned with the Village Budget (APBDes). Competence theory explains how individual traits and behaviors influence job performance. Village officials' competence, including knowledge and skills, impacts financial report quality positively.

Research by Wati et al. (2014) supports that competent human resources enhance financial report quality. Arsyati (2008) found that human resources significantly affect financial accountability. Yudianta (2012) and Rahayu (2014) confirmed that competence in accounting and public service affects the quality of financial reports. This contrasts with Noholo's (2021) findings, showing significant positive effects of human resource competence on financial report quality. Similarly, Wonar & Aswad (2018) found competence significantly affects financial report quality. Respondents' characteristics include educational backgrounds in high school (58) and bachelor's degrees (47). Village officials are mostly aged 31-40 (49) or below 30 years (28), meeting educational requirements under Law No. 6 of 2014. In summary, improving village officials' competence is crucial for enhancing financial report quality, aligning with agency and competence theories and legal requirements.

### **The Impact of Village Financial Systems on Fraud Prevention**

The research shows that Village Financial Systems have a significant effect on preventing fraud. Better financial systems in villages can effectively reduce fraud, especially in South Morotai and North Morotai Districts, Pulau Morotai Regency. BPKP introduced SISKEUDES (Village Financial System) to oversee Village Funds and help village officials manage finances better. SISKEUDES aims to improve financial governance and produce accurate, reliable financial reports. According to fraud theory, weak internal controls often lead to fraud. Strong internal controls ensure that village financial management is transparent and accountable. Research by Fathia & Indriani (2022) supports this, showing that Village Financial Systems help prevent fraud in Aceh Province villages.

This study aligns with agency theory, emphasizing the importance of robust internal controls to monitor village officials' conduct. Good internal controls ensure financial reporting is accountable, compliant with regulations, and efficient (Kummer et al., 2015).

Effective controls also discourage self-serving behaviors among village officials (Wijayanti & Hanafi, 2018). Research by Atdmadja and Saputra (2017) and Laksmi and Sujana (2019) further confirms that strong internal controls significantly reduce fraud. Therefore, implementing effective internal controls is crucial for preventing fraud and ensuring accountability in village financial management.

### **The Influence of Village Officials' Competence on Preventing Fraud**

Research shows that the competence of village officials affects fraud prevention. Higher competence reduces the likelihood of fraud among village officials managing finances. According to fraud theory, competence plays a crucial role in ensuring the quality of financial reports from village financial systems. It also highlights how individuals justify fraud through rationalization, comparing their actions with others to justify wrongdoing. Agency theory explains how information differences between owners (principals) and employees (agents) impact accounting systems. It assumes principals are neutral to risks, while agents may reject efforts and risks, driven by self-interest and potential conflicts of interest.

Studies by Widayarta et al. (2017) demonstrate that higher competence significantly improves fraud prevention. However, research by Anisykurillah and Wardanti (2018) suggests competence does not always reduce fraud. This contrasts with Amelia & Wahyuni's 2020 findings, indicating competence among village officials does not consistently prevent fraud in village financial management.

### **Fraud Prevention as a Mediating Variable**

Research findings indicate that fraud prevention significantly influences the quality of financial reports in South Morotai and North Morotai Districts, Pulau Morotai Regency. This shows that effective fraud prevention mediates the relationship between dependent variables and independent variables (Financial Report Quality). In financial audits, fraud refers to intentional misrepresentation in financial statements. The two main categories of fraud are fraudulent financial statements and misappropriation of assets. Fraudulent financial statements involve intentional misstatements or omissions aimed at deceiving users. Research data with an average fraud prevention score of 4.20 indicates that operators or officials refuse to engage in fraudulent activities when instructed by superiors.

According to Arens et al. (2016), fraud encompasses deceptive actions violating laws, deliberately carried out for personal or group gain, directly or indirectly harming others. Irfan Zamzam (2022) defines fraud as intentional misconduct by individuals or groups with authority and interests, violating legal norms for personal gain. Organizational fraud involving government executives, legislators, and private individuals aims at personal or group benefits.



Attribution theory explains how individuals' perceptions of their environment influence their attitudes and behaviors, shaped by self-competence (Widakdo, 2022). The Association of Certified Fraud Examiners (ACFE, 2016) defines fraud as intentional acts by one or more individuals to unjustly use organizational resources and misrepresent facts for personal gain. Karyono (2013) describes fraud prevention as efforts to deter potential perpetrators, identify risky activities, and narrow opportunities for fraudulent actions.

This research is supported by Noholo's (2021) study, finding that fraud prevention mediates village financial report quality. Similarly, Wonar & Aswad (2018) found significant effects of fraud prevention on financial reports. Sarah's (2023) study focuses on internal factors affecting individual capabilities in understanding their environment and influencing their performance. Previous research consistently shows that fraud prevention positively impacts improving the quality of financial reports in South Morotai and North Morotai Districts, Pulau Morotai Regency.

## CONCLUSIONS

This study reveals that fraud prevention significantly influences the quality of financial reports in South Morotai and North Morotai Districts, Pulau Morotai Regency. The findings indicate that effective fraud prevention can serve as a mediator between the dependent variable (financial report quality) and other independent variables. In the context of financial audits, fraud is defined as intentionally misleading financial statements or misappropriating assets. The research data shows an average fraud prevention score of 4.20, reflecting operators or officials' refusal to engage in fraudulent activities when instructed by superiors. This aligns with attribution theory, which explains how individuals' perceptions of their environment can influence their attitudes and behaviors towards fraudulent practices.

The study is supported by previous research demonstrating that effective fraud prevention implementation can enhance financial report quality across various organizational contexts. The practical implications underscore the importance of strengthening internal control systems and enhancing financial management transparency to prevent detrimental fraudulent activities. Thus, fraud prevention efforts not only impact the integrity of financial reporting but also public trust and organizational operational efficiency. This research provides a strong foundation for local governments and relevant institutions to continuously improve policies and practices in financial management that are accountable and transparent, thereby promoting sustainable development goals and community welfare.

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