The Role Of Control As A Moderating Influence Of Good Corporate Governance On Fraud Prevention

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Abstract
This research aims to examine the role of supervision in strengthening the influence of Good Corporate Governance (hereinafter referred to as GCG) on preventing deviant behavior (fraud prevention). The research was conducted at the Village Credit Institution (hereinafter abbreviated as VCI) in Bali, where the population is 1,439 units. The sample size was determined using the Slovin formula at an error rate of 10%, resulting in a sample size of 94 units, spread proportionally across nine districts/cities in Bali. Data collection was carried out by distributing prepared questionnaires to all VCIs in the research sample via Google Form. The collected data was then processed using the SPSS 18 and SmartPLS 3.2.9 application programs. The research results found that the GCG construct had a significant positive effect on preventing possible deviant behavior (fraud prevention). Likewise, the supervision construct shows a significant positive influence on preventing the possibility of deviant behavior. Supervision also shows the moderating role of strengthening the influence of GCG on the possibility of deviant behavior. Surveillance suggests an absolute moderating role.
Keywords – Control, Good Corporate Governance, Fraud Behavior Prevention, Village Credit Institution

I. INTRODUCTION

Village Credit Institution (VCI) is a microfinance institution owned by traditional villages in Bali. Since the beginning of the formation of VCI, precisely in 1988, based on the Regional Regulation of the Level I Province of Bali Number 2 of 1988 concerning Village Credit Institutions. Regulations regarding VCI have been refined several times to strengthen the institutions of these financial institutions, and to provide better benefits to village communities. Improvements were made through Bali Province Regional Regulation Number 8 of 2002, and Bali Province Regional Regulation Number 3 of 2017. These regulatory changes are intended as an effort to improve VCI governance so that it is able to provide better services to local village communities.

The existence of VCI since it was founded has provided enormous benefits in strengthening the socio-economics of village communities, especially village communities in the middle to lower economic groups. Therefore, the existence of VCI needs to continue to improve its management so that it is gradually able to provide better services.

Even though the government has repeatedly revised/improved regulations regarding VCI, there are still VCI that have not been able to make improvements in the desired direction. This can be seen from the fact that there are still VCIs that are unhealthy, unhealthy, and even not operational. There are a number of possibilities why VCI is experiencing a poor or unhealthy condition, one of which is the implementation of poor governance. Poor implementation of governance can lead to irregularities which result in VCI's health worsening. This argument is proven by the results of research by Irwansyah & Zega (2023) which found that corporate governance has a negative effect on the tendency to cheat. This means that poor governance provides great opportunities for fraud to occur. The research results also found that internal control had a significant negative effect on fraud. According to Onesti & Palumbo (2023), sustainable implementation of GCG is able to prevent deviations. Based on a number of research results, it can be stated that GCG has an important role in preventing fraud or fraud.

Apart from good governance, supervision also contributes to minimizing the occurrence of fraud. Weak supervision carried out by parties who are obliged to carry out supervision can result in opportunities for fraud to occur. Based on existing regulations, VCI supervision is carried out by the local village chief. Meanwhile, the election of traditional village heads in several traditional villages is based on direct election results (sometimes without administrative requirements that have competency relevance to their authority as VCI supervisors). Limited supervisory competence possessed by a supervisor can result in less than optimal implementation and accuracy of supervision. Supervision carried out by supervisors who do not have reliable supervisory competence is very likely to allow for fraud by parties who are not responsible for the VCI management. This argument is in line with the research results of Fernandhytia et al. (2020), Sudirman et al. (2021) who found that internal control had a positive effect on fraud control. The research results of Faisal et al. (2023) also found that implementing strict internal controls had a significant effect on reducing fraud. The same research results were also found in

research conducted by Meiryani & Primado (2023), where weak supervision provides great opportunities for fraudsters to carry out their criminal intentions. Specifically, Lonto et al. (2023) stated that the better quality of supervision can prevent fraud. Ghanem & Awad (2023) also found that implementing a good monitoring system can minimize the occurrence of fraud. However, in a number of studies it was also found that internal supervision was not effective in preventing fraud (Herawaty & Hernando, 2021).

This research attempts to conduct a study on the role of supervision on the influence of GCG on the possibility of irregularities in VCI management. Therefore, based on a number of research results, GCG and supervision have a significant influence on preventing deviations, both partially and simultaneously. Researchers place supervision as a moderating construct on the influence of GCG on preventing fraud.

II. THEORETICAL, EMPIRICAL STUDY, AND RESEARCH HYPOTHESES

Fraud Prevention

Definition - Fraud is defined as deviant behavior that can cause harm to organizational management. Fraud is a cunning act carried out by people internal or external to a company (Meiryani & Primado, 2023). Because the impact is detrimental, wherever possible such deviations or fraud are minimized or even eliminated. To minimize this fraud, it is necessary to take preventive measures as early as possible. Measures to prevent fraud can be taken through efforts to identify the factors that cause the fraud to occur. According to the triangle fraud theory proposed by Cressey (1953), fraud can occur due to three causes, namely pressure, opportunity, and rationalization.

The pressure of needs is one of the drivers of deviation. The pressure of needs that are high or exceed the availability of tools to fulfill the needs that are owned can encourage behavioral deviations in order to meet urgent needs. The urge to have something that cannot possibly be obtained lawfully, encourages a person to do anything (justifies any means) to be able to get what they want. Shafina et al. (2021) in their research stated that pressure is a significant positive cause of fraudulent behavior. The same results were previously found in research conducted by Pradipta & Bernawati (2019).

Apart from the pressure to fulfill needs, the opportunity/opportunity to deviate is also a factor that can cause a person to behave deviantly. A person may not be in a state of pressure or pressing need, but opportunities that are very open can also spontaneously give rise to fraudulent behavior. For example, in a goods storage warehouse, where the goods are not neatly arranged, the entry and exit of goods is not even properly administered, so that the stock/availability of goods is not properly recorded, then this is prone to theft or embezzlement. This is because there is a chance that the number of items taken is unknown to the owner. Likewise, if the financial accounting process is not carried out well, it is very possible for fraudulent behavior to occur. This argument has been proven in research by Nguyen et al. (2022) who explain that the opportunity to commit fraud can trigger the desire to commit fraud. According to Karsono & Suraji (2020), the opportunity to cheat can encourage someone's intention to commit theft/fraud.

Furthermore, a factor that is no less important as a cause of irregularities, fraud and fraud is the rationalization factor. Rationalization is interpreted as an effort to show the truth of the deviant behavior carried out. The perpetrator's character is an innate factor where a person has traits or behavior that often commits deviations. When there is pressure of need, then there is an opportunity to commit fraud, then people will look for justifications for committing theft, fraud, or other fraud, the reason is to meet life's needs, save scattered items from being lost, or other reasons that are rationally sound. . The research results of Aksa et al. (2020) found that people who often behave unethically always tend to cheat by looking for justifications or rationalizing their actions. This can be interpreted to mean that to cover up unethical behavior (fraud), they tend to look for reasons or justifications (rationalization). This was also confirmed by Yusrianti et al. (2020) Where rationalization is a factor that motivates individuals to commit fraud and is an important factor in fraudulent behavior.

Apart from the causes of fraud as already mentioned, poor organizational governance can also potentially lead to fraud. Poor quality supervision can also be a possible cause of fraud.

Good Corporate Governance (GCG)

Good institutional governance is a process of managing an institution well in accordance with predetermined rules. Good governance can prevent or prevent fraudulent behavior. Organizations that are managed with poor governance tend to be very unstable in various ways such as finances, operations and human resources. Poor financial governance tends to give rise to financial fraud. Poor operational governance tends to be ineffective and inefficient in its operations. Poor human resource management tends to cause conflict, high turnover, high absenteeism, and so on. On the other hand, good governance encourages increased competence to prevent fraud (Rohmatin et al., 2021). Implementing good corporate governance can prevent fraud (Mulyani, 2020). The implementation of Good Corporate Governance has a positive effect on Fraud Prevention (Florid et al., 2023). However, research conducted by Jannah & Raharjanti (2020) found that the implementation of good

governance had no significant effect on fraud. Likewise stated by Mohamed et al. (2023) that implementing GCG well has a significant impact on fraud prevention.

Based on this description, where the majority of research findings reveal that the implementation of GCG has a significant effect on fraud control, the following research hypothesis can be put forward.

Hypothesis 1.   GCG has a significant positive effect on preventing the possibility of deviant behavior in VCI management

Control

Supervision of the implementation or good governance of institutions is an activity to ensure that each stage of implementing institutional activities is in accordance with established implementation procedures. Strict supervision can minimize deviant implementation processes (fraud). Likewise, weak supervision allows great room for deviant behavior. Tight and weak supervision greatly influences the possibility of behavioral deviations.

The research results of Putri et al. (2019) found that effective supervision can increase morality and unethical behavior, thereby preventing fraud. Previous research results also found that good internal supervision and increasing anti-fraud awareness can increase fraud prevention (Mirinaviciene, 2014; Yuniarti & Ariandi, 2017). The results of this research are also in line with the results of research conducted by Istiardi (2022), that the implementation of good internal controls prevents fraudulent behavior.

Referring to a number of research results, where the implementation of good supervision can increase the prevention of fraudulent behavior, the research hypothesis is formulated as follows.

Hypothesis 2.   Supervision has a significant positive effect on the possibility of preventing deviant behavior in VCI management

Good governance accompanied by strict supervision can cover the possibility of deviant behavior. It can also be said that the implementation of GCG properly and appropriately and in interaction with the implementation of stricter supervision will be able to prevent the possibility of fraud from occurring. A number of research results carried out partial and simultaneous analysis, but in this study the supervision construct was placed in a moderation position. Based on these arguments, the following research hypothesis is built.

Hypothesis 3.   Supervision plays a significant moderating role in the influence of GCG on preventing the possibility of deviant behavior in VCI management.

III.   RESEARCH METHOD

Research Design

This research was designed in the form of quantitative research, where the monitoring variable was placed as a moderating construct on the influence of GCG (independent construct) on preventing deviant behavior (dependent construct). The GCG construct consists of five indicators, namely transparency, accountability, responsibility, independence, fairness (hereinafter abbreviated as TARIF). The supervision construct is measured through three indicators, namely quantity control, quality control, and accuracy control, hereinafter abbreviated as CCA Control. Deviations in this research are measured through three indicators, namely pressure, opportunity and rationalization, hereinafter abbreviated as POR.

Referring to a number of previous research results, it was stated that the possibility of deviant behavior could be caused by a lack of good institutional governance and weak supervision. Poor governance accompanied by weak supervision makes it very possible for deviant behavior to occur. On the other hand, good governance accompanied by strong supervision will be able to minimize the possibility of deviant behavior. Referring to these arguments, as well as the indicators used to measure each construct, the following research concept idea is put forward.
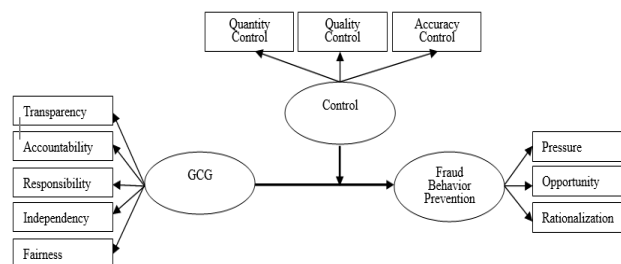

Figure 1: Conceptual Framework for Research on the Effect of Supervision on the Influence of GCG on Deviant Behavior

Population and Sample

The research population is all LPDs spread across 9 districts/cities in Bali, totaling 1,439 units (https://balisatudata.baliprov.go.id/report/data-nomor-lpd-per-kabupaten-kota-se-bali?year =2022). Meanwhile, the number used as the research sample was calculated based on the Slovin formula with an error rate of 10%. Based on the results of Slovin's calculations, the number of LPD samples was 94 units. The distribution of LPDs in the research sample in each district/city in Bali is shown in the following table.

Table 1. Population and Research Sample According to Regency in Bali

No	Regency/City	Number on VCI	
		Population	Sample
1	Badung	122	8
2	Bangli	159	10
3	Buleleng	169	11
4	Gianyar	270	18
5	Jembrana	64	4
6	Karangasem	190	12
7	Klungkung	119	8
8	Tabanan	311	20
9	Denpasar	35	2
	Amount	1.439	94

Source: https://balisatudata.baliprov.go.id/laporan/data-jumlah-lpd-per-kabupaten-kota-se-bali?year=2022, diolah 2023

Data Collection and Analysis Techniques

Research data collection is based on questionnaires that have been prepared for each construct and its indicators. Data collection was carried out by distributing questionnaires to the LPDs that were the research sample in each district via Google Form. The collected research data was then analyzed using the SPSS 18 and SmartPLS 3.2.9 application programs.

IV. RESULTS AND DISCUSSION

Results of Validity and Reliability

Before testing the research hypothesis, all research data is first carried out in several stages of testing, namely testing the validity and reliability of the data and testing the accuracy of the research model. After the data is declared valid and reliable, and the research model is declared feasible, then proceed with testing the research hypothesis. The results of testing the validity and reliability of research data which includes the constructs of GCG, Supervision, and Fraud behavior prevention, are shown in the following table.

Table 2. Results of Validity and Reliability

Constructs	Reliability		Indicators	Validity	
	Cronbach's Alpha	Information		Outer Loading	Information
GCG	0.777	CA > 0,60 → reliable	Transparency	0.803	OL > 0.50 valid
			Accountability	0.712	OL > 0.50 valid
			Responsibility	0.701	OL > 0.50 valid
			Independency	0.743	OL > 0.50 valid
			Fairness	0.656	OL > 0.50 valid
Control	0.906	CA > 0,60 → reliable	Quantity Control	0.938	OL > 0.50 valid
			Quality Control	0.884	OL > 0.50 valid
			Accuracy Control	0.656	OL > 0.50 valid
Fraud Behavior Prevention	0.693	CA > 0,60 → reliable	Pressure	0.765	OL > 0.50 valid
			Opportunity	0.763	OL > 0.50 valid
			Rationalization	0.826	OL > 0.50 valid

Source: Research Data, Processed 2023

Based on the results of testing the validity and reliability of research data, where all research constructs have a Cronbach's Alpha value greater than 0.60, they are said to be reliable. Likewise, all indicators of each construct that have an outer loading value greater than 0.50 are said to be reliable. Because all constructs and their indicators were declared valid and reliable, it was continued with testing the level of accuracy of the research model.

Result of Accuracy Research Model

To strengthen research confidence, the accuracy of the research model was measured using an approach, namely R-Square (R^2). Based on the results of the SmartPLS 3.2.9 analysis, the R^2 coefficient on the influence of GCG on Fraud Behavior Prevention is 0.495 (strong category). Based on testing the accuracy of the model, it

can be stated that the model is classified as good. Because the model was declared good, research hypothesis testing was then carried out.

Result of Hypothesis Testing and Discussion
Research hypothesis testing is based on the results of analysis carried out with the SmartPLS 3.2.9 application program. In detail the test results are shown in Figure 2, and briefly shown in Table 3.

Table 3. Results of Research Hypothesis Testing

Constructs			Path Coef.	p-value	Information
Independent	Moderation	Dependen			
GCG		Fraud Behavior	0.559	0.000	H1 diterima
	Control	Fraud Behavior	0.318	0.000	H2 diterima
GCG	Control	Fraud Behavior	0.228	0.004	H3 diterima

Source: Research Data, Processed 2023

Meanwhile, in more detail, the results of research hypothesis testing and the role of each indicator for each construct are shown in Figure 2 below.
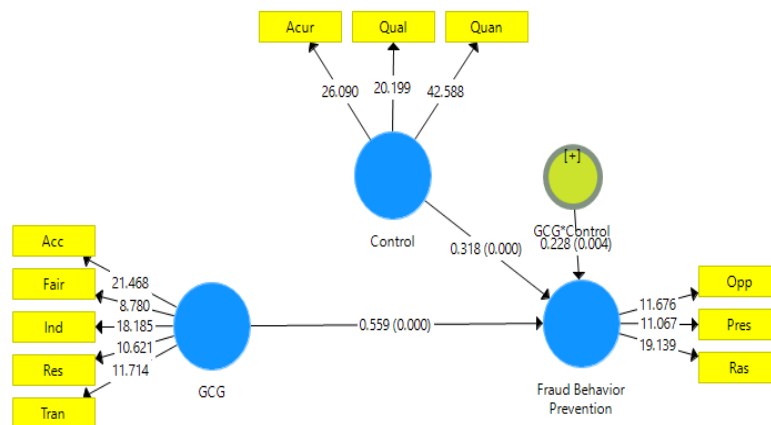

Figure 2. Research Hypothesis Testing Based on SmartPLS 3.2.9 Application Program

Paying attention to the results of research hypothesis testing as shown in Table 3 and Figure 2, it can be stated that GCG and supervision have a significant positive influence on preventing fraud behavior. This is shown in the path coefficient for the influence of GCG on preventing fraud behavior of 0.559 with a p-value of 0.000 < 0.05. Likewise, the effect of supervision on preventing fraudulent behavior shows a path coefficient of 0.318 with a p-value of 0.000 < 0.05. This means that GCG and supervision can significantly positively increase the prevention of fraudulent behavior. Through better implementation of GCG and tighter supervision, the possibility of fraudulent behavior will increasingly be prevented. The findings of this research are in line with several previous research results such as those conducted by Adinugroho et al. (2022); and Lestari et al. (2023) who found that implementing good supervision can prevent fraud. Likewise, the results of research related to the implementation of GCG, where the results of previous research found that GCG had a significant positive effect on fraud prevention (Hambali et al., 2023; Aisyah et al., 2023; Zahidi et al., 2023).

The indicator with the greatest role among the indicators of the GCG construct is accountability, followed by indicators of independence, transparency, responsibility, and finally fairness. The results of this research show that accountability plays the most important role in realizing good governance for fraud prevention. Apart from that, independence also plays an important role in second place after accountability. Independence can be seen as an important indicator in implementing good governance to prevent fraudulent behavior. Meanwhile, honesty occupies the last role in implementing good governance.

Meanwhile, in the supervision construct, the indicator that shows the highest role among other indicators is the quantity of supervision. The quantity of supervision referred to is the frequency or amount of supervision carried out. This means that the more frequently monitoring is carried out, the smaller the possibility of fraudulent behavior occurring, because the opportunity to commit fraud is smaller. Furthermore, the precision (accuracy) of supervision occupies the second role after the quantity of supervision. This means that the more accurately the monitoring targets are carried out, the smaller the possibility of fraud occurring, or it could be said that fraud prevention will be more effective if it is carried out on targets that are prone to fraud. In fraud prevention, the

quality of prevention plays the last role after the quantity and accuracy of supervision, meaning that it is necessary to realize that the quality of what the supervisor does is not considered as important as quantity and accuracy.

In its position as moderation, supervision plays a significant positive role in moderating (strengthening) the influence of GCG on preventing fraud behavior. This can be seen from the coefficient of the moderation construct showing a path coefficient of 0.228 with a p-value of 0.004 < 0.05. These results mean that supervision can significantly positively strengthen the influence of GCG on preventing fraud behavior. Because GCG and supervision have a significant influence on preventing fraud behavior, as well as supervision in its position as moderation also has a significant influence on preventing fraud behavior, the supervision construct can be categorized as absolute moderation.

V. CONCLUSIONS AND SUGGESTIONS

Based on the results of the analysis and discussion as described, it can be concluded that better implementation of GCG (transparent, accountable, responsible, independent, honest) and better supervision (quantity, quality and accuracy) can prevent fraudulent behavior at VCI in Bali . Based on this, it can be recommended that VCI always strive to make breakthroughs in improving the implementation of GCG in a better direction, namely more transparent, more accountable, more responsible and more honest. Apart from that, VCI must also periodically and continuously carry out supervision in a professional and competent manner.

VI. LIMITATIONS AND FUTURE RESEARCH

Secara teori dan empiris dinyatakan bahwa fraud dapat terjadi melalui banyak faktor. Fraud dapat terjadi dimana saja, kapan saja, dalam situasi apa saja, dan oleh siapa saja, maka untuk melengkapi referensi mengenai faktor-faktor penyebab terjadinya fraud, maka peneliti selanjutnya perlu melakukan eksplorasi secara lebih komprehensif dan lebih mendalam, sehingga dapat ditemukan inti daripada penyebab terjadinya perilaku fraud.

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