

# Determining Factors of Village Fund Fraud: Integration of Pentagon Fraud and Morality in Study of Village Government in the Special Region of Yogyakarta Province

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## Abstract.

*Fraud in the management of village funds remains a critical issue in public financial governance in Indonesia, along with the increasing budget allocation and complexity of its management. This study aims to analyze the influence of financial pressure, ineffective monitoring, competence, rationalization, village apparatus position, and morality on village fund fraud. This research employs a quantitative approach using primary data collected through questionnaires distributed to 180 village officials in the Special Region of Yogyakarta. The analysis technique used is Structural Equation Modeling based on Partial Least Squares (SEM-PLS) using SmartPLS 3.0. The results show that financial pressure, rationalization, and village apparatus position have a significant positive effect on village fund fraud, while morality has a significant negative effect. Meanwhile, ineffective monitoring and competence do not have a significant effect on fraud. These findings indicate that individual behavioral factors are more dominant in influencing fraud compared to organizational structural factors. Economic pressure and moral justification are the main driving forces, while morality functions as an effective internal control mechanism. The implications of this study highlight the importance of strengthening integrity and ethical values among village officials as a primary strategy in fraud prevention. In addition, this study contributes theoretically by integrating the fraud pentagon with the morality variable and provides practical contributions for policymakers in improving village financial governance.*

**Keywords:** *Financial Pressure, Ineffective Monitoring, Rationalization, Village Apparatus Position dan Morality.*

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## I. INTRODUCTION

Fraud in public financial management, particularly in village funds, is a crucial issue in Indonesian governance. While the annual increase in village funds has become a strategic instrument for local economic development, it also opens up opportunities for irregularities. Data from Indonesia Corruption Watch (ICW, 2025) shows that the village fund sector consistently ranks among the sectors with the highest number of corruption cases compared to other sectors. This phenomenon indicates structural problems in village financial management that have not fully guaranteed accountability and transparency. In this context, research into the factors influencing village fund fraud is increasingly relevant for strengthening public sector governance.

Theoretically, fraud in the public sector cannot be separated from individual behavior and the control systems existing within the organization. Previous literature shows that fraud is often triggered by a combination of pressure, opportunity, and rationalization as explained in the fraud triangle theory (Cressey, 1953), which later developed into the fraud diamond (Wolfe & Hermanson, 2004) and the fraud pentagon (Crowe Howarth, 2011). In the context of village government, these factors become increasingly complex due to the agency relationship between the community as principal and village officials as agents, which has the potential to give rise to conflicts of interest and information asymmetry. Therefore, this study is important to understand how behavioral and structural factors influence the tendency of fraud in the management of village funds.

Although various studies have examined the determinants of village fund fraud, the results remain inconsistent. Some studies found that financial pressure and weak oversight significantly influence fraud (Apriani, 2020; Priyastiwati & Setyowati, 2022), while other studies have shown conflicting results, particularly regarding competency and rationalization variables. These discrepancies in findings indicate a research gap that requires further investigation, particularly in the institutional context and characteristics of

village officials in Indonesia. Furthermore, most previous research has focused on the fraud diamond model, with few integrating morality as a factor controlling individual behavior.

The main problem in this research is how to comprehensively explain the factors influencing village fund fraud using a more integrative approach. Generally, the solution offered in the literature is the use of a more comprehensive theoretical model, such as the fraud pentagon, which encompasses five main elements: pressure, opportunity, rationalization, competence, and arrogance. This model is considered capable of providing a broader explanation than previous models because it incorporates aspects of power and individual ability in committing fraud. However, this model still needs further development by considering individual ethics and morality as determinants of behavior.

Several previous studies have shown that financial pressure is a dominant factor driving individuals to commit fraud, particularly when economic needs increase and are not matched by adequate income (Zulaikha & Hadiprajitno, 2016; Suryandari & Pratama, 2021). Furthermore, rationalization also plays a significant role in justifying fraud, with perpetrators tending to perceive such actions as acceptable or a consequence of an unfair system (Aini et al., 2017). Meanwhile, positions within an organization often provide greater access and power to commit fraud, thereby increasing the risk of fraud (Budiartini et al., 2019).

On the other hand, individual morality is an important variable that can reduce the tendency to commit fraud. The literature shows that individuals with high levels of morality tend to have a stronger commitment to ethical values and applicable regulations, making them less likely to commit fraud (Rahimah et al., 2018; Maulina et al., 2019). However, research on the role of morality in the context of village funds is still relatively limited and has not been systematically integrated into the fraud pentagon model. This suggests an opportunity to develop a more comprehensive model by combining behavioral and ethical factors.

Although numerous studies have examined fraud factors, gaps remain in the integration of theories and variables used. Most studies employ a partial approach and fail to simultaneously test all elements of the fraud pentagon, as well as additional variables such as morality. Furthermore, differences in previous research findings indicate that the relationships between variables are not entirely consistent, necessitating further research with a more robust empirical approach and a more specific context. Therefore, this study seeks to address this gap by developing a more comprehensive and relevant research model.

This study aims to analyze the influence of financial pressure, ineffective monitoring, competence, rationalization, village apparatus positions, and morality on village fund fraud. The novelty of this study lies in the integration of the fraud pentagon with the morality variable as an additional factor that can explain individual behavior in the context of the public sector. In addition, this study uses an empirical approach based on primary data from village apparatus in the Special Region of Yogyakarta, so it is expected to provide a more contextual and relevant picture. Theoretically, this study contributes to the development of fraud literature by integrating ethical aspects into the fraud pentagon model, while practically it is expected to provide recommendations for the government in improving village fund governance and minimizing the risk of fraud.

## **2. LITERATURE REVIEW**

### **1.2. Agency Theory**

*Agency theory* is one of the main theories used to explain the relationship between principal and agent in the context of public financial management. Jensen and Meckling (1976) explain that an agency relationship occurs when a principal grants a mandate to an agent to manage resources and make decisions on their behalf. In the context of village government, the community acts as the principal, entrusting village officials as agents to manage village funds.

This situation has the potential to create conflicts of interest because each party has different goals, resulting in information asymmetry. This information asymmetry provides opportunities for village officials to conceal information or present reports that are inconsistent with the actual situation. This is reinforced by the basic assumptions of agency theory, which states that individuals tend to exhibit self-interest, bounded

rationality, and risk aversion. These three characteristics encourage individuals to act opportunistically, including committing fraud for personal gain. Thus, agency theory serves as an important foundation in explaining why fraud can occur in village fund management, especially when oversight mechanisms are ineffective.

## 2.2 Fraud Pentagon Theory

*Fraud pentagon theory* This model is a development of the fraud triangle proposed by Cressey (1953) and the fraud diamond by Wolfe and Hermanson (2004). Crowe Howarth (2011) added the element of arrogance, resulting in five main elements influencing fraud: pressure, opportunity, rationalization, competence, and arrogance. This model is considered more comprehensive because it explains not only motivation and opportunity but also an individual's ability and attitude in committing fraud.

*Pressure* Fraud is a drive arising from financial or non-financial pressures that push individuals to commit deviant acts. *Opportunity* arises when there are weaknesses in the control system that provide an opportunity for the perpetrator to commit fraud without detection. *Rationalization* is the process of self-justification undertaken by the perpetrator to reduce guilt for their actions. *Competence* indicates an individual's ability to exploit opportunities to commit fraud, while *arrogance* reflects an attitude of superiority that makes an individual feel immune to rules and supervision.

In the context of village governance, these five elements interact to shape fraudulent behavior. Therefore, the fraud pentagon serves as a relevant theoretical framework for a more comprehensive analysis of the factors influencing village fund fraud.

## 2.3 Moral Development Theory

Kohlberg's (1981) theory of moral development emphasizes that an individual's ethical behavior is influenced by their level of moral development. Individuals with high levels of morality tend to have good moral reasoning skills, enabling them to distinguish between right and wrong. Conversely, individuals with low levels of morality tend to make decisions based on personal interests without considering applicable norms and rules.

In the context of fraud, morality plays a role as an internal factor that can inhibit or encourage fraudulent behavior. Individuals with high morality are more likely to comply with rules and have strong integrity, thus tending to avoid fraudulent behavior. Therefore, integrating morality variables into the fraud pentagon model is crucial for providing a more comprehensive understanding of fraudulent behavior.

## 2.4 Hypothesis Development

### 2.4.1 The Influence of Financial Pressure on Village Fund Fraud

Financial pressure is one of the main factors driving individuals to commit fraud. From an agency theory perspective, pressure arises from economic needs that are not commensurate with the income received, thus encouraging agents to act opportunistically to meet those needs. Previous research has shown that financial pressure has a positive effect on village fund fraud (Apriani, 2020; Priyastiwati & Setyowati, 2022; Suryandari & Pratama, 2021; Zulaikha & Hadiprajitno, 2016). However, other studies have found conflicting results, where pressure has no significant effect on fraud (Agustina & Pratomo, 2019; Hormati & Pesudo, 2019). These differing results indicate that financial pressure remains an important variable that needs to be further examined in the context of this research.

**H1: Financial pressure has a positive effect on fraud in Village Funds.**

### 2.4.2 The Influence of Ineffective Monitoring on Village Fund Fraud

Ineffective monitoring reflects a weak oversight system within an organization, which creates opportunities for individuals to commit fraud. In agency theory, a lack of oversight increases the risk of moral hazard because agents have the freedom to act without adequate controls. Previous research has shown that ineffective monitoring has a positive effect on fraud (Priyastiwati & Setyowati, 2022; Putri et al., 2017; Putra & Rahayu, 2019). However, several other studies have found that supervision has no significant effect on fraud (Fahjar, 2019; Fathmaningrum & Anggarani, 2021). This inconsistency suggests the need for further testing.

**H2: Ineffective Monitoring has a positive effect on Fraud in Village Funds.**

### **2.4.3 The Influence of Competence on Village Fund Fraud**

Competence is an individual's ability to carry out their duties and responsibilities. In the context of pentagon fraud, competence relates to the perpetrator's ability to exploit opportunities to commit fraud. However, competence can also act as a controlling factor when used to improve the quality of financial management. Previous research has shown that competence has a negative effect on fraud (Njonjie et al., 2019; Wirakusuma & Setiawan, 2019), while other studies have found no significant effect (Priyastiwati & Setyowati, 2022; Putra, 2019). This suggests ambiguity in the role of competence in fraud.

**H3: Competence has a negative effect on Fraud in Village Funds.**

### **2.4.4 The Influence of Rationalization on Village Fund Fraud**

Rationalization is a process of self-justification undertaken by perpetrators to reduce psychological conflict resulting from norm-violating actions. In pentagon fraud, rationalization is a crucial element because it allows individuals to maintain a sense of righteousness despite committing wrongful acts. Previous research has shown that rationalization has a positive effect on fraud (Aini et al., 2017; Apriani, 2020; Suryandari & Pratama, 2021). However, other studies have found that rationalization has no significant effect (Priyastiwati & Setyowati, 2022; Putra, 2019).

**H4: Rationalization has a positive effect on Fraud in Village Funds.**

### **2.4.5 The Influence of Village Official Positions on Village Fund Fraud**

The position of a village official is related to the level of power and authority an individual holds within the organization. In pentagon fraud, arrogance reflects an attitude of superiority that can encourage individuals to abuse power. Individuals with high positions tend to have greater access to resources and systems, increasing the opportunity for fraud. Previous research has shown that the position of a village official has a positive effect on fraud (Budiartini et al., 2019; Suryandari & Pratama, 2021).

**H5: Village Apparatus Position has a positive effect on Fraud in Village Funds.**

### **2.4.6 The Influence of Morality on Village Fund Fraud**

Morality is an internal factor that influences individual decision-making behavior. According to moral development theory, individuals with high morality tend to be committed to ethical values and applicable regulations. Previous research has shown that morality negatively impacts fraud (Rahimah et al., 2018; Maulina et al., 2019; Lahaya, 2017; Widjajanti & Wahyuni, 2019). Therefore, morality can act as an effective internal control mechanism in preventing fraud.

**H6: Morality has a negative effect on Fraud in Village Funds.**

## **2.5 Research Model**

The research model in this study integrates the fraud pentagon with morality as an additional factor. The independent variables consist of financial pressure, ineffective monitoring, competence, rationalization, village apparatus positions, and morality, while the dependent variable is village fund fraud. The relationships between the variables are depicted in a conceptual model that shows the direction of positive and negative influences in accordance with the proposed hypotheses.

## **II. METHOD**

### **2.1 Type and Design of Research**

This study uses a quantitative approach with an explanatory research design that aims to examine the causal relationship between the independent and dependent variables. This quantitative approach was chosen because this study focuses on testing hypotheses formulated based on theory and previous empirical findings. The explanatory design allows researchers to systematically and measurably explain the influence of financial pressure, ineffective monitoring, competence, rationalization, village apparatus position, and morality on village fund fraud.

This study adopted a Structural Equation Modeling (SEM)-based research model with a Partial Least Squares (PLS) approach. This method was chosen based on SEM-PLS's ability to analyze relationships between complex latent constructs and its ability to handle data that does not necessarily have a normal

distribution. Furthermore, SEM-PLS is also suitable for predictive and exploratory research in the social sciences, as explained by Ghazali and Latan (2015).

## **2.2 Research Objects and Subjects**

The object of this research is the phenomenon of fraud in village fund management. The research focuses on identifying factors influencing fraud from the perspective of village officials as financial managers. The subjects of this research are village officials working within the village government in the Special Region of Yogyakarta Province, which encompasses the regencies of Sleman, Bantul, and Kulon Progo.

The selection of village officials as research subjects was based on their strategic role as agents in village fund management, as explained in agency theory. Village officials have direct access to budget management and program implementation, so they are in a relevant position to provide perceptions regarding factors influencing fraud. The research subjects included the village head, village secretary, head of financial affairs, head of planning affairs, head of general and administrative affairs, head of government section, head of welfare section, and head of service section.

## **2.3 Population and Sampling Techniques**

The population in this study was all village officials working in village government in the Special Region of Yogyakarta. Due to time and access limitations, this study used a non-probability sampling technique with the convenience sampling method. Convenience sampling is a sampling method based on easy access to available respondents who are willing to participate in the study (Rahi, 2017).

This method was chosen for practical and efficiency considerations, particularly in the context of field research involving respondents from diverse geographic locations. Despite its limitations in generalizability, this method remains relevant for exploratory and explanatory research aimed at identifying relationships between variables. The sample size for this study was 180 respondents who met the criteria for active village officials and were involved in village fund management.

## **2.4 Types and Sources of Data**

This study used primary data as the primary source of information. Primary data were obtained directly from respondents through a questionnaire designed to measure village officials' perceptions of the research variables. The use of primary data enabled researchers to obtain relevant and contextual information in line with the research objectives.

The questionnaire was developed based on indicators developed in previous research and adapted to the research context. Each respondent was asked to provide answers based on their experiences and perceptions of the conditions prevailing in village fund management. Data collection was conducted directly by distributing questionnaires to respondents and collecting them after completion.

## **2.5 Operationalization and Measurement of Variables**

This study uses two types of variables: independent variables and dependent variables. The independent variables consist of financial pressure, ineffective monitoring, competence, rationalization, village apparatus positions, and morality. The dependent variable in this study is village fund fraud.

Financial stress was measured using an instrument developed by Zulaikha and Hadiprajitno (2016), which consists of several indicators reflecting an individual's economic stress. Ineffective monitoring was measured based on indicators reflecting the level of effectiveness of supervision within the organization.using a questionnaire developed by(Aini et al., 2017).Competence is measured based on an individual's ability to carry out tasks, which includes aspects of knowledge, skills and work attitudes.using a questionnaire developed by(Aini et al., 2017).Rationalization is measured based on an individual's tendency to justify actions that are not in accordance with norms. Village officials' positions are measured based on their position and level of authority within the organization.by using a questionnaire developed by(Irphani, 2017)and consists of four questions.Morality was measured using an instrument developed by Zulfikar (2019), which reflects an individual's level of moral reasoning. Meanwhile, village fund fraud was measured using an indicator developed by Aini et al. (2017), which reflects the tendency for fraudulent behavior. All variables were measured using a five-point Likert scale, with responses ranging from strongly disagree to

strongly agree. The Likert scale was used because it can quantitatively measure respondents' attitudes, perceptions, and opinions. This scale also facilitated data analysis using the SEM-PLS method.

## 2.6 Research Model and Data Analysis Techniques

The research model in this study is a structural model that connects independent variables with dependent variables. Data analysis was conducted using Structural Equation Modeling (SEM) with the Partial Least Squares (PLS) approach through the SmartPLS version 3.0 application. The SEM-PLS method was chosen because it has advantages in analyzing relationships between latent constructs and is able to accommodate complex research models.

The data analysis process was carried out through several stages. The first stage was the outer model evaluation, which aimed to test the construct's validity and reliability. Convergent validity was tested using the outer loading value, where an indicator is declared valid if it has a value greater than 0.5. Furthermore, convergent validity was also tested using the Average Variance Extracted (AVE), with a minimum value of 0.5. Construct reliability was tested using Cronbach's Alpha and Composite Reliability, with a minimum value of 0.7.

The second stage is the inner model evaluation, which aims to examine the relationships between variables in the structural model. This evaluation is conducted by examining the R-square value, which indicates the ability of the independent variables to explain the dependent variable. A higher R-square value indicates a better predictive ability of the model. Furthermore, significance testing is performed using the path coefficient, t-statistic, and p-value to determine whether the proposed hypothesis can be accepted or rejected.

The third stage is hypothesis testing, which is conducted by comparing the t-statistic with the critical value and observing the p-value. The hypothesis is accepted if the p-value is less than the established significance level of 0.05. This analysis allows researchers to determine the direction and strength of the relationship between variables.

## 2.7 Research Procedures

The research procedure began with the development of research instruments based on a literature review and previous research. Next, the instruments' validity and reliability were tested through limited trials before being used in primary data collection. Once the instruments were deemed valid and reliable, the questionnaires were distributed to predetermined respondents.

The collected data was then processed using the SmartPLS application for statistical analysis. The results were used to test hypotheses and answer the research questions. The entire research process was conducted systematically and followed scientific methodology to ensure the validity and reliability of the results.

By using this comprehensive methodological approach, the research is expected to be able to provide accurate and scientifically accountable results in explaining the factors that influence village fund fraud.

## III. RESULTS AND DISCUSSION

This study involved 180 respondents, village officials, in the Special Region of Yogyakarta, comprising Sleman, Bantul, and Kulon Progo Regencies. This number of respondents was deemed sufficient for analysis using Partial Least Squares-based Structural Equation Modeling (SEM-PLS), as this method does not require a large sample size and is more focused on the model's predictive ability.

### Descriptive Statistical Test

**Table 1. Results of Descriptive Statistical Tests**

	N	Theoretical Range			Actual Range			Standard Deviation
		Min	Max	Mean	Min	Max	Mean	
Kindergarten	180	4	20	12	4	19	11.08	3,322
I	180	5	25	15	5	19	10.69	2,369
K	180	5	25	15	15	25	20.49	2,067
R	180	5	25	15	5	25	12.06	3,564

J	180	4	20	12	4	17	11.34	3,005
M	180	5	25	15	12	25	20.02	2,600
F	180	5	25	15	5	23	15.33	3,438
<i>Valid N (listwise)</i>	180							

The descriptive statistics show that each variable has relatively good distribution characteristics. The financial pressure variable has a mean value of 11.08 with a standard deviation of 3.322, indicating variations in respondents' perceptions regarding the economic pressures they experience. The ineffective monitoring variable has a mean of 10.69 with a standard deviation of 2.369, indicating a relatively moderate level of oversight in village fund management. The village apparatus competency has a mean of 20.49, indicating that most respondents assess their competency at a high level. The rationalization variable has a mean of 12.06, while the village apparatus position has a mean of 11.34. Morality has a relatively high mean of 20.02, and the village fund fraud variable has a mean of 15.33.

Compared to theoretical values, most variables, such as competence and morality, have higher actual mean values, indicating that village officials tend to possess strong abilities and ethical values. However, the relatively high fraud score indicates that despite high competence and morality, the potential for fraud remains. This suggests that factors other than competence and morality also play a role in driving fraud.

#### **Evaluation of Measurement Model (Outer Model)**

Measurement model evaluation was conducted to ensure that the indicators used in this study were valid and reliable in measuring the latent constructs. Convergent validity tests showed that most indicators had outer loading values above 0.5, although several indicators had to be eliminated because they did not meet this criterion. After model modification, all constructs showed Average Variance Extracted (AVE) values above 0.5, indicating good convergent validity.

**Table 2. Outer Loading**

	<b>F</b>	<b>I</b>	<b>J</b>	<b>K</b>	<b>M</b>	<b>R</b>	<b>Kindergarten</b>
<b>F1</b>	0.803						
<b>F2</b>	0.520						
<b>F3</b>	0.866						
<b>F4</b>	0.595						
<b>F5</b>	<b>0.282</b>						
<b>I1</b>		<b>-0.032</b>					
<b>I2</b>		0.772					
<b>I3</b>		0.760					
<b>I4</b>		0.853					
<b>I5</b>		0.866					
<b>J1</b>			<b>0.308</b>				
<b>J2</b>			0.721				
<b>J3</b>			0.814				
<b>J4</b>			0.854				
<b>K1</b>				0.617			
<b>K2</b>				0.556			
<b>K3</b>				0.731			
<b>K4</b>				0.777			
<b>K5</b>				0.815			
<b>M1</b>					0.629		

<b>M2</b>					<b>0.369</b>		
<b>M3</b>					0.891		
<b>M4</b>					0.899		
<b>M5</b>					<b>0.426</b>		
<b>R1</b>						0.855	
<b>R2</b>						0.801	
<b>R3</b>						0.807	
<b>R4</b>						0.744	
<b>R5</b>						0.714	
<b>Kindergarten 1</b>							0.634
<b>Kindergarten 2</b>							0.769
<b>Kindergarten 3</b>							0.627
<b>Kindergarten 4</b>							0.778

**Table 3. Average Variance Extracted (AVE)**

	<i>Average Variance Extracted(AVE)</i>
Village Fund Fraud	0.505
Ineffective Monitoring	0.663
Village Apparatus Position	0.643
Competence	0.546
Morality	0.695
Rationalization	0.617
Financial Pressure	0.590

Furthermore, reliability testing showed that all constructs had Cronbach's Alpha and Composite Reliability values above 0.7, thus concluding that this research instrument has a good level of internal consistency. Discriminant validity was also met, as indicated by the AVE root value being greater than the correlation between constructs. Thus, the measurement model in this study can be said to meet the required validity and reliability criteria.

**Table 4. Cronbach's Alpha and Composite Reliability**

	<i>Cronbach's alpha</i>	<i>Composite Reliability</i>
Village Fund Fraud	0.679	0.797
Ineffective Monitoring	0.835	0.887
Village Apparatus Position	0.766	0.843
Competence	0.720	0.826
Morality	0.779	0.871
Rationalization	0.850	0.889
Financial Pressure	0.669	0.812

**Table 5 AVE root**

	<b>F</b>	<b>I</b>	<b>J</b>	<b>K</b>	<b>M</b>	<b>R</b>	<b>Kindergarten</b>
<b>F</b>	<b>0.711</b>						
<b>I</b>	0.290	<b>0.814</b>					

<b>J</b>	0.454	0.176	<b>0.802</b>				
<b>K</b>	-0.278	-0.383	-0.190	<b>0.739</b>			
<b>M</b>	-0.351	-0.120	-0.216	0.166	<b>0.834</b>		
<b>R</b>	0.367	0.265	0.359	-0.086	-0.051	<b>0.786</b>	
<b>Kindergarten</b>	0.289	0.126	0.248	-0.215	-0.014	0.355	<b>0.768</b>

### 3.3 Structural Model Evaluation (Inner Model)

A structural model evaluation was conducted to examine the relationships between variables in the research model. An adjusted R-squared value of 0.348 indicates that the variables financial pressure, ineffective monitoring, competence, rationalization, village apparatus position, and morality can explain 34.8% of the variation in village fund fraud. This value indicates that the model has moderate predictive ability, while the remainder is influenced by other factors not included in the research model.

**Table 6. Adjusted R Square Value**

	<i>R Square</i>	<i>R Square Adjusted</i>
Village Fund Fraud	0.370	<b>0.348</b>

Hypothesis testing was conducted by examining the path coefficient, t-statistic, and p-value. The analysis showed that not all variables had a significant influence on village fund fraud. Financial pressure, rationalization, and village official position were shown to have a significant positive effect, while morality had a significant negative effect. Meanwhile, ineffective monitoring and competence did not significantly influence village fund fraud.

**Table 7. Path Coefficients**

	<i>Original Sample</i>	<i>t-statistics</i>	<i>p-value</i>	<b>Hypothesis</b>
Financial Pressure -> Village Fund Fraud	0.115	1,703	0.045	Accepted
Ineffective Monitoring -> Village Fund Fraud	0.110	1,297	0.098	Rejected
Rationalization -> Village Fund Fraud	0.180	1,725	0.043	Accepted
Competence -> Village Fund Fraud	-0.104	1,275	0.101	Rejected
Village Apparatus Position -> Village Fund Fraud	0.265	3,674	0,000	Accepted
Morality -> Village Fund Fraud	-0.260	3,918	0,000	Accepted

### 3.4 Discussion of Hypothesis Testing Results

The research results show that financial pressure has a significant positive effect on village fund fraud. This finding aligns with agency theory, which states that individuals tend to act opportunistically when faced with economic pressure. Under certain circumstances, financial pressure can drive village officials to commit fraud in an effort to meet personal needs.

These results are also consistent with previous research that found financial pressure to be a primary determinant of fraud (Apriani, 2020; Priyastawi & Setyowati, 2022; Suryandari & Pratama, 2021; Zulaikha & Hadiprajitno, 2016). These findings strengthen the argument that economic pressure is a powerful external factor triggering fraudulent behavior, particularly in the context of public financial management.

#### 3.4.2 The Impact of Ineffective Monitoring on Village Fund Fraud

The research results show that ineffective monitoring has no significant effect on village fund fraud. This finding contradicts the fraud pentagon theory, which states that opportunities arising from weak

oversight can increase the risk of fraud. However, this result can be explained by the research context, where the village-level oversight system may have improved or may no longer be a dominant factor influencing individual behavior.

This finding aligns with research by Fahjar (2019) and Fathmaningrum and Anggarani (2021), which also found that ineffective monitoring had no significant effect on fraud. This suggests that oversight is not always the primary determinant, especially when other factors such as pressure and rationalization are more dominant in influencing fraudulent behavior.

#### **3.4.3 The Influence of Competence on Village Fund Fraud**

Competence had no significant effect on village fund fraud. This finding suggests that the level of competence of village officials does not directly influence the propensity to commit fraud. This can be interpreted as meaning that competence can be used for both positive and negative purposes, depending on individual values and motivations.

These results are consistent with research by Priyastiwati and Setyowati (2022) and Putra (2019), which found that competence had no effect on fraud. In this context, competence is not a primary determinant, as fraudulent behavior is more influenced by psychological and situational factors than technical ability.

#### **3.4.4 The Influence of Rationalization on Village Fund Fraud**

Rationalization has a significant positive effect on village fund fraud. This finding suggests that individuals who can justify wrongdoing are more likely to commit fraud. Rationalization allows perpetrators to minimize moral conflict and still feel justified in their actions.

These results align with research by Aini et al. (2017), Apriani (2020), and Suryandari and Pratama (2021), which shows that rationalization is a crucial factor in fraud. In the context of Pentagon fraud, rationalization is a key element bridging the gap between fraudulent intent and fraudulent action.

#### **3.4.5 The Influence of Village Official Positions on Village Fund Fraud**

Village officials' positions have a significant positive effect on village fund fraud. This finding suggests that individuals with higher positions or titles are more likely to commit fraud. This is due to greater access and authority in financial management.

These results support the Pentagon Fraud Theory, particularly the arrogance element, which states that individuals with high power tend to feel immune to regulations. These findings are also consistent with research by Budiartini et al. (2019) and Suryandari and Pratama (2021).

#### **3.4.6 The Influence of Morality on Village Fund Fraud**

Morality has a significant negative effect on village fund fraud. This finding suggests that individuals with high morality tend to avoid fraudulent activities. Morality acts as an internal control mechanism that limits opportunistic behavior.

These results align with moral development theory and previous research (Rahimah et al., 2018; Maulina et al., 2019; Lahaya, 2017; Widjajanti & Wahyuni, 2019). These findings underscore the importance of ethical aspects in preventing fraud, particularly in public sector organizations.

### **3.5 Discussion, Conclusion, Theoretical Implications and Suggestions**

The results of this study indicate that village fund fraud is influenced not only by structural factors such as supervision and competence, but also by behavioral factors such as pressure, rationalization, and morality. Integrating the fraud pentagon with the morality variable provides a more comprehensive understanding of the determinants of fraud.

Furthermore, the results of this study indicate that not all elements of the fraud pentagon have a significant influence, necessitating a more contextual approach to fraud analysis. In the context of village government, individual psychological and ethical factors appear to be more dominant than control system factors.

Thus, this study contributes to the development of fraud literature by emphasizing the importance of integration between behavioral and structural factors in explaining village fund fraud.

The conclusion of this study confirms that fraud in village fund management is a phenomenon influenced simultaneously by individual behavioral factors and organizational structural factors, with the behavioral aspect being more dominant. Empirical results indicate that financial pressure, rationalization, and

the position of village officials have a significant positive influence on village fund fraud, while morality has a significant negative influence. Conversely, ineffective monitoring and competence were not proven to have a significant influence on fraud. These findings indicate that internal individual motivation and psychological legitimacy for deviant actions are the main factors explaining the occurrence of fraud, compared to control system factors or the technical capabilities of the officials.

More deeply, financial pressure has been shown to be a primary trigger driving individuals to act opportunistically. This reinforces the agency theory perspective, which emphasizes the conflict of interest between principal and agent and the tendency for individuals to maximize self-interest when faced with economic pressure. Rationalization also acts as a cognitive mechanism that allows individuals to justify deviant actions, thereby mitigating moral conflict within the perpetrator. On the other hand, the position of village officials, as a representation of power and access to resources, increases the opportunity for abuse of authority. Conversely, morality functions as an internal control factor capable of suppressing the tendency to cheat, thus strengthening the argument that individual ethics is a crucial element in public sector governance.

The finding that ineffective monitoring had no significant effect indicates that the existence of a formal oversight system is not necessarily effective in preventing fraud if it is not balanced with individual integrity. This indicates that strengthening the internal control system alone is not sufficient to suppress fraud without being accompanied by the formation of strong ethical values. Similarly, high levels of village apparatus competence do not automatically reduce fraud rates, as technical skills can be used for both constructive and destructive purposes. Thus, this study confirms that behavioral factors play a more dominant role than structural factors in explaining village fund fraud.

Theoretically, this study makes an important contribution to the development of fraud literature, particularly by integrating the fraud pentagon theory with morality variables as additional factors. This integration broadens the understanding of fraud determinants by emphasizing not only the pressure, opportunity, and ability aspects but also the individual ethical dimension. This study also strengthens the relevance of agency theory in the context of village financial management, particularly in explaining how conflicts of interest and information asymmetry can encourage opportunistic behavior. Thus, this study enriches the research on fraud in the public sector with a more comprehensive and contextual approach.

Practically, the findings of this study have important implications for the government and stakeholders in village fund management. Fraud prevention efforts should not only focus on strengthening oversight systems and improving the competence of officials, but should also be directed at developing individual character and morality. Training programs that emphasize integrity, ethics, and accountability need to be an integral part of human resource development in the public sector. Furthermore, oversight mechanisms should be designed to be not only formal but also capable of creating an organizational culture that upholds the values of transparency and responsibility.

However, this study has several limitations that should be considered. First, the use of a convenience sampling method limits the generalizability of the results, making the findings more reflective of conditions in the studied area. Second, this study used data based on respondents' perceptions through a questionnaire, which potentially contains subjective bias. Third, the research model is only able to partially explain the variation in fraud, leaving other factors unaccounted for, such as organizational culture, incentive systems, and social pressure.

Based on these limitations, further research is recommended to use more representative sampling methods and expand the scope of the research area to ensure more generalizable results. Furthermore, a mixed-method or qualitative approach can be used to delve deeper into the behavioral and social contextual aspects that influence fraud. Future research can also expand the model by adding other variables such as organizational culture, good governance, and monitoring technology to gain a more comprehensive understanding. Thus, further research is expected to strengthen fraud prevention efforts and improve the quality of public financial governance at the village level.

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