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Чи може внутрішній контроль запобігти шахрайству в управлінні сільськими фондами?

В Індонезії центральний уряд країни забезпечує формування фондів сіл, кошти з яких місцева влада використовує для реалізації цілей розвитку таких населених пунктів. Сільська влада має право керувати розвитком власних домогосподарств та наділена законодавчими повноваженнями щодо розподілу коштів фонду села на благо громади. Реалізація таких повноважень вимагає від місцевої влади ефективного управління фондом села задля створення процвітаючої та розвиненої громади. Метою дослідження є надання емпіричних доказів щодо наслідків впровадження системи внутрішнього контролю, включаючи середовище контролю, оцінку ризиків, контрольну діяльність, інформацію та комунікацію, моніторингові заходи для запобігання шахрайству в управлінні сільськими фондами на індонезійському острові Банка. Актуальність цього дослідження обумовлена низкою проблем, пов'язаних із управлінням сільськими фондами, що призводять до шахрайства. Вибірка даних цього дослідження була зроблена за допомогою методу цілеспрямованого відбору 108 анкет, які були складені представниками сільських консультативних зборів, сільськими експертами у 24 селах. Дані зібрані за допомогою анкети зі шкалою Лікерта, яка потім збільшувалася до інтервальної шкали методами послідовного інтервалу. Гіпотеза була перевірена за допомогою багаторазового регресійного аналізу. Результати цього дослідження свідчать, що впровадження системи внутрішнього контролю у формі екологічного контролю, оцінки ризиків, інформації та комунікацій, контролю та нагляду за шахрайством в управлінні сільськими фондами на острові Банка призводить до зменшення зловживань у сфері управління коштами фонду села. Однак, виявлено, що на острові Банка ще не досягнуто максимальних результатів у зменшенні шахрайств. Причинами цього є: ще не достатньо розвинута культура сільського самоврядування; зміна та суперечності правил управління сільськими фондами; труднощі з визначенням, аналізом та управлінням ризиками, які виникають в процесі використання коштів. Сільські уряди часто не розуміють як використовувати сільську фінансову систему, враховуючи різноманітну освіту в селі. Серед керівників сільського самоврядування часто виникають суперечки щодо розподілу і використання коштів, виходячи з їхніх партійних поглядів на нагляд за управлінням сільських фондів, що породжує нерішучість в управлінні фондом. Результати проведеного дослідження впливу впровадження системи внутрішнього контролю на рівень шахрайства повинні спонукати уряд Індонезії підвищувати ефективність внутрішнього контролю для запобігання зловживань в управлінні коштами сільських фондів.

Ключові слова: сільський фонд, система внутрішнього контролю, шахрайство, розподіл і використання коштів сільських фондів, проблеми місцевого самоврядування.

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Can Internal Control Prevent Fraud in Managing Village Funds?

In 2015, the Indonesian Government rolled a new scheme of transfer called 'Village Fund', based on the Law 6/2014 (known as the Village Law). The scheme requires the Central Government to allocate funding of at least 10 per cent on top of inter-governmental transfers to provinces and districts. Village Funds Program is for the purpose of realizing economic growth and equity of income with priority to finance the development and empowerment of the community. The purpose of this study is to provide empirical evidence regarding to the effects of the internal control system implementation including control environment, risk assessment, control activities, information and communication, and monitoring activities to prevent fraud in managing village funds on Bangka Island. This research was initiated due to number of problems occurred in managing village funds which leads to fraud on Bangka Island. The sample of this study was chosen using purposive sampling method of 108 samples consisted of the village consultative assembly, village companion and experts in 24 villages. Data was collected through questionnaire with a Likert scale which then increased to interval scale using methods of Successive interval. The hypothesis was tested using multiple regression analysis. The results of this study indicate negative influence between the implementation of the Internal Control System in the form of environmental control, risk assessment, information and communication, control and supervision activities of fraud in managing village funds on Bangka Island. The implementation of the internal control system on Bangka Island has also been good, but the reduction in fraud has not yet yielded maximum results. This happens because there are still some weaknesses in the implementation of the internal control system such as low understanding of village government, overlapping rules and changes in the rules for managing village funds. Seeing the influence of the implementation of the internal control system on fraud, Indonesian government should increase the effectiveness of internal control to prevent fraud.

Keywords: Village Fund, internal control system, fraud, use of village funds, problems of village government.

Introduction. The village government has the right to manage its own households and is given the authority to manage village fund for the benefit of the community itself. The central government provides village funds for the village development. The implementation of village fund management requires government to manage village funds effectively and efficiently in regards to create prosperous and sustainably developed community. One form of state recognition of village government role in managing funds is stated in Constitution Law Number 6 year 2014.

Village Funds are managed based on transparent and accountable principles. Gayatri. Latrini & Widhiyani (2017); Setyoko (2011) state that the independence of the village community is reflected on how the accountability and transparency are in the village funds management, despite the high demands to have it implemented, government has not been able to fully transparently and accountably manage all the village funds. The village funds management is based on Indonesian Ministry of Home Affairs Regulation No. 113 year 2014, this policy aims to ensure that the village funds management is accountable and transparent to prevent the misuse that leads to fraud.

Village fund management also has some problems in the control environment, risk assessment, control activities, information and communication, and monitoring activities, for instances are the overlapping

regulations and technical guidelines for the implementation of village funds, village government low competence, lack of reference in preparing the APBDes (village financial planning). Moreover, the preparation of village accountability reports is not in accordance with standards and prone to manipulation such as embezzlement, budget misuse, abuse of authority, mark-up budgeting, fictitious reports and bribery.

Other problems in managing village funds can be seen from the difficulty of the village government in preparing activity plans (village financial proposal), lack of transparency in managing village funds, insufficient personnel and village government competence and the corruption potential committed by village officials, and the low level of supervision carried out by regional inspectorates in managing village funds. The facts in the field show the low level of public participation in managing village funds and some human resources constraints eagers to committing cheating (An. Xu & Zhang, 2018; Azwardi & Sukanto, 2014; Meutia & Liliana, 2017).

Budgeting out the village funds to all villages in Bangka Island is a form of government concern for the welfare of village development, however the large amount of village funds also triggers opportunities for fraud such as the embezzlement of village funds or others.

Table 1

The Amount of Village Funds on Bangka Island

No.	Districts	Amount of Village Funds
1	Bangka	Rp. 51,718,989,000
2	West Bangka	Rp. 48,519,806,000
3	Central Bangka	Rp. 47,148,882,000
4	South Bangka	Rp. 42,487,059,000

Source: DPMPD Babel, 2019.

Embezzlement case of APBDes funds (Village Funds) occurred on Bangka Island in Tepus Village, South Bangka Regency. The same thing also happened in Nangka Village, Air Gegas District, South Bangka Regency. The village officials head of government was suspected of committing fraud in the form of corruption which caused a loss of Rp.233.9 million. The deviation in the use of Village Funds was also committed by the Limbung Village Government, Jebus District, West Bangka Regency. Village funds were allegedly corrupted in a palm seed procurement project that was not in accordance with its standards.

Lack of environmental control leads to opportunities for fraudulent behavior. To prevent fraud, a country must implement an internal control system in order to create a good governance (*good governance*). This is also in line with Bogt & Tillema (2015); Gamage. Lock & Fernando (2014); Yongmin & Yini (2017). The implementation of a conducive and positive control environment will drive success in the implementation of the control system (Yurniwati & Rizaldi, 2015). The implementation of an adequate internal control system in managing village funds shows caution in dealing with the risks that will occur. Based on the problems and phenomena, the writer is interested to raise concerns about the effect of the implementation of the internal control system includes the control environment, risk assessment, control activities, information and communication, and monitoring activities which are expected to be able to prevent fraud in managing the village fund. Therefore, the purpose of the study is to provide empirical evidence of the effect of the implementation of the internal control system against an act of fraud in managing village funds on the island of Bangka.

Theoretical Framework

Agency Theory

Jensen & Meckling (1976) defines agency relationships as follows: *"We define an agency relationship as a contract under which one or more persons (the principal (s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent."*

Scott (2000) states information asymmetry (*information asymmetry*) consists of *moral hazard and adverse selection*. Eisenhardt (1989) states agency theory (*Agency Theory*) is based on several assumptions such as assumptions about human nature, organization and information.

Village Funds Management

Based on the Ministry of Home Affairs of the Republic of Indonesia Regulation Number 113 of 2014, it defines that village funds as an obligation or rights of a village that can be valued in money. where as village financial management is the overall activity of a village which includes planning, administration, implementation, village accountability and reporting. Village finance is managed based on the principles of transparency, accountability, participation and is carried out in an orderly and budgetary discipline. According to Rohman. Ferina & Ermadiani (2018) in order to carry out village development a village government must prepare a form of activity plans and budgets in carrying out village development.

Village Fund

Republic of Indonesia regulation law number 6 year 2014 explains that the fund is one of the funds used for a village that is distributed to the district/city regional income and expenditure budget obtained from the State Budget and Revenue to fund the implementation of village development, governance, village community empowerment and development. Ministry for Rural, Rural Development and Transmigration Republic of Indonesia regulation law number 16 year 2019 explains that use of total rural funds are prioritized for funding the implementation of programs or activities in the field of empowerment and development of rural communities. Their priority in using village funds aims to provide benefits to rural communities in the form of welfare, people's life quality, public services and reduction rate of poverty.

Internal Control System

Government Regulation Number 6 in 2008, the Internal Control System of the Government is defined as a process that focuses on an act or activity carried out by an employee or agency continuously in order to give confidence in achieving the purpose of an organization through the observance of the rules, the reliability of financial reporting, effective and efficient compliance. Components in the internal control system consist of the control environment, risk assessment, control activities, information and communication and supervision (Nana, 2016; Wyne & Mear, 2016).

Hypothesis

H_1 : The effective environment control negatively influences fraud in managing village funds.

H_2 : The effective risk assessment negatively influences fraud in managing village funds.

H_3 : The effective control activity negatively influences fraud in managing village funds.

H_4 : The effective communication and information negatively influences fraud in managing village funds.

H_5 : The effective supervision negatively influences fraud in managing village funds.

Methodology

The object of this research is the *Dana Desa* (village fund) in Bangka Island which consists of four regencies; Bangka, Bangka Barat, Bangka Tengah and Bangka Selatan. The four regencies in Bangka Island have 28 sub-regencies and 228 villages. This study uses primary data and secondary data. The population of this study was 57 Village Local Companion (PLD), 14 Village Companion (PD), 24 Experts (TA) and 456 members of Village's Consultative Assembly (BPD). The total population in this study was 551 people. The research sample in this study were 108 people including 72 BPD, 24 TA, 6 PD and 6 PLD by using purposive sampling technique. This study collected data through a questionnaire with a Likert scale and then was upgraded to an interval scale using Methods of Successive Intervals (MSI). The data obtained were then tested for validity and reliability. Next, the hypothesis test and classical assumption test were performed. The Hypothesis Test used the estimation of the multiple regression equation with the equation:

$$TK = a + b_1LP + b_2PR + b_3KP + b_4IK + b_5P + e$$

Note:

a: Constants

b: Coefficient

LP: Environment Control Variable

PR: Risk Assessment Variable

KP: Control Activity Variable

IK: Information and Communication Variable

P: Supervision

e: error

Results and Discussion

Data Quality Test

Validity and reliability tests were measures showing the validity and consistency of questionnaire used in data collection (Bahri, 2018; Sugiyono, 2011). The validity test showed that the result of $r_{count} > r_{table}$ was greater than 0.3610, while the reliability test result displayed that Cronbach-alpha result was more than 0.6. This meant that all variables were valid and reliable.

Classic Assumption Test

Based on the result of the normality test through the Kolmogorov-Smirnov test, the significance of $0.995 > 0.05$ was obtained, then the writer concluded the data were normally distributed. The multicollinearity test result showed a VIF value < 10 and a tolerance value close to 1, which advised that there were no indications of multicollinearity symptoms. To detect the autocorrelation symptoms, the writer used the Durbin Watson test (D-W) and, the Durbin Watson, value of 1.921, was in the criteria of $du < DW < 4 - du$ ($1.7841 < 1.901 < 2.2159$). This shows there was no autocorrelation in the regression model used.

Hypothesis Test

Table 2

Multiple Regression Test Result Table

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	C	54,180	6,005		9,022	,000
	LP	-,375	,107	-,295	-3,517	,001
	PR	-,514	,154	-,276	-3,342	,001
	KP	-,210	,085	-,214	-2,476	,015
	IK	-,191	,094	-,174	-2,034	,045
	P	-,329	,107	-,257	-3,090	,003

Source: Processed by the writer, 2019

The Effect of Environment Control on Fraud in Managing Village Funds

Based on the estimation of the multiple regression equation, the coefficient of environment control variable is $-3.517 > 1.98260$ has a significance of $0.001 < 0.05$, indicating that the environment control has a negative influence on acts of fraud in managing the Village Fund. The environment control in an organization can be assessed as a condition in a village government which can influence the effectiveness of internal control. The environment control includes the upholding of integrity and ethics of the village government, good working relations with related parties, the establishment of an organizational structure that suits the needs, delegation of appropriate authority and responsibilities, commitment

towards the human resource competence and guidance in managing village funds. The more effective the environmental control in a village government, the less fraud that will occur. This is in line with the results of research by Wijayanti & Hanafi (2018) stating that the appropriate distribution of responsibilities and authority and conducting authorization from the authorities will result in a decreased level of tendency to fraud. The environment control also has a role in ensuring that an organization's activities are run in accordance with organizational goals (Rita et al., 2017).

An effective environment control will also encourage village funds management to be more transparent and accountable and prevent village governments from falsifying documents in preparing financial reports.

However, in managing village funds, coaching and training as well as village government competencies on Bangka Island must be considered because some village governments still have a low understanding even though they have attended trainings on village funds. This certainly will have an impact on optimizing the use of village funds for the community. The lack of understanding and competence of the village government on Bangka Island can provide an opportunity for certain parties to commit fraud.

The Effect of Risk Assessment on Fraud in Managing Village Funds

Based on the estimation of the multiple regression equation, it is found that the coefficient of the Risk Assessment variable is $-3.342 > 1.98260$ and has a significance of $0.001 < 0.05$, indicating that the risk assessment has a negative influence on fraud in managing the Village Fund. Risk identification is an activity to assess the likelihood of events that threaten the achievement of village government goals and objectives. Identifying risks in managing village funds includes setting overall village government goals, identifying risks, analyzing risks and managing risks that occur in village governance.

Forms of risk that occur in managing village funds are the illegal use of cash, budget markup in the procurement of goods, the use of village assets for private purposes and the illegal levies in village services. Also, activities that are not in accordance with the village medium term development plan (RPJMDesa) and the existence of Financing Surplus (SILPA) may be other risks. Risk assessment can minimize the occurrence of fraud in managing village funds because the risk assessment makes the village government design a planning mechanism to anticipate opportunities for fraud. This is in line with researches conducted by Muna & Harris (2018); Tehupuring & Lingga (2017) which state an effective risk assessment requires that all material, internal and external risks controlled or uncontrolled can affect the achievement of organizational goals. So the government must establish mechanisms to identify, measure and analyze all forms of risk so that the risks that will occur can be minimized.

Village governments in Bangka Island are having difficulty in identifying, analyzing and managing the risks that occur. Some villages still have a sufficiently high amount of the Financing Surplus (SILPA) and, this will have an impact on cutting the amount of the village budget the following year. The high number of SILPAs can be caused by the difficulties of the village governments in Bangka Island in determining activities in accordance with the needs of the community. Therefore, a periodic evaluation of the achievements of each village activity is needed. The difficulty of the village government in determining the activity plan is caused by the over-exceeding things that must be improved in the village development and village empowerment.

The Effect of Control Activity on Fraud in Managing Village Funds

Based on the estimation of the multiple regression equation, it is found that the coefficient of the control

activity variable is $-2.476 > 1.98260$ and has a significance of $0.015 < 0.05$, indicating that the control activity has a negative influence on fraud in managing the Village Fund. Control activities are actions that are needed to establish and implement procedures or policies and anticipate risks (Ebondo. Marseille & Zeghal, 2016; Thadious & Abrahams, 2015). Control activities include the development of human resources, accurate and timely recording, authorization of transactions, accountability of village government resources, reviews of village government performance, management of information systems and separation of functions and restrictions on access. The more effective the control activity is, the less the fraud will occur. This is in line with Widyatama. Novita & Diarespati (2017) which stated that internal control in carrying out government activities can have an impact on accountability and transparency in village governance.

The budget planning process has the potential for greater fraud, so community and other parties participation are needed to oversee the village government in using village funds. The low level of community participation in consensus was seen from the small number of people present in consensus in determining planned activities related to village funds. This happens because many people consider village funds to be a village government matter so people prefer to be indifferent, but the community participation will increase if an envelope containing money is involved during a consensus. Gratification by the village government will highly encouraged.

The Effect of Information and Communication on Fraud in Managing Village Funds

Based on the estimation of the multiple regression equation, the coefficient of information and communication variables is $-2.034 > 1.98260$ and has a significance of $0.045 < 0.05$, indicating that communication and information has a negative effect on fraud in managing Village Funds. Information is a data that is used for decision making while communication is a process of delivering indirectly or directly about information in order to get feedback. Communication and information in managing village funds include the distribution of information, ensuring good communication, managing, developing and updating information systems, using various forms of communication facilities, securing information systems and controlling access.

An effective information and communication system can also provide data security from natural disasters, willful actions and illegal access prevention. This is in line with the results of the study Amanda (2018) which states the effectiveness of the implementation of the internal control system affects the quality of financial information. Financial information is related to one of the dimensions of fraud behavior; misstatement of financial statements. Therefore, the more effective and better the quality of information, the smaller the risk of fraud in the form of financial statement misstatement. The lack of communication in managing village funds in planning, implementation, administration and accountability

between the community and village government will hamper the process of managing village funds and create pressure and opportunities for village governments to commit fraud. This is also consistent with Amrul & Khotmi (2016) research which states that information and communication systems play a significant role in anticipating fraud in managing village funds.

The Effects of Supervision against Fraud Acts in Managing Village Fund

Based on the estimation of the multiple regression equation, the coefficient of supervision variable of $-3.090 > 1.98260$ and has a significance of $0.003 < 0.05$, indicating that supervision has a negative effect on fraud in managing the Village Fund. Supervision is a process in assessing performance and a process regarding evaluation and audit findings must be followed up. Supervision in managing village funds includes continuous monitoring, separated evaluation and audit completion.

Optimal supervision in managing village funds can minimize the occurrence of fraud committed by the village government and can provide distribution of village funds to avoid using the village funds for private purposes. Supervision in managing village funds in the form of evaluations on village governance will minimize one's actions in manipulating, misrepresentation and embezzlement of village funds. This is in line with the results of Rizky & Fitri (2017) which states that supervision is the most important aspect to anticipate fraud. The purpose of supervision is to oversee all forms of activities in a government. Supervision encourages a company or agency in safeguarding its assets in order to avoid fraud committed by employees of the agency so that effective supervision is very important and negatively affects fraud.

Conclusion. The implementation of the Internal Control System has a negative effect on fraud in managing the Village Fund on Bangka Island. The implementation of the internal control system on Bangka Island has also been good, but the reduction in fraud has not yet yielded maximum results. This happens because there are still some weaknesses in the implementation of the internal control system such as low understanding of village government, overlapping rules and changes in the rules for managing village funds.

Also, the village government in Bangka Island also still has difficulty in identifying, analyzing and managing the risks that occur. The community participation in consensus agreement is still low which can be seen from the small number of people present in consensus in determining the plan of activities related to village funds. The village governments that do not understand how to use the village financial system given the varied educational background of the village government, and several village leaders in Bangka Island who are in disagreement with the many parties overseeing village fund management create fear in managing the fund. The weakness of this control system will encourage opportunities to commit fraud. Future researchers can then consider other variables used in managing the Village Fund such as competence, adherence to rules and morality that are not tested in this study. Seeing the

influence of the implementation of the internal control system on fraud, Indonesian government should increase the effectiveness of internal control to prevent fraud.

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