

## The Influence of Internal Control System, Whistleblowing System, and Spiritual Intelligence in the Prevention of Village Fund Management Fraud (Empirical Study on Villages in West Lombok Regency)

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### ABSTRACT

By focusing on the internal control system, whistleblowing system, and spiritual intelligence, this study aims to determine the factors that can influence fraud prevention in the management of village funds in West Lombok Regency. This research consists of primary data collected through questionnaires distributed directly to 55 villages in West Lombok Regency. In addition, secondary data can be obtained from official documents, books, and scientific journals. Data measurement uses a Likert scale of 1 to 5 which is analyzed with partial least square (PLS), namely SmartPLS 4.1 software. The results of this study indicate that the internal control system affects the prevention of fraud in the management of village funds in West Lombok Regency, and spiritual intelligence affects the prevention of fraud in the management of village funds in West Lombok Regency. Meanwhile, the whistleblowing system has no effect on preventing fraud in the management of village funds in West Lombok Regency. This shows that a better internal control system in the village can prevent fraud because it functions as a controller in finding and preventing suspicious actions, so the possibility of fraud is reduced. Higher levels of spiritual intelligence can also help a person be more self-controlled, which can help improve ethics and morality in the workplace and prevent cheating. However, despite a good whistleblowing system, many people are still reluctant to report fraud. This may be because whistleblowers do not trust the current system and fear retaliation in the future if they report fraud.

## INTRODUCTION

According to Law of the Republic of Indonesia No. 6/2014, villages receive funding from the State Budget. This law also gives them the authority to organize and manage their own government and the interests of their communities. Indonesia has many villages and sub-villages, with 75,265 villages in 38 provinces. However, the current village government has not been able to manage the village government properly because it is not ready for the new government system. The village financial budget is a very important part of the village. The number of cases of misappropriation or corruption of village funds increases every year, along with the increase in village budgets. According to the results of monitoring trends in the prosecution of corruption cases, Indonesia Corruption Watch in 2023 found that the village sector is the most corrupted sector. In 2016, there were 17 cases of corruption with state losses of 40.1 billion, and by 2022, there were 155 cases with state losses of 381 billion.

In April 2024, (Detik.com, 2024) reported on its website that the former village head, village secretary, and treasurer of Babussalam village, Gerung sub-district, West Lombok district, had been arrested in connection with alleged corruption in the management of the 2018–2019 village budget. In April 2024, the Gunung Sari police investigated an alleged corruption case of village funds for the 2017 fiscal year in Mambalan Village, Gunung Sari District, West Lombok Regency (VOL.ID, 2024). (Kicknews.today, 2023) reported through its website on the internet that the former village head for the 2014–2019 period, who was the former head of Banyu Urip Village, Gerung Subdistrict, West Lombok Regency, was named as a suspect in a case of alleged corruption of village funds. Fraud that occurs requires preventive action. One of the preventive measures that can be taken is to continuously make efforts to improve the internal control system in the village. This needs to be improved in order to minimize actions that can cause fraud. To reduce the possibility of fraud, the organization's internal control system improves the quality of control. Internal control is one aspect of supervision that can be used as an evaluation tool to prevent fraud (Hapsari et al., 2023).

The provision of fraud reporting facilities by the government can help prevent fraud. West Lombok Regent Regulation Number 89.A of 2020 has been established by the West Lombok Regency government to regulate the whistleblowing system throughout the West Lombok Regency government. This whistleblowing system can assist in preventing fraud and protecting the rights and obligations of fraud reporters. In addition, the system already exists and can be used at any time by accessing it via <https://wbs.lombokbaratkab.go.id>. However, the problem is that the community or village officials do not have the courage to report fraud that occurs in their institutions. The level of spiritual intelligence as a form of self-control. Thus, existing fraud can be minimized. Spiritual intelligence is the intelligence to face and solve problems about the meaning of life, values, and wholeness of self, as well as the intelligence to place one's actions and way of life in a broader and richer context of meaning (Ervinia et al., 2021). Spiritual

intelligence is a type of soul intelligence that can help in the overall healing and development of the human self. It is the necessary foundation for operating IQ and EQ efficiently. Even when facing problems or difficulties, working, learning, and questioning can help one find the meaning of life.

The results of previous research on how the internal control system, whistleblowing system, and spiritual intelligence can prevent fraud in the management of village funds still have different results. For example, studies such as Rahmawati et al.,2020,Bachtiar & Elliyana,2020, Oktavia & Pramudyastuti,2023, Puspita & Ratnadi,2023,, found that the internal control system affects fraud prevention. Conversely, studies such as Ayem & Kusumasari,2020,Hayati & Amalia,2021, Hendrawati et al.,2022,Elisabeth et al., 2023, Renanda & Robinson,2024, found that the internal control system does not affect fraud prevention. Research conducted by Widodo & Cahyaningrum,2023,Sutisna et al., 2024 shows that the whistleblowing system has an effect on fraud prevention. However, research conducted by Aziza et al.,2024,Putri et al.,2024 shows that the whistleblowing system has no effect on fraud prevention. Researchers also include spiritual intelligence variables, which differentiate from previous research. This study aims to look at the effect of the internal control system, whistleblowing system, and spiritual intelligence on preventing fraud in village fund management in West Lombok Regency. This research was conducted based on the description of the phenomenon and the differences in the research results described above.

## LITERATURE REVIEW

### *Agency Theory*

Agency theory relates to the contractual relationship between members of an organization or agency. Efficient performance is the concept held by this theory, and organizational performance is determined by effort and environmental influences (Atmadja et al., 2024). When viewed from the perspective of behavior and structure, the focus is on two individuals, namely the principal (superior) and the agent (subordinate) (Jensen & Meckling, 1976). Principals hand over responsibility for decision-making to agents. In this case, both are assumed to be rational economic men who are only motivated by self-interest, and their differences relate to preferences, trust, and information. According to agency theory, agents may act based on personal interests, which may conflict with the interests of the principal (Ghozali, 2020). Agency theory sees organizational management as acting with full awareness of its interests(Hendri et al., 2020).In managing village funds, village governments are trusted to manage village funds, acting as agents, and village communities and the central government act as principals.

### *Fraud Prevention*

Prevention is an attempt to stop fraud from occurring by preventing potential perpetrators from engaging in fraudulent behavior (Wardhani & Purnamasari, 2021). Fraud prevention is any form of action or activity carried out to suppress and eliminate all actions that have the possibility of causing

fraud (Raharja & Sulistyowati, 2023). Fraud prevention is carried out to prevent fraud at all levels of the organization, prevent potential fraudsters, make it difficult for fraudsters to continue, identify high-risk activities, prosecute criminals, and impose sanctions against fraudsters (Kuntadi et al., 2023). The potential to prevent fraud starts with oneself, and awareness is a critical component in preventing fraud (Ardiansyah et al., 2024).

### *Internal Control System*

Resources owned by an organization or agency are monitored, regulated, and measured through the internal control system, which is very important to prevent and detect fraud. (Sujana et al., 2020) . If the internal control system of an organization becomes better, then fraud can be reduced and prevention maximized. Control environment, risk assessment, control activities, information and communication, and monitoring are components of internal control(Herawaty & Hernando, 2020). Internal control system has a positive and significant effect on fraud prevention is supported by research by (Sayang et al., 2023), (Bosko et al., 2023), (Florid et al., 2023) So, the hypothesis formulated is as follows,

**H1: Internal control system has a positive and significant effect on fraud prevention**

### *Whistleblowing System*

Whistleblowing is an action or activity carried out by someone with the intention and purpose of reporting fraud committed or that is happening (Setiyowati et al., 2022). The main motivation for whistleblowing is moral motivation to prevent losses or fraud in an agency or organization (Saputra et al., 2020). Research conducted by (Dewi & Padnyawati, 2022),(Fahreza et al., 2022),(Destiyana et al., 2024) explained that the existence of a whistleblowing system has a positive effect on fraud prevention. So that the hypothesis formulated is as follows.

**H2: Whistleblowing system has a positive and significant effect on fraud prevention**

### *Spiritual Intelligence*

Spiritual intelligence is a person's behavior in problem solving and contains broader values and meanings in life that can show a person's ability to have a flexible attitude, to see problems holistically, to understand values and vision, to be humble, to have high integrity and sincerity and trust in facing various life problems. Good spiritual intelligence in a person can make him not dare to commit fraud (Mahdi et al., 2021). Research conducted by (Budiarto & Isnaeni, 2022), (Kristuti et al., 2023), (Buato et al., 2024) shows that spiritual intelligence has an effect on fraud prevention. Thus, the hypothesis formulated is as follows:

**H3: Spiritual intelligence has a positive and significant affect on fraud prevention**

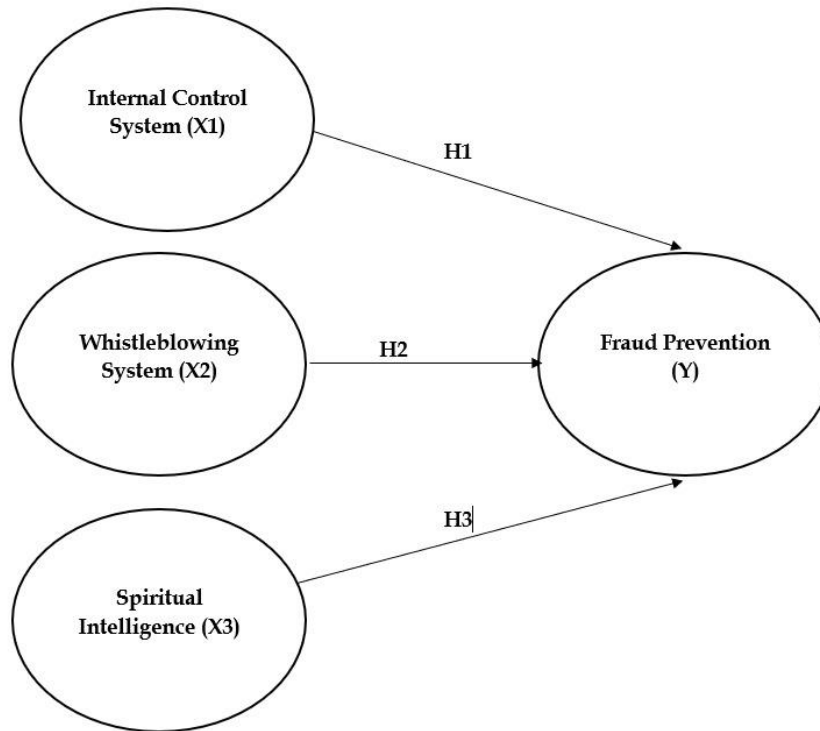


Figure 1. Conceptual Framework

## METHODOLOGY

The data for this research is numerical and nominal, so this research is categorized as quantitative research. Hypothesis analysis is carried out by multiple linear analysis, and the Likert scale is used as an assessment in data processing. Data was obtained by distributing questionnaires directly to respondents by visiting each village office one by one. The data obtained was processed through Microsoft Excel and using the Pool Lease Squares (PLS) or SmartPLS software application. With SmartPLS 4.1, the independent variables, which include the internal control system, whistleblowing system, and spiritual intelligence, are dependent on the dependent variable, fraud prevention. The villages in West Lombok Regency are the population of this study. There are 119 villages in West Lombok district that are not included in the output. The research was conducted using the purposive sampling method, which has criteria such as villages that hold anti-fraud prevention programs, villages that do not hold anti-fraud prevention programs and villages that are willing to fill out research questionnaires. The sample size was determined using the solvin formula as follows:

$$n = \frac{N}{1 + Ne^2}$$

Description:

n = Sample

N = Population

e = error (10%)

## RESEARCH RESULT

### *Measurement Model (Outer Model)*

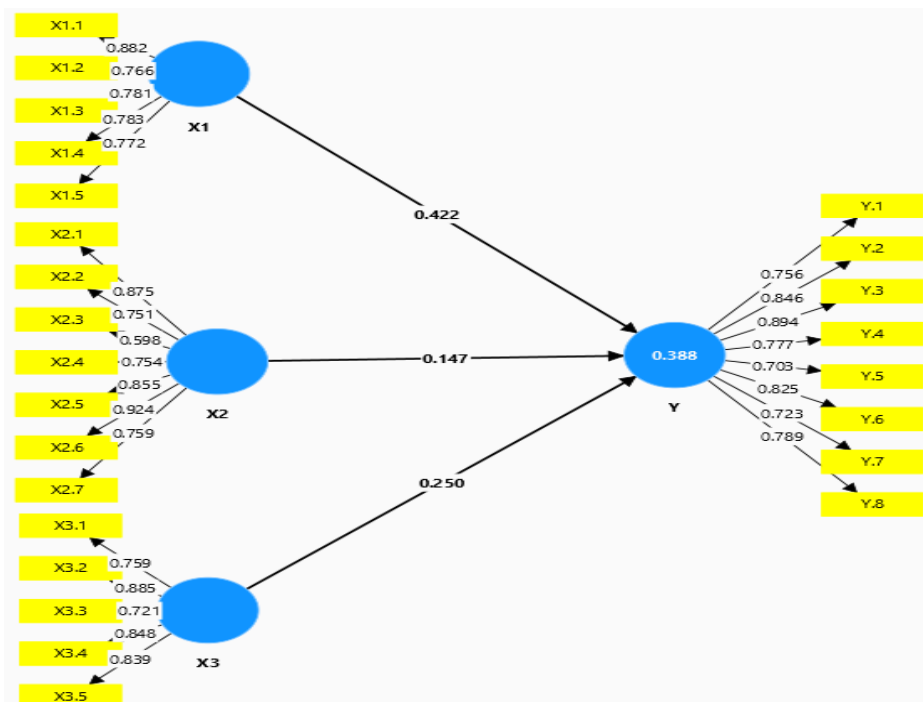


Figure 2. Research Scheme

Description:

X1 : Internal Control System

X2 : Whistleblowing System

X3 : Spiritual Intelligence

Y : Fraud Prevention

**Convergen Validity Test**

To test whether the indicators and manifestations of the construct variables are correct, the convergent validity test is used. In this study, convergent validity was tested by assessing the loading factor (also known as the outer loading value) and the average variance extracted (AVE) value.

*Loading Factor (Outer Loading)*

The loading factor value is a criterion for evaluating convergent validity. The loading factor value accepted by Smart PLS of 0.5 to 0.6 can be said to be sufficient. When viewed from the commonly used loading factor, the size of the model that is considered good is the loading factor value of more than 0.7. The loading factor results from testing the questionnaire data in this study are presented in Table 1.

**Table 1. Outer Loading Value**

	X1	X2	X3	Y
SPI1.1	0.882			
SPI1.2	0.766			
SPI1.3	0.781			
SPI1.4	0.783			
SPI1.5	0.772			
WS2.1		0.875		
WS2.2		0.751		

WS2.3	0.598	
WS2.4	0.754	
WS2.5	0.855	
WS2.6	0.924	
WS2.7	0.759	
KS3.1		0.759
KS3.2		0.885
KS3.3		0.721
KS3.4		0.848
KS3.5		0.839
PF.1		0.756
PF.2		0.846
PF.3		0.894
PF.4		0.777
PF.5		0.703
PF.6		0.825
PF.7		0.723
PF.8		0.789

Source: SmartPLS 4.1 Output 2024

Table 1 above shows the loading factor value of each indicator on its structural variable. The acceptable loading factor value for each indicator is 0.7, and the third indicator, the whistleblowing system variable, produces a value of 0.598. This value is below the specified threshold of 0.7. Thus, the indicator will be eliminated from the analysis. This procedure is carried out by doing the factor loading test again. The test results are listed in Table 2.

**Table 2. Outer Loading Value**

	X1	X2	X3	Y
SPI1.1	0.882			
SPI1.2	0.766			
SPI1.3	0.781			
SPI1.4	0.783			
SPI1.5	0.772			
WS2.1		0.876		
WS2.2		0.751		
WS2.4		0.752		
WS2.5		0.855		
WS2.6		0.924		
WS2.7		0.759		
KS3.1			0.759	
KS3.2			0.885	
KS3.3			0.721	
KS3.4			0.848	
KS3.5			0.839	

<b>PF.1</b>	0.757
<b>PF.2</b>	0.846
<b>PF.3</b>	0.894
<b>PF.4</b>	0.777
<b>PF.5</b>	0.703
<b>PF.6</b>	0.825
<b>PF.7</b>	0.723
<b>PF.8</b>	0.789

Source: SmartPLS 4.1 Output 2024

Table 2 shows the loading factor value after the third indicator of the whistleblowing system variable was removed from the research model. The results show that the values for all indicators, including the independent variable (X1), internal control system (X2), and spiritual intelligence (X3), as well as the dependent variable fraud prevention (Y), show values above 0.70.. Consequently, the findings indicate that the indicators have passed the convergent validity test. In addition, the findings indicate that the questionnaire tool used in this study is accurate and reliable for evaluating the impact of internal control systems, whistleblowing systems, and spiritual intelligence on fraud prevention.

*Average Variance Extracted (AVE)*

Apart from looking at the outer loading value, another way to test convergent validity is to look at the Average Variance Extracted (AVE) value. The AVE value must be greater than 0.5. A value above 0.5 will indicate that 50% or more of the indicator can be explained. The results of the AVE test for respondents in this study are presented in Table 3.

**Table 3. AVE Value**

<b>Variable</b>	<b>Average variance extracted (AVE)</b>
<b>SPI1(X1)</b>	0.637
<b>WS2(X2)</b>	0.676
<b>KS3(X3)</b>	0.660
<b>PF(Y)</b>	0.627

Source: SmartPLS 4.1 Output 2024

Table 3 above shows the AVE value of each indicator on the construction variable. The AVE value for the internal control system variable is 0.637, the whistleblowing system variable is 0.676, the spiritual intelligence variable is 0.660, and the fraud prevention variable is 0.627. Each variable shows an AVE value above 0.5, which indicates that all indicators are valid.

***Discriminant Validity Test***

The discriminant validity test is carried out to see the relationship between one construct and another. Discriminant validity is used to compare the correlation of indicators to variables built with other variables. Correlations with other variables should not be higher than the correlation of the variables



built. The cross-loading value is used to perform discriminant validity analysis. The results of the discriminant validity test are presented in Table 4.

**Table 4. Cross Loading**

	X1	X2	X3	Y
SPI1.1	<b>0.882</b>	0.201	0.168	0.535
SPI1.2	<b>0.766</b>	0.378	0.216	0.421
SPI1.3	<b>0.781</b>	0.136	0.158	0.370
SPI1.4	<b>0.783</b>	0.252	0.245	0.353
SPI1.5	<b>0.772</b>	0.356	0.352	0.439
WS2.1	0.399	<b>0.876</b>	0.334	0.392
WS2.2	0.310	<b>0.751</b>	0.283	0.185
WS2.4	0.095	<b>0.752</b>	0.072	0.190
WS2.5	0.265	<b>0.855</b>	0.316	0.225
WS2.6	0.325	<b>0.924</b>	0.371	0.443
WS2.7	0.132	<b>0.759</b>	0.274	0.245
KS3.1	0.202	0.251	<b>0.759</b>	0.321
KS3.2	0.184	0.309	<b>0.885</b>	0.270
KS3.3	0.223	0.347	<b>0.721</b>	0.205
KS3.4	0.091	0.180	<b>0.848</b>	0.274
KS3.5	0.356	0.338	<b>0.839</b>	0.494
PF.1	0.393	0.393	0.345	<b>0.757</b>
PF.2	0.478	0.338	0.273	<b>0.846</b>
PF.3	0.515	0.261	0.379	<b>0.894</b>
PF.4	0.457	0.261	0.281	<b>0.777</b>
PF.5	0.296	0.332	0.346	<b>0.703</b>
PF.6	0.472	0.284	0.440	<b>0.825</b>
PF.7	0.204	0.262	0.219	<b>0.723</b>
PF.8	0.493	0.263	0.334	<b>0.789</b>

Source: SmartPLS 4.1 Output 2024

As a measure of the construct variable, Table 4 shows that each indicator is true or valid. The value for each of the independent variables (internal control system, whistleblowing system, and spiritual intelligence) and the dependent variable (fraud prevention) is greater than the value for the construct variable with other variables.

### **Reliability Test**

The reliability test was conducted to ensure the instrument used to measure the accuracy, consistency, and rigor of the construction. The results of the composite reliability test and Cronbach's alpha were used to measure the instrument reliability of this study. The construct is considered reliable if the Cronbach's alpha value is greater than 0.6 and the composite reliability value is

greater than 0.7. The results of the composite reliability test and Cronbach's alpha are presented in Table 5.

**Table 5. Reliability Test**

	<b>Cronbach's alpha</b>	<b>rho_a</b>	<b>Composite reliability</b>	<b>Average variance extracted (AVE)</b>
<b>SPI(X1)</b>	0.857	0.874	0.897	0.637
<b>WS(X2)</b>	0.907	0.980	0.926	0.676
<b>KS(X3)</b>	0.876	0.941	0.906	0.660
<b>PF(Y)</b>	0.914	0.923	0.930	0.627

Source: SmartPLS 4.1 Output 2024

Table 5 shows that the Cronbach's alpha and composite reliability values of all constructs are above 0.7. The Cronbach's alpha value for the internal control system variable (X1) is 0.857 and the composite reliability value is 0.897; the whistleblowing system variable value (X2) is 0.907 and the composite reliability value is 0.926; and the Cronbach's alpha value for the spiritual intelligence variable (X3) is 0.876 and the composite reliability value is 0.906. These results indicate that each construct can be said to be reliable by meeting good standards and in accordance with predetermined criteria.

**Structural Model (Inner Model)**

**Coefficient of Determination (R-Square)**

Using the R-Square test results, we can find out how much contribution the independent variable makes to explain its relationship with the dependent variable. The R-Square value in Smart PLS 4.1 can be seen in Table 6.

**Table 6. R-Square**

	<b>R-square</b>	<b>Adjusted R-square</b>
<b>Fraud Prevention (Y)</b>	0.388	0.352

Source: SmartPLS 4.1 Output 2024

Table 6 shows the R-square value on the Fraud Prevention variable of 0.388, which indicates that the exogenous constructs of the internal control system (X1), whistleblowing system (X2), and spiritual intelligence (X3) affect Fraud Prevention (Y) by 38.8%, with a moderate influence because the adjusted R-square value is 0.352 (35.2%), which is above 33% but below 67%. Other variables outside this research model explain the rest, namely 61.2%.

**Hypothesis Testing**

This study uses the bootstrapping function in Smart PLS 4.1, looking at the T-statistics and P-value. The hypothesis is accepted if the P-value is less than 0.05 and rejected if the P-value is more than 0.05. The results of hypothesis testing can be seen in Table 7.

**Table 7. Hypothesis testing**

	Original Sampel (O)	Sampel Average (M)	Standard deviation (STDEV)	T statistik ( O/STDEV )	P values	Status
X1 -> Y	0.421	0.435	0.109	3.849	0.000	Accepted
X2 -> Y	0.148	0.161	0.167	0.887	0.375	Rejected
X3 -> Y	0.249	0.250	0.113	2.212	0.027	Accepted

Source: SmartPLS 4.1 Output 2024

Based on table 7 above, it shows that two of the three hypotheses proposed in this study are accepted and one hypothesis is rejected. The explanation of each variable is as follows:.

1. The results of hypothesis testing for the internal control system variable (X1) show a significant p-value of 0.000, which is less than 0.05. This shows that the hypothesis proposed in H1 is accepted, and the internal control system variable contributes to the prevention of fraud in the management of village funds in West Lombok Regency.
2. The results of hypothesis testing for the whistleblowing system variable (X2) show an insignificant p-value of 0.375, which is greater than the 0.05 significance level. Therefore, hypothesis H2 is rejected, and the whistleblowing system variable has no impact on preventing fraud in the management of village funds in West Lombok Regency.
3. The hypothesis testing output for the spiritual intelligence variable (X3) shows a significant p-value of 0.027, which is lower than the 0.05 significance level. Thus, hypothesis H3 is accepted, and the spiritual intelligence variable has an impact on preventing fraud in the management of village funds in West Lombok Regency.

## DISCUSSION

### *The effect of the internal control system on preventing fraud in the management of village funds*

The results of hypothesis testing show that the original sample value for the Internal Control System (X1) variable on Fraud Prevention (Y) is positive at 0.421. With a t-statistic value of 3.849 and a p-value of 0.000, it can be said that H1 is accepted. The t value > 1.65 and the p-value < 0.05, the Internal Control System variable, contribute positively and significantly to preventing fraud in the management of village funds in West Lombok Regency. The results of this study indicate that when the village internal control system becomes better, it is more likely to avoid fraud in the management of village funds. Villages in West Lombok Regency are able to increase efforts in preventing

fraud, which can be seen from the organizational structure that describes a clear division of tasks and authority, the supervision of data processes to obtain financial reports with a high level of reliability, documents being stored properly, authorization from the authorities for transactions carried out, and sanctions for violating officials. Agent theory states that the internal control system should monitor how agents, or village officials, act when performing their duties. Other studies conducted by (Murtanto et al., 2022) and (Puspita & Ratnadi, 2023) are in line with this study, which also found that the internal control system helps prevent fraud and has a positive impact.

### *The effect of the whistleblowing system on preventing fraud in the management of village funds*

The results of hypothesis testing show that the original sample value of the whistleblowing system variable (X2) on fraud prevention (Y) is positive 0.148, with a t-statistic value of 0.887 and a p-value of 0.375. However, because the p value on this variable is greater than 0.05, H2 is rejected. The t value <1.65 and the p-value > 0.05, the whistleblowing system variable, have no effect on preventing fraud in village fund management in West Lombok Regency. The results of this study indicate that the whistleblowing system has a positive effect on fraud prevention but is not significant. This indicates that even though the whistleblowing system is good, it still cannot encourage people to report fraud that occurs in the village. This is because village officials do not have the awareness to report fraud that occurs in their organization if they do not get incentives or rewards. In addition, village officials are still afraid to report fraud, especially if the person committing fraud is the leader of the organization so the effectiveness of this whistleblowing system is low, and there is a need for commitment from the leadership to prevent fraud. This research is in line with previous research conducted by (Putri et al., 2024) and (Aziza et al., 2024), which shows that the whistleblowing system does not have a significant effect on fraud prevention.

### *The effect of the Spiritual Intelligence system on preventing fraud in the management of village funds*

The results of hypothesis testing show that the original sample value of the Spiritual Intelligence (X3) variable on Fraud Prevention (Y) is positive 0.249, with a t-statistic value of 2.212 and a p-value of 0.027. Thus, this third hypothesis is accepted. With a calculated t value > 1.65 and a p-value <0.05, the spiritual intelligence variable has a positive and significant effect on preventing fraud in the management of village funds in West Lombok Regency. The results of this study indicate that spiritual intelligence has an effect on fraud prevention. This shows that the better a person's spirituality, the more fraud can be prevented because spirituality can be used as a form of self-control not to commit fraud. In agency theory, the village government and the community have an inseparable relationship. Where the community gives authority and responsibility to village officials to manage village funds, who are expected to have good spiritual intelligence. So that village officials become wise and prosperous for the people and the village government is aware not to commit

fraud. This research shows that spiritual intelligence has a positive and significant effect on fraud prevention, as shown by the studies conducted (Kristuti et al., 2023) and (Buato et al., 2024)

## **CONCLUSIONS AND RECOMMENDATIONS**

In terms of stopping fraud in the management of village funds in West Lombok Regency, it can be concluded that the internal control system functions well to prevent fraud. Here, the internal control system serves as a control to detect and prevent suspicious actions, thereby reducing the possibility of fraud. The influence of spiritual intelligence on fraud prevention is demonstrated by the fact that an individual's spiritual values can improve morality and ethics in the workplace, thereby reducing the desire to commit fraud. However, the whistleblowing system for reporting fraud has not succeeded in preventing fraud in the management of village funds in West Lombok District. This may be because whistleblowers do not trust the current system and fear retaliation in the future if they report fraud individually. To prevent fraud in the management of village funds, researchers suggest the following:

1. Strengthen the internal control system by updating existing procedures and providing training to officials, as well as placing more attention on improving the effectiveness and efficiency of controls in each part of the village organization.
2. Improving the spiritual intelligence of officials by implementing programs that can support this, such as religious activities, motivation and counseling related to moral and ethical values.
3. Evaluate and improve the whistleblowing system by increasing socialisation and education related to the importance of this system and providing assurance and certainty that whistleblowers will be safe and protected.

## **ADVANCED RESEARCH**

Further research is needed to investigate additional factors that may contribute to the prevention of fraud in the management of village funds in West Lombok Regency. Conduct an in-depth analysis related to the whistleblowing system to prevent fraud in the management of village funds. In addition, research can be conducted at a different level of government agencies than in villages.

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