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Research paper

Preventive Against Fraud: A Case Study of Independent Village Performance in Bone District, Indonesia

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Abstract

Corruption is still one of the problems that is difficult to solve in Indonesia. The purpose of this study was to determine the impact of Islamic corporate governance variables, internal control systems, whistleblowing, and community empowerment on efforts to prevent Fraud in the distribution of village fundsin independent villages, Bone Regency. The sample was selected based on accidental sampling techniques by distributing questionnaires to 202 samples consisting of village officials and communities in 82 independent villages in Bone Regency, South Sulawesi, Indonesia. The use of data analysis methods in this study involved descriptive tests using the Validity and Reliability test. The measurement of the questionnaire was based on a Likert scale and data analysis techniques through Structural Equation Models using SMART-PLS tools. The results of the study indicate that Islamic corporate governance, internal control systems, and community empowerment have a positive and significant effect on efforts to prevent fraud, and whistleblowing influences preventing fraud in independent villages. These results contribute to the importance of implementing Islamic governance where most of the village population is Muslim and improving the internal control system and community involvement in the use of village funds so that fraud does not occur.

Keywords: *Islamic Corporate Governance; Internal Control System; Whistleblowing; Community Empowerment; Fraud Distribution.*

1. Introduction

Fraud in the distribution of village fundsis a trending corruption issue that never gets old to discuss and eradicate. Corruption is still one of the most difficult problems to solve in Indonesia. Data from the Indonesia Corruption Watch (ICW) states that budget misuse is the most common mode of corruption. The increase in corruption cases that occurred in 2021 was 533 cases that had been prosecuted, an increase of 8.63% to 579 cases. In Indonesia, especially in the South Sulawesi region, corruption cases by village heads dominated in 2023. Cases of village fund misuse continue to increase every year, beating the education, utilities, government, and natural resources sectors based on the ICW category.

The increasing number of village government officials who are dragged into various cases of village fund misuse is also inseparable from the status of the village. Bone Regency, which is in the South Sulawesi Province of Indonesia, is a regency that receives the largest village fund budget with the largest number of independent villages in South Sulawesi. The development of a village into an independent village certainly has the potential for village fund fraud. Therefore, it is important to increase Fraud in the distribution of village fundsmitigation in the area.

Mitigation is any effort made to minimize the risk of fraud in institutional and government systems (Yasmi et al., 2021). The success of a village changing its status to an independent village is certainly influenced by the performance of the village apparatus. There are several conditions that affect the performance of the village apparatus, both from internal and external individuals (Sudaryati & Heriningsih, 2020). A good governance system, also known as good corporate governance, has become an important issue that must be considered in assessing financial performance (Rowa & Arthana, 2019) because it can increase the effectiveness of fraud prevention (Nugroho & Afifi, 2022). The majority of the village population in Bone Regency is Muslim, and the principles of Islamic law need to be upheld as an effort to combat corruption (Al Azemi et al., 2019), so it is important to implement Islamic Corporate Governance in preventing fraud, and it is one of the variables studied. Islamic corporate governance is one of the factors that can support companies in managing organizational operations well (Yobel & Pamungkas, 2024). In the process of preventing fraud in order to create effective village financial management, one form of agency effort is to improve internal control in village officials (Bachtiar & Ela Elliyana, 2020), so that the government is aggressively trying to improve the internal audit function (Saadi, 2024). The internal control system can also have a positive impact on employee responsibility (Zulfaidah et al., 2020) while providing security and protecting company assets (Hartono & Nugroho, 2022). One way to overcome the risk of fraud and various negative things that can arise in an agency is through internal control (Andrayanti, 2020). The different findings motivate us to re-examine the internal control system variable because it is considered not to be functioning properly, so there is still a lot of fraud (Rayyani et al., 2019). The existence of whistleblowing can prevent Fraud in the distribution of village

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fundsbecause of the delivery of information related to deviant and unlawful behavior that occurs within the organization (Anandya & Werastuti, 2020), so that whistleblowing becomes one of the means of external supervision, and it is used as a variable in research. Village officials will not get many opportunities because their actions are always monitored by the reporter (Suandewi, 2021). The addition of a new variable in this study also differentiates it from previous researchers, namely, community empowerment, which has never been associated with village fund fraud. This is from the assumption that the use of village funds is also widely used for the allocation of community empowerment activities as an effort to improve the welfare of village communities (Nursetiawan, 2018). This study has a novelty in the Islamic corporate governance variable in village government agencies. Previous studies generally apply Islamic corporate governance variables only to Islamic financial or banking institutions, even in government, and only conventional governance, so this study tries to use Islamic corporate governance variables. The principles of Islamic corporate governance are based on the Quran and Hadith, which make them different and unique (Hasanah & Kurniawan, 2019). The novelty of this study is also because it adds a community empowerment variable that has never been studied before in an effort to prevent fraud. Based on the GAP phenomenon and inconsistent findings regarding fraud detection (Narayana, 2020), this motivates us to research these four variables together.

Recent developments in the accounting and auditing profession underscore the growing role of technology and forensic methods in enhancing fraud prevention and governance. According to Ilugbusi and Dorasamy (2025), artificial intelligence and data-driven business models have begun transforming accounting services by improving audit efficiency and predictive fraud detection.

Meanwhile, forensic accounting has become an essential investigative approach for detecting and preventing corruption, particularly in developing economies where governance systems are still evolving (Ozili, 2015; Lal Bhasin, 2013).

These studies highlight the importance of strengthening both technological and human capacities within accounting systems. In Indonesia's village governance context, integrating such approaches—through improved reporting, community oversight, and digitalized internal control systems—can provide a robust foundation for preventing misuse of public funds and promoting transparency.

Thus, this study contributes to this growing body of knowledge by examining how Islamic corporate governance, internal control systems, whistleblowing mechanisms, and community empowerment collectively shape fraud prevention in the distribution of village funds in independent villages within Bone Regency.

2. Literature Review

Governance is a framework that dictates the relationship between stakeholders and internal management structures, outlining their rights and responsibilities. The Forum for Corporate Governance in Indonesia (FCGI, 2003) defines governance as a system designed to direct and control organizations to achieve accountability, transparency, and efficiency. Similarly, the Indonesian Institute of Corporate Governance (IICG, 2009) defines Good Corporate Governance (GCG) as a structured provision embedded in a company's operational process. Its core objective is to increase long-term organizational value while ensuring that shareholder and stakeholder interests are aligned (Choiriah, 2021).

From an economic perspective, this alignment is rooted in Agency Theory (Jensen & Meckling, 1976), which explains the contractual relationship between principals (owners or the public) and agents (management or government officials). The theory posits that information asymmetry and goal divergence may lead agents to act in self-interest, potentially resulting in fraud or misuse of resources. Governance mechanisms, such as internal controls, ethical oversight, and monitoring systems, are thus designed to minimize agency costs and align incentives between principals and agents. In the context of village fund management, this theory provides the rationale for why strong governance and oversight mechanisms—such as Islamic Corporate Governance and internal control systems—are essential for preventing fraud and ensuring accountability.

Complementing agency theory, the Fraud Triangle Theory (Cressey, 1953) provides a behavioral explanation for fraudulent actions. The theory identifies three elements—pressure, opportunity, and rationalization—as key drivers of fraud. In village fund contexts, pressure may stem from financial needs or social expectations, opportunity arises from weak internal controls or oversight, and rationalization occurs when individuals justify unethical acts as acceptable or necessary. The integration of Islamic Corporate Governance introduces a moral and spiritual dimension that mitigates these drivers: ethical accountability to Allah SWT reduces rationalization, transparent internal control systems reduce opportunity, and community empowerment reduces social and economic pressures contributing to fraudulent behavior.

Empirical research supports these theoretical linkages. Islamic corporate governance promotes ethical decision-making by embedding accountability, fairness, and transparency within a spiritual framework (Hasanah & Kurniawan, 2019; Thamlim & Reskino, 2023). These values align with agency theory's goal of reducing opportunistic behavior and strengthening deterrence against the fraud triangle's behavioral triggers.

Similarly, a robust internal control system addresses the "opportunity" aspect of the fraud triangle by ensuring checks and balances (Laudeciska et al., 2022; Hartono & Nugroho, 2022). Through consistent monitoring, segregation of duties, and transparent reporting, internal controls reduce the likelihood that agents can manipulate financial information for personal gain.

Furthermore, whistleblowing mechanisms operate as an external reinforcement of agency monitoring and ethical behavior. By enabling the reporting of fraudulent acts, whistleblowing strengthens the accountability framework between agents and principals and mitigates fraud opportunities (Rahmi et al., 2024; Lowe & Reckers, 2024).

Lastly, community empowerment serves as a socio-economic control mechanism that extends beyond the institutional framework. It aligns with the principles of participatory governance and accountability in public sector economics, reducing asymmetry between officials and citizens. When communities are empowered to oversee and participate in fund utilization, both agency conflicts and opportunities for fraud decrease (Setyawati et al., 2022).

Integrating these theories provides a holistic analytical lens for understanding how governance structures, ethical mechanisms, and social empowerment interact to prevent fraud in village fund management. The combination of Agency Theory and Fraud Triangle Theory thus strengthens the theoretical foundation of this study and positions it firmly within the interdisciplinary domain of accounting, economics, and ethics—consistent with the focus of the International Journal of Accounting and Economics Studies (IJAES).

Hypothesis :

H1: Positive Relationship Between Islamic Corporate Governance and Distribution Fraud Prevention

H2: Positive Relationship Between Internal Control System and Distribution Fraud Prevention

H3: Positive Relationship Between Whistleblowing and Fraud Distribution Prevention

H2: Negative Relationship Between Community Empowerment and Distribution Fraud Prevention.

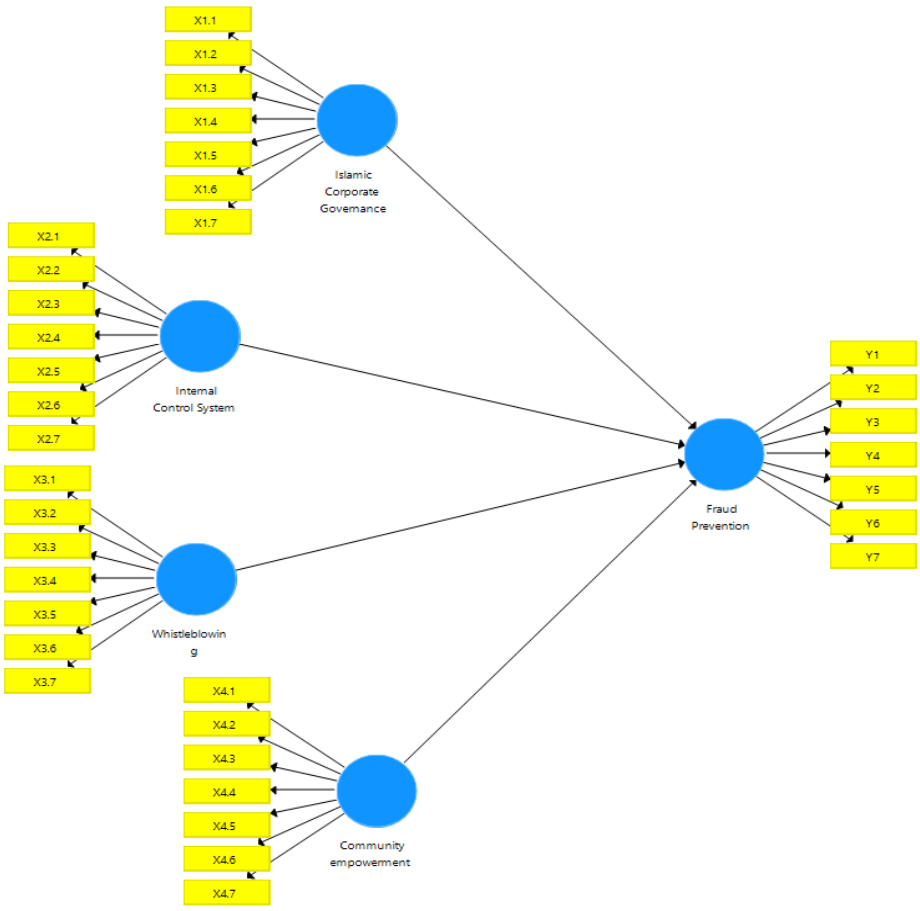


Fig. 1: Conceptual Framework.

3. Result

3.1. Test validity & reliability

There are two types of validity in PLS SEM: convergent validity and discriminatory validity. Convergence validity means that a set of indicators represents one latent variable, which is the underlying variable. These representations can be demonstrated through unidimensionality that can be expressed using extracted variance averages (AVE). The AVE value is at least 0.5 (Hair, Joseph; Black, William; Babin, Barry; Anderson, 2019).
This value represents an adequate convergence validity, which means that one latent variable can explain more than half the variance of its indicators on average.

Table 1: Validity Test

Variable	AVE	Validity	Explanation
Islamic Corporate Governance	0.500	0.5	Valid
Internal Control System	0.517	0.5	Valid
Whistleblowing	0.625	0.5	Valid
Community empowerment	0.524	0.5	Valid
Distribution Fraud Prevention	0.547	0.5	Valid

Source: Data Processed 2024.

Table 1 presents the Average Variance Extracted (AVE) values for several variables and their corresponding validity assessments. For Islamic Corporate Governance, the AVE is 0.500, which meets the minimum threshold for validity. This means that 50% of the variance in the indicators is explained by the construct, making it valid. Similarly, the Internal Control System has an AVE of 0.517, which also exceeds the threshold, confirming the validity of the construct by explaining more than half of the variance in its indicators.
Whistleblowing has a higher AVE of 0.625, indicating a strong validity, as it captures more than 60% of the variance. This demonstrates that it is a reliable measure of its construct. The AVE for Community Empowerment is 0.524, which again surpasses the 0.5 mark, confirming that the construct is valid and explains a sufficient portion of the variance in its related indicators. Lastly, Fraud Prevention with an AVE of 0.547 also meets the validity requirement, ensuring that the construct is a valid measure, explaining 54.7% of the variance.
In summary, all the variables listed in the table have AVE values above or at the minimum required threshold of 0.5, confirming their validity in the context of the study.
A reliability test is used to measure whether a respondent's answer is consistent or stable over time. If the respondent is consistent in answering the questions in the questionnaire, then the data is reliable. Something the construct or variable is said to be reliable if the Smart-PLS statistical test gives a value of $\alpha > 0.60$ (Hair, Joseph; Black, William; Babin, Barry; Anderson, 2019).

Table 2: Reliability Test

Variable	Cronbach's Alpha	Standard	Explanation
Islamic Corporate Governance	0.830	0.5	Reliable
Internal Control System	0.843	0.5	Reliable
Whistleblowing	0.899	0.5	Reliable
Community empowerment	0.848	0.5	Reliable
Distribution Fraud Prevention	0.785	0.5	Reliable

Source: Data Processed 2024.

The reliability test results, as shown in Table 1, provide Cronbach's Alpha values for each variable, which assess the internal consistency and reliability of the constructs used in the study. A Cronbach's Alpha value of 0.7 or higher is generally considered acceptable, while a minimum value of 0.5 is sufficient for exploratory research.

For Islamic Corporate Governance, the Cronbach's Alpha is 0.830, indicating a high level of reliability. This suggests that the items used to measure this variable are consistent and reliable. Similarly, the Internal Control System has a Cronbach's Alpha of 0.843, which further confirms the strong internal consistency of its measurement items.

Whistleblowing shows the highest Cronbach's Alpha value of 0.899, indicating excellent reliability and suggesting that the items are highly consistent in measuring the construct. Community Empowerment also demonstrates strong reliability, with a Cronbach's Alpha of 0.848, well above the minimum threshold. Finally, Distribution Fraud Prevention has a Cronbach's Alpha of 0.785, which is still above the acceptable standard, confirming that the variable is reliable.

In summary, all the variables in the study have Cronbach's Alpha values that exceed the minimum standard of 0.5, indicating that the constructs are reliable and exhibit strong internal consistency. This ensures that the items used to measure each variable are dependable and suitable for further analysis

3.2. Structural equation model

The Structural Equation Model (SEM) analysis was conducted using Smart-PLS to evaluate the relationships among Islamic Corporate Governance, Internal Control System, Whistleblowing, Community Empowerment, and Fraud Prevention. The model produces standardized path coefficients and t-statistics that indicate the strength and significance of each hypothesized relationship.

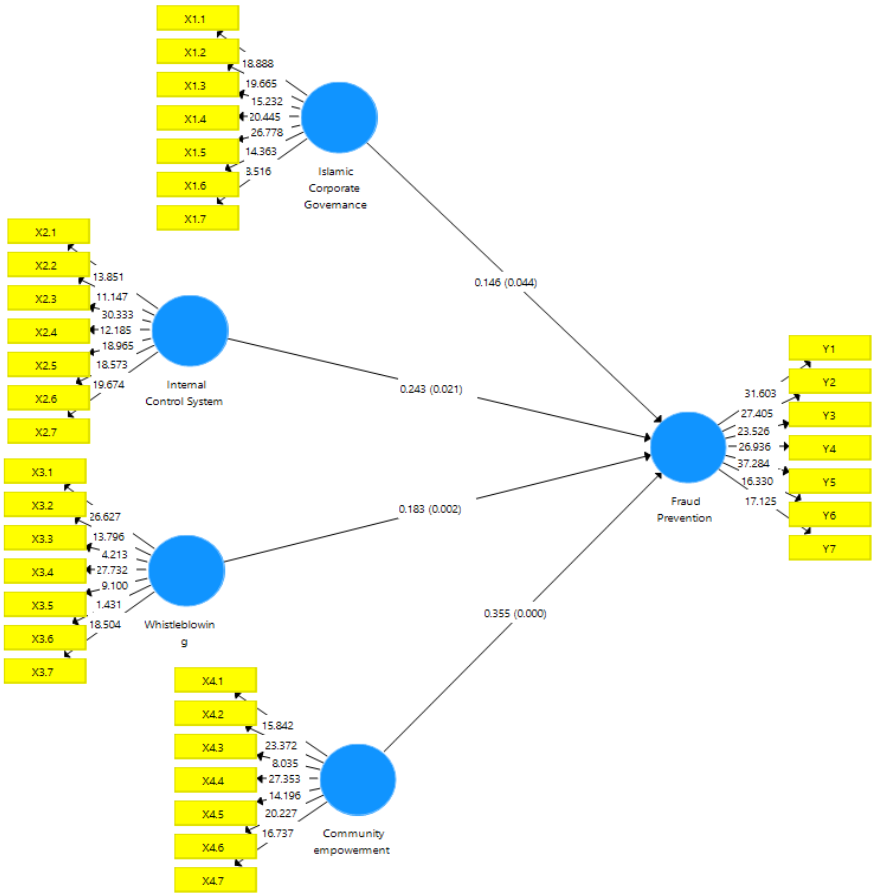


Fig. 2: SEM Path Diagram of Fraud Prevention Model (Smart-PLS Output).

(Source: Processed by Smart-PLS, 2024).

The provided figure illustrates a structural equation model (SEM) that visually represents the relationships between several independent variables (Islamic Corporate Governance, Internal Control System, Whistleblowing, and Community Empowerment) and the dependent variable (Fraud Prevention). Each independent variable has associated indicators that contribute to the measurement of the construct, while Fraud Prevention has its own set of indicators (Y1 to Y7).

Explanation of Relationships:

Figure 2 visually demonstrates the direct effects of the four independent variables on Fraud Prevention. The thickness of each arrow corresponds to the standardized path coefficient, showing the magnitude of influence. Among the predictors, Community Empowerment (β = 0.355) exhibits the strongest relationship with Fraud Prevention, followed by Internal Control System (β = 0.243), Whistleblowing (β = 0.183), and Islamic Corporate Governance (β = 0.146).

The R^2 value of 0.62 indicates that approximately 62% of the variance in Fraud Prevention is explained by the four independent variables, suggesting a strong explanatory power of the model. These results confirm that improvements in Islamic governance practices, effective internal controls, active whistleblowing mechanisms, and community involvement collectively enhance the prevention of village-fund fraud in independent villages.

In addition, t-statistic values exceeding 1.96 across all paths confirm that the hypothesized relationships are statistically significant at $p < 0.05$. The path diagram thus offers a concise visualization of the empirical findings, illustrating both the magnitude and significance of each relationship within the conceptual framework.

Islamic Corporate Governance (X1) is one of the exogenous variables, indicating that it has a direct effect on Fraud Prevention (Y). The indicators X1.1 to X1.7 show the specific measures used to quantify Islamic Corporate Governance. These indicators contribute to evaluating the governance practices based on Islamic principles.

Internal Control System (X2) also influences Fraud Prevention (Y). The indicators X2.1 to X2.7 are used to measure the effectiveness and robustness of the internal control system within an organization, which helps mitigate fraudulent activities.

Whistleblowing (X3) represents another factor impacting Fraud Prevention (Y). This construct is measured by indicators X3.1 to X3.7, which capture the mechanisms in place for reporting unethical or fraudulent behavior within the organization.

Community Empowerment (X4), measured by indicators X4.1 to X4.7, is shown to have a direct relationship with Fraud Prevention (Y). This construct suggests that empowering communities may play a role in reducing fraud by increasing awareness and active participation in governance processes.

Distribution Fraud Prevention (Y), the dependent variable Fraud Prevention is measured by seven indicators (Y1 to Y7). These indicators reflect different dimensions of how fraud prevention measures are implemented and their effectiveness in reducing fraudulent activities within an organization or community.

4. Discussion

4.1. Islamic corporate governance

Based on the regression coefficient value of 0.146 and a significance value of 0.044 <0.05, it means that Islamic corporate governance has a positive and significant effect on distribution fraud prevention. The findings explain that if Islamic corporate governance or Islamic governance is implemented better, it can increase the prevention of fraud in managing village funds in independent villages, Bone Regency. This study is in line with the results of previous studies (Rowa & Arthana, 2019), (Sawaka K., 2020), (Kurniawan & Reskino, 2023).

The implementation of Islamic corporate governance is a manifestation of the development of good corporate governance. Every agency wants to be expected to be able to create a form of organization or institution that always relies on established rules in order to create a much more responsible dedication. If the concept of good corporate governance is implemented seriously, healthy conditions will be created in the company that will result in higher-quality company/agency performance.

The implementation of Islamic corporate governance in government agencies ensures that government officials, especially village governments, work by implementing the correct principles and rules according to Sharia principles. There are spiritual values contained in agencies or companies where employees are positioned appropriately as humans who always consider work as worship, and there is a form of accountability to the creator. Therefore, the implementation of Islamic corporate governance in village government officials will make them work honestly in accepting the mandate and not committing acts that violate Islamic rules or sharia, including misusing village funds.

4.2. Internal control system

According to the regression coefficient value of 0.243 and the significance of 0.021 <0.05, it means that the internal control system has a positive and significant effect on distribution fraud prevention. This shows that the internal control system has a significant effect on efforts to prevent Fraud in the distribution of village funds in independent villages, Bone Regency. The results of this study contradict the findings of previous researchers who stated that the internal control system did not affect distribution fraud prevention (Samanto, 2022; Suandewi, 2021) and (Bachtiar & Elliyana, 2020).

This finding illustrates that the implementation of the internal control system has been carried out very well in the village office. This indicates that in managing village funds, village officials have carried out the planning process, implementing activities and accountability in accordance with the rules. Timely reporting is also part of the success of a village becoming an independent village that can be free from misuse of village funds, and is also part of the internal control system. In addition, the role of the village head and other village officials in efforts to detect risks that will occur if fraud occurs is also included in the implementation of the internal control system. Village officials are aware and feel responsible for working well to manage the distribution of village funds according to the rules. As a form of effort to prevent fraud, adequate control is needed from the company or agency to create a corporate culture that is honest and has integrity in the agency environment (Laudeciska et al., 2022). The influence of the internal control system on independent villages in Bone Regency also shows that village officials can suppress or try to prevent deviations in the use of village fund budgets by trying to control all activities in managing village funds. One form of the internal control system carried out in the village office is to publish financial information placed in front of the village office regarding the plan and use of the village fund budget each year.

4.3. Whistleblowing

The findings regarding the regression coefficient results of 0.183 with a significance value of 0.002 < 0.05 mean that whistleblowing has a significant effect on efforts to prevent fraud distribution. This finding is in line with and contradicts the findings of previous researchers who studied the effect of whistleblowing on fraud prevention (Rahmi et al., 2024) and (Meitasir et al., 2022).

The results of the whistleblowing study have a significant effect on preventing fraud, indicating that the fraud complaint service prepared by the government has been implemented optimally. There are still many village people and even village officials who do not want to take the risk of reporting if fraud is found. There are even village officials and the community who will only report if there are incentives or

prizes they receive. In certain companies, some provide incentives for those who do whistleblowing and get punished if they do not do so (Lowe & Reckers, 2024). This condition actually shows that there is no awareness of the importance of preventing fraud in managing village funds. Government officials and the community will only make complaints if there are interests that benefit them. On the other hand, there are no rules in the agency that guarantee or even protect the rights and identities of the reporters, so the implementation of the whistleblowing system does not run effectively. The community or village officials are afraid to report because of safety considerations or even their own security. Therefore, the role of whistleblowers as one of the main supporters of revealing fraud in an agency needs special attention from the local government, so that village officials manage village fund distribution properly.

Despite these mechanisms, many rural communities still lack awareness of how to use them effectively, and fears of retaliation persist. Local governments can enhance whistleblowing effectiveness by ensuring anonymity and legal protection for informants through local regulations (Peraturan Bupati/Perdes). Additionally, regular socialization programs and reward-based reporting mechanisms can encourage community members to report unethical acts safely.

By institutionalizing whistleblowing policies at the village level—supported by national frameworks such as Permenpan RB No. 22/2021 on Whistleblowing System Implementation in Public Institutions—local governments can improve transparency, promote early detection of fraud, and strengthen public trust.

4.4. Community empowerment

The findings of the regression coefficient of 0.355 and a significance value of 0.000 <0.05 indicate that community empowerment has a positive and significant effect on distribution fraud prevention efforts. This finding supports the findings of previous researchers who looked at the relationship between independent village performance and community empowerment (Setyawati et al., 2022) but contradicts the research (Mangge et al., 2024).

The results of the study on community empowerment have a significant positive effect, indicating that village officials optimize the performance of village fund management by allocating part of the village funds for community empowerment activities, although still in small amounts. Empowerment activities carried out include providing training to village communities to improve their skills. In addition, the allocation of village funds for community empowerment is also used to assist in the form of tools or goods to village communities so that they can improve their welfare. The purpose of implementing community empowerment is to motivate people to try to explore their potential and try to improve their quality of life. With the existence of community empowerment activities that are utilized from the distribution of village funds, village communities feel helped, and the community also makes maximum use of these activities.

The involvement of the community in the use of village fund budget allocations is part of an effort to prevent village fund fraud. This is evidence that the village government, especially the village apparatus in the independent village of Bone Regency, has tried to prevent fraud through various forms of village community empowerment activities. Village apparatus tries to see the potential of its community and tries to develop it in the form of community empowerment by utilizing existing village funds. The results of the study, which have a positive and significant effect, indicate that the more community empowerment is carried out by utilizing village funds, the greater the involvement of the community in the use of village funds, which leads to efforts to suppress and even prevent distribution fraud from occurring.

Practically, several national empowerment programs already align with these findings. For instance, the Program Nasional Pemberdayaan Masyarakat (PNPM) Mandiri and its successor initiatives under the Dana Desa (Village Fund) Program have encouraged participatory budgeting and community-led monitoring. Another example is the Desa Brilian Program initiated by Bank Rakyat Indonesia (BRI), which promotes village innovation, entrepreneurship, and transparency through digital financial inclusion.

In addition, the implementation of the SISKEUDES (Sistem Keuangan Desa) software, developed by BPKP and Kemendagri, empowers local communities and officials to record, manage, and report financial transactions transparently. Public display boards showing village fund allocation and outcomes also serve as simple yet effective empowerment tools that ensure residents can scrutinize financial flows.

These examples demonstrate how structured empowerment programs and digital tools can operationalize the theoretical link between community participation and fraud prevention. By combining institutional oversight (e.g., internal audits and governance) with citizen participation (community monitoring and feedback), village governments can build a more transparent and participatory management model consistent with the spirit of good governance.

5. Conclusion

The findings obtained from this study illustrate that the implementation of Islamic corporate governance, internal control systems, and community empowerment, which are implemented as well as possible, have been able to prevent fraud. This is evidenced by the influence of the three variables, which have a significant positive effect on preventing fraud. The whistleblowing variable has a significant effect, which means that the implementation of whistleblowing has been effective in preventing fraud in the independent village, Bone Regency, South Sulawesi Province. High awareness and a sense of responsibility from village officials working together with the community regarding the importance of preventing fraud are needed in managing village funds. This study contributes to the importance of implementing Islamic governance where the majority of the village population is Muslim and improving the internal control system and community involvement in the use of village funds so that fraud does not occur.

Future research can be developed by conducting comparative studies between Islamic Corporate Governance and conventional governance models across different village categories to understand variations in fraud-prevention effectiveness. Replicating the study in other provinces is also recommended to capture regional differences in governance practices, cultural influences, and community participation. Future studies may integrate digital governance tools—such as SISKEUDES, e-budgeting platforms, and forensic audit technologies—to examine their potential moderating or mediating roles in reducing fraud. Longitudinal research is encouraged to observe how governance improvements evolve and influence fraud trends. In addition, incorporating behavioral and psychological factors, such as ethical climate, moral reasoning, and whistleblower protection mechanisms, may deepen the understanding of individual and organizational determinants that affect fraud prevention in village fund management.

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