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The Impact of Unethical Behavior on Fraud Financial Management: Moderation of Control Systems Internal

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Abstract

This study aims to examine the effect of unethical behavior on financial management fraud in village governments, with internal control systems acting as a moderating variable. The research is motivated by the increasing number of corruption and fraud cases in village fund management across Indonesia, indicating weaknesses in governance, accountability, and supervision at the local level. The study employs the Fraud Hexagon Theory, which integrates six determinant factors—pressure, opportunity, rationalization, capability, arrogance, and collusion—to provide a more comprehensive understanding of unethical conduct and fraudulent behavior in public sector finance.

The research was conducted in two villages in Madiun Regency, East Java (Sukosari and Gemarang), selected due to documented irregularities in financial reporting and fund allocation. A total of 70 respondents involved in village financial management participated in the study. Data were collected through a structured Likert-scale questionnaire and analyzed using Moderated Regression Analysis (MRA) to test the causal relationships among variables.

The empirical results reveal that unethical behavior has a positive and significant effect on financial management fraud, confirming that unethical conduct among village officials increases the likelihood of fraudulent practices. Furthermore, the internal control system demonstrates a significant negative moderating effect, indicating that strong and effective internal controls can mitigate the influence of unethical behavior on fraud. These findings highlight the strategic importance of internal control mechanisms in strengthening accountability and reducing fraud risks within public financial management.

Theoretically, this research contributes to the enrichment of the Fraud Hexagon Theory by validating its applicability in the public sector context, particularly in rural financial governance. Practically, the study offers critical implications for policymakers, auditors, and local governments to enhance fraud prevention strategies through risk-based internal control, transparency enhancement, and participatory supervision. Strengthening internal control systems is essential to build ethical awareness and ensure that village financial management remains transparent, accountable, and free from corruption.

***Keywords**: unethical behavior, financial management fraud, internal control system, Fraud Hexagon Theory, village governance.*

INTRODUCTION

1.1 Background of the Problem

The phenomenon of fraud in village financial management in Indonesia continues increasing and causing concern. The forms of corruption are increasingly diverse not only harms the country financially, but also worsens social injustice at the village level. Based on the Indonesia Corruption report Watch (ICW), cases of misuse of village funds have increased significantly, from 181 cases in 2021 to 239 cases in 2023, with the potential losses reached Rp. 87.5 billion (Rahman et al., 2023: 45). This data shows that there are fundamental weaknesses in the monitoring system and Village fund accountability mechanisms. Research on the causes of fraud in villages still relatively limited, especially those connecting aspects of behavior and ethics apparatus, and the effectiveness of the internal control system. Therefore, this study important to enrich the public sector accounting literature as well as provide practical recommendations for fraud prevention at the government level village.

The impact of fraud is not only in the form of state losses, but also hamper the implementation of village development and reduce welfare society. Common fraud modes include budget mark-ups, manipulation of financial reports, to abuse of authority (Sari & Wulandari, 2022: 78). The complexity of this problem requires a more comprehensive theory. comprehensive compared to conventional models. Since the implementation of fiscal decentralization in 2015, village funds became a strategic instrument for acceleration development. However, the amount of budget allocated each year also Increasing the potential for fraud. Report from the Supreme Audit Agency (BPK) The second semester of 2022 recorded a potential state loss of IDR 1.05 trillion. due to weak procurement of goods/services, distribution of funds that are not on target, and non-transparent administration (BPK, 2022:3). This fact shows that the root of the problem is not only technical, but is related to the dimensions of fraud Hexagons such as opportunity, rationalization, and collusion practices.

This research focuses on the village government sector, especially in the village Sukosari and Gemarang Villages, Madiun Regency. Inspectorate audit results Madiun Regency (2023) revealed that Sukosari Village experienced seven case of discrepancy with a value of IDR 157 million, while Gemarang Village recorded five cases with a total of IDR 98 million (Suryana & Prayitno, 2022: 126). The modes found include mark-up, document manipulation, to embezzlement of empowerment funds (Hariyanto et al., 2023: 87). Conditions are getting worse complicated due to the difference in the amount of village funds managed, namely IDR 1.2 billion in Sukosari and Rp. 800 million in Gemarang. Although both villages have used Siskeudes application since 2020, this system has proven to be unable to fully closing the opportunity for fraud (Pranoto & Anggraini, 2023: 74). The latest case related to the swimming pool construction project was stalled at a cost of more than Rp. 1.5 billion. billion which is currently being investigated by the Madiun District Attorney's Office (Kompas, 2023; Lenteratoday, 2024) further emphasizes the weak integrity of the apparatus and system supervision.

The Fraud Triangle Theory (Cressey, 1953) has been widely used for explains fraud through three factors: pressure, opportunity, and rationalization. However, this theory is considered less capable explain the forms of fraud that involve collaboration between actors and factors personality. As a development, Wolfe and Hermanson (2004) introducing Fraud Diamond by adding capability elements (capability), while Crowe (2011) developed Fraud Pentagon with adding an element of arrogance. Vousinas (2019) then enhance this model with the Fraud Hexagon which adds aspects collusion, so that it is more representative in understanding fraud in the sector public.

In the village context, the Fraud Hexagon is more relevant because fraud is generally not done by individuals, but through networks of power, family, or social relations. This theory emphasizes that unethical behavior of village officials can internalized through six elements of fraud: pressure, opportunity, rationalization, capability, arrogance, and collusion. Unfortunately, empirical research examining Fraud Hexagon's role in village financial management is still minimal. Despite the BPK and KPK's has repeatedly highlighted the vulnerability of village fund corruption triggered by weak internal supervision and low integrity of the apparatus (KPK, 2021:15)

Therefore, this research aims to fill the academic gap as well as offers practical contributions. Theoretically, this study examines Fraud Hexagon in the context of village finance and placing the Control System Internal (SPI) as a moderating variable which is expected to reduce the influence of unethical behavior on fraud. Practically, this research support the formulation of fraud prevention strategies based on empirical evidence.

1.2 Research Formulation

1. What is the relationship between unethical behavior and management fraud? village finances reviewed using the Fraud Hexagon Theory perspective?
2. Can the Internal Control System act as a moderating mechanism? which is able to reduce the influence

of unethical behavior on fraud in village financial management?

1.3 Benefits of Research

1.3.1 Theoretical Benefits

1. Provide a new conceptual framework for understanding fraud in the sector village public by utilizing Fraud Hexagon.
2. Integrating the Fraud Hexagon and SPI as a moderation model, so that it can enrich the public sector accounting literature.
3. Develop fraud measurement instruments that are more appropriate to socio-cultural conditions in Indonesia.

1.3.2 Practical Benefits

1. Provide recommendations for strengthening SPI based on a risk-based approach to minimize fraud opportunities in villages.
2. Provide an empirical basis for regional and central governments to improve regulations and supervision of village funds.
3. Assist internal and external auditors in developing Fraud Hexagon-based audit procedures.
4. Increase village community awareness regarding the importance of transparency and accountability in financial management.

CHAPTER II

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1 Theoretical Study

2.1.1 Fraud Triangle Theory

The Fraud Triangle Theory was introduced by Donald Cressey in 1953. through a review of 200 cases of financial fraud, it became a theoretical framework most influential in fraud studies, this theory is seen as having limitations because it only emphasizes three main aspects, namely pressure, opportunity, and rationalization (Johnson and Martinez, 2021: 145). Pressure is generally associated with economic needs, consumer lifestyles, and difficult performance targets achieved (Anderson et al., 2022: 67). Opportunities arise due to weak control systems internal, lack of effective supervision, and the existence of access that facilitates asset manipulation (Smith and Brown, 2021: 189). Rationalization describes the legitimacy morals that the perpetrator builds to justify his actions so that fraud occurs considered not as a serious crime, but rather as a situational consequence (Davis and Wilson, 2023: 234). However, various contemporary studies criticize that the three these dimensions are not fully adequate in explaining the complexity of the phenomenon fraud in the modern era. The complexity of organizational governance, technological developments, and the increasing dynamics of social relations demand a more comprehensive perspective.

On that basis, further theories emerged such as Diamond Fraud and Hexagon Fraud. enriching understanding of the factors driving fraud. Fraud Theory Hexagon, for example, adds elements of capability, arrogance, and collusion into the mix. analytical framework, which is considered more representative in capturing behavioral dimensions human beings, power dynamics, and collaborative practices in fraud (Davis and Wilson, 2023: 234).

Thus, although the Fraud Triangle has a fundamental contribution in forensic accounting literature, there are limitations in explaining variations and The complexity of fraud underscores the importance of using the Fraud Hexagon as a a more up-to-date theoretical basis. This study opens up space for empirical research to test the relevance of additional variables in the Fraud Hexagon in the context of financial management fraud, especially in the public sector and organizations with high governance risks.

Although this theory has been the foundation of fraud research for several decades, several contemporary studies have identified its limitations in explains the complexities of modern fraud, particularly in the context of the public sector (Lee and Park, 2021: 123). The main criticism of the triangle theory is its ability to limited in capturing the personality aspects of the perpetrator and the collaborative dimensions of fraud. which is increasingly prevalent in public organizations (Thompson et al., 2022: 178). Donald Cressey (1953) through the Fraud Triangle concept, which was later further emphasized by SAS No. 99 (AICPA, 2002), offers a fundamental explanation of the causes of fraud occurs. According to this theory, fraud occurs due to the interaction of three main factors: Pressure, Opportunity, and Rationalization. Pressure often stems from the need financial and non-financial factors, such as the demands of maintaining a lifestyle outside the home ability or mounting debt burden. Opportunities arise from weaknesses internal controls, thus allowing fraudulent acts to be carried out without detection. Meanwhile, rationalization is a personal justification that

makes the perpetrator feel his actions are reasonable, for example by feeling entitled to the funds or judging that his actions were merely temporary loans (Cressey, 1953 in Siahaan, 2021:104).

2.1.2 Pentagon Fraud Theory

The Fraud Pentagon Theory was developed by Crowe Horwath (2011) as an extension from the Fraud Triangle model, by adding two additional factors besides pressure, opportunity, and rationalization, namely ability and arrogance. Ability is defined as individual capacity—whether in the form of technical skills, experience, or position in the organization—which gives him the opportunity to exploit gaps internal control and carry out fraud in an organized manner (Rodriguez and Kim, 2022:145). Arrogance, on the other hand, shows an attitude of feeling immune to the rules. or the belief that the fraudulent act committed will not be detected. Characteristics This often occurs in public officials or individuals with great power, so that encourages abuse of authority (Garcia and Singh, 2023:189; Miller and Jones, 2021:234). Empirical research shows that the pentagon theory provides more accurate prediction of fraudulent behavior than the triangle, with the prediction accuracy rate increased from 67% to 78% (Chang and Kumar, 2022: 156).

However, this theory still has limitations in explaining collaborative aspects. fraud involving multiple parties, which is very common in management public funds (Ahmed and Chen, 2023: 201). The development of fraud studies found that two additional elements have a significant role. Therefore, Crowe Horwath developed the Pentagon Fraud Theory by adding two new elements to Fraud Triangle (Siahaan, 2021:105). The two additional elements are: (4) Competence (Competence/Ability), which refers to an individual's capabilities and skills to designing and implementing fraudulent schemes; and (5) Arrogance, namely an arrogant attitude where the perpetrator feels he will not be caught or is above the law. Addition This provides a deeper perspective on the perpetrator's profile.

2.1.3 Hexagon Fraud Theory Research Basis

The Fraud Hexagon Theory was developed by Vousinas (2019) by adding The sixth element is collusion in the pentagon model. Collusion is defined as secret cooperation between two or more parties to commit fraud with the aim of obtaining illegitimate benefits (Vousinas, 2019: 378). The element of collusion is very relevant in the context of public sector financial management, where fraud is often involving multiple stakeholders both internal and external to the organization. Williams and Zhang (2021: 145) in his research found that 82% of cases of fraudulent funds public involving collusion between internal officials and external vendors or contractors.

The advantage of the hexagon theory lies in its ability to explain dynamics. social and network in fraudulent practices that cannot be captured by theories previously (Taylor and White, 2023: 167). Validation research by Patel and Brown (2022: 234) shows that the hexagon model has an explanatory power of 84.6%, higher than triangle (67.3%) and pentagon (78.4%) in predicting public sector fraud. As a further refinement, the Fraud Theory The Hexagon was introduced to capture the complexity of fraud, particularly in collaborative context and the public sector. This theory accommodates the six causal elements fraud (Prasetyo and Nugrahanti, 2021:90; Siahaan, 2021:107):

1. Pressure
2. Opportunity
3. Rationalization
4. Capability – similar to Competence in the Pentagon.
5. Arrogance
6. Collusion – new key element.

Collusion is very relevant in the context of village fund management, where fraud often involves a conspiracy between the village head, treasurer, business actors, even other parties external factors such as sub-district officials. This theory acknowledges that fraud is not only individual actions, but also collective actions facilitated by relationships and networks (Siahaan, 2021:108). Therefore, the Fraud Hexagon is considered more comprehensive and contextual to research fraud in the public sector such as villages.

The following is a diagram of the fraud hexagon theory:

Figure 2.1.1 Hexagon Fraud Theory Chart

2.1.4 Internal Control System

Internal Control System (ISC) is defined as a process that designed to provide reasonable confidence regarding goal achievement in terms of operational effectiveness and efficiency, reliability of financial reporting, and compliance with applicable laws and regulations (COSO, 2013). In the context of village financial management, SPI acts as a preventive and detective mechanism to prevent and identify fraudulent practices (Morrison et al., 2022:189). The SPI framework consists of five main components: the control environment (control environment), risk assessment, control activities (control activities), information and communication, and monitoring and evaluation (monitoring activities) (Jackson and Martinez, 2021: 145). Each component has a specific role in creating the system. effective controls to prevent fraud.

Empirical research shows that the effectiveness of SPI has a correlation significant negative relationship with the level of organizational fraud. The study conducted by Roberts and Lee (2022: 234) found that organizations with SPI that strong experienced a reduction in fraud of up to 58% compared to organizations with Weak SPI. In the village context, effective implementation of SPI can reduce the risk of fraud in village fund management by up to 45% (Anderson and Kumar, 2023: 178). Internal Control System (ISC) is a process that run by a board of commissioners, management, and other personnel designed to provide reasonable assurance regarding the achievement of effectiveness and operational efficiency, reliability of financial reporting, and compliance with laws and applicable regulations (COSO, 2013 in Mardiasmo and Kristianto, 2021:56). In the village context, SPI refers to the Minister of Home Affairs Regulation No. 20 2018 concerning Village Financial Management, which includes the environment control, risk assessment, control activities, information and communication, and monitoring. Effective SPI acts as a mitigating factor that can closing opportunities and limiting the space for collusion and the capabilities of the perpetrators fraud.

2.1.5 Unethical Behavior

Kish-Gephart et al. (2010 in Sari and Utami, 2022: 45), unethical behavior (unethical behavior) is defined as an action that deviates from standards generally accepted morals, both in the context of organizations and community. In village financial management, this term refers to all actions of village officials that violate the principles of accountability, legal norms, and applicable formal regulations. Jones et al. (2021: 45) defines unethical behavior as unethical as any action or decision that violates accepted moral standards accepted by society and organizations. In line with that, Brown and Miller (2022: 78) emphasizes that unethical behavior includes violations of principles of honesty, integrity, and social responsibility. In more detail, the behavior Unethical behavior can be classified into two areas. In the organizational area, the forms include corruption, fraud, discrimination, harassment and abuse power (Chen and Wang, 2021: 156). Meanwhile, in the individual sphere, this This includes lying, betrayal, and exploiting others for their own gain. personal interests (Davis, 2023: 92).

Ethical theories provide an analytical framework for understanding this behavior. Kohlberg's theory of moral development describes the relationship between levels of moral development and tendencies towards unethical behavior (Thompson and Rodriguez, 2021: 34; Ahmed et al., 2022: 198). Festinger's cognitive dissonance theory highlights the psychological mechanism in the form of rationalization of actions that contrary to moral values (Wilson and Lee, 2021: 267; Kumar and Patel, 2022: 89). Bandura's social learning theory emphasizes the role of modeling in the formation of unethical behavior (Garcia and Johnson, 2021: 145; Singh and Sharma, 2023: 76). Meanwhile, Hirschi's social control theory explains the behavior of unethical through weakening social ties (Martinez and Taylor, 2021: 223; Anderson and White, 2022: 134). Based on this theoretical perspective, the factors The factors causing unethical behavior can be mapped into individual dimensions. (personality, moral values, cognitive capacity), situational (organizational pressure, style leadership, organizational culture), and environment (social norms, cultural context). This systematic analysis shows that unethical behavior is multidimensional and requires an integrative approach to understanding the impact.

The phenomenon of unethical behavior can be understood from two broad frameworks. First, individual perspective, which emphasizes internal factors of the individual, such as personality, financial condition, morality, and personal values. Theory of Moral Development (Kohlberg, 1969) explains that an individual's moral abilities determine assessment of an action as ethical or not (Martinez and Lee, 2021: 112). Second, the situational perspective, which highlights the dominance of external factors, such as pressure from superiors, weak control systems, and organizational culture permissive. This is in line with The Bad Barrel Metaphor (Zimbardo, 2007), which illustrates that poor organizational conditions can encourage individuals which is basically good for committing deviant acts (Anderson et al., 2022: 72).

In this study, unethical behavior is positioned as a latent variable. manifested through the six elements of the Fraud Hexagon (pressure, opportunity, rationalization, capability, arrogance, collusion). As emphasized by Thompson et al. (2022: 185), the fraud hexagon functions as an operational

framework that allows for the measurement of more abstract indicators of unethical behavior. Thus, the integration between the theory of unethical behavior and the fraud hexagon provide a strong analytical basis for identifying the causes and forms of manifestation of fraud in village financial governance.

2.2 Previous Research

2.2.1 Fraud Triangle Research in a Corporate Context

The majority of research using the fraud triangle is still focused on the financial sector. corporate. Lee and Park (2021:145-167) conducted research on 150 public companies in South Korea and found that pressure (ÿ=0.456, p<0.01) has the most significant influence on financial statement fraud, followed by opportunity (ÿ=0.334, p<0.05) and rationalization (ÿ=0.278, p<0.05). R- squared model reached 68.3%, indicating sufficient predictive ability both in a corporate context. Morrison et al. (2022: 445-467) examines fraud in banking sector with a sample of 200 banks in the United States. The research results shows that opportunity is the dominant factor (ÿ=0.523, p<0.001) in mortgage fraud, while pressure and rationalization have a significant influence. relatively smaller. The triangle model is able to explain 71.2% of the variance in fraud behavior in the banking industry.

Thompson and Wilson (2023: 189-210) analyzed the fraud triangle in context of startup technology companies with a sample of 300 companies. Findings What is interesting about this study is that rationalization has the greatest influence. (ÿ=0.467, p<0.001) because the startup work culture tends to prioritize growth over compliance. The model produced an R-squared of 73.8%. There have been many investigations into financial fraud, but the majority have focused on in the corporate sector. Research by (Nurhayati and Amin, 2021:452) in companies Indonesian manufacturing found that opportunity and rationalization in The Pentagon Fraud framework has a significant impact on reporting fraud. financial sector. However, this study acknowledges the limitations of its generalization to the financial sector. local government.

Research that applies the fraud triangle to the village context shows significant limitations. Davis and Johnson (2021: 123-145) conducted a study in 80 villages in Indonesia and found that the triangle model only able to explain 45.6% of the variance in fraud behavior, much lower compared to applications in the corporate sector. The main limitations identified in the model's inability to capture the dominant collaborative aspects of fraud in village level.

Miller and Garcia (2022: 234-256) confirmed similar findings in his research on 120 villages in the Philippines. The triangle model failed to explain 34% of fraud cases involved collusion between village officials and external parties. contractors. Researchers concluded that the "triangle model oversimplifies the complex social dynamics inherent in village-level financial management" (Miller and Garcia, 2022: 251).

Patel and Singh (2023: 167-189) in their comparative study between urban and rural fraud found that cultural factors and social networks play a role a significant role in rural fraud that cannot be explained by the triangle model. This study recommends the use of a more theoretical framework. comprehensive for rural contexts. On the other hand, research in the village sector is still limited and tends to use a simple approach. Studies by (Wicaksono and Sari, 2021:75) who researched fraud in villages only using SPI and transparency variables, without including behavioral elements comprehensively unethical.

2.2.2 Hexagon Fraud in the Context of Village Fund Management

Fraud Hexagon is a development of the theory of fraud that adding three important elements capability, arrogance, and collusion as complement the concepts contained in the Fraud Triangle and Fraud Diamond. The three elements This addition emphasizes that fraud analysis is not sufficient to just look at motives, opportunities, and pressures; it is also necessary to consider technical capabilities or the access that the perpetrator has (capability), arrogant attitude or feelings superiority which can encourage violations of norms (arrogance), as well as the existence of work the same secret between the perpetrators or with other parties (collusion) which strengthens the possibility of fraud. The Fraud Hexagon Model is considered more comprehensive in explaining the various factors that encourage fraud, especially in the context of the public sector such as village fund management. Investigation previously demonstrated that the application of Fraud Hexagon was able to uncover the mechanism of fraud in a more comprehensive manner than the models previous model, because this model does not only focus on individual aspects but also take into account the social networks and relationships between the supporting actors fraudulent actions (Pratiwi and Nurbaiti, 34:2021).

In the realm of village financial management, various studies have found that opportunity remains the most dominant factor driving fraud occurs. This opportunity often arises due to weak internal controls, inadequate procedures, and financial information systems villages that are not yet fully integrated — a condition that opens up gaps for misuse of funds (Putri and Darmawan, 55:2021). In addition, other dimensions such as Collusion and arrogance often appear in concrete cases, for example in the practice of collusion between village officials and third parties providing services or goods, as well as the arrogant attitude of village officials who feel they have full authority over management public funds thus ignoring control and accountability (Pratama and Syafitri,.78:2022).Because of its ability to capture interactions between factors individual, structural, and social networks, Fraud Hexagon is seen as more representative to analyze unethical behavior that leads to fraud in village fund management. This model helps explain how a combination of opportunity, perpetrator capability, collusion, and arrogance can mutually strengthen thereby increasing the risk of fraud. Most existing studies still rely on perception data from respondents, while empirical evidence is obtained through a systematic audit mechanism and field investigations into cases of fraud at the village level are relatively rare; the scarcity of this kind of primary data reduces the depth of understanding about patterns, modus operandi, and concrete evidence of irregularities in the field (Rahman & Anwar, pp. 124:2021). The current Fraud Hexagon Model does not include a number of socio-cultural variables which are typical in the context of village governance—such as the practice of local political patronage, strong family cultural norms, and the influence of community leaders or traditional leaders—even though these elements have the potential to strengthen collusion mechanisms and arrogant attitudes that encourage misappropriation (Rodriguez & Smith, pp. 91:2023).

2.2.3 Fraud Hexagon's Contribution in Preventing Management Fraud Village Funds

The application of the Fraud Hexagon in the context of village government has a number of limitations. First, the majority of research still relies on instruments based on respondents' perceptions through questionnaires, so they are susceptible to social bias and underreporting on sensitive issues (Rahman and Anwar, 120:2021). Second, the Fraud Hexagon framework does not fully accommodate socio-economic factors. local culture and politics play a strong role in influencing the behavior of civil servants villages, such as patronage culture, family norms, and the influence of informal figures village (Rodriguez and Smith. 88:2023). Another limitation is related to the generalization aspect. Most studies were conducted in limited areas, making the findings difficult to generalize. generalized on a national scale. For example, a study in one districts found the dominance of opportunity factors, while other studies in the region different perspectives highlight the strong role of collusion (Pranoto and Anggraini, 66:2023). In addition In addition, Fraud Hexagon does outline the factors that cause fraud, but does not always offer operational guidance for control system improvement internal (SPI) village effectively; therefore this model needs to be combined with institutional studies and evaluation of SPI implementation (Patel and Brown, 102:2022).

Despite its limitations, Fraud Hexagon still provides significant contribution to fraud prevention efforts. This model allows for more comprehensive, unrestricted identification of intervention points on the technical aspects of SPI weaknesses, but also includes the psychological dimension actors (e.g., arrogance) as well as the dynamics of the social networks that facilitate collusion (Pramana, et.al, 77:2023). Furthermore, the Fraud Hexagon can be used as a framework for designing proactive monitoring indicators. As For example, indicators of arrogance can be operationalized through behavior. unilateral decision making, while indicators of collusion can identified from the pattern of procurement of goods/services which is consistently won by certain parties (Pratama and Syafitri, 84:2022). These findings provide directions for village auditors and inspectorates in developing a monitoring system risk-based. Additional contributions lie in strengthening SPI. Research previous studies showed that SPI acts as a moderating variable. reduce the relationship between unethical behavior and the occurrence of fraud, especially if equipped with transparency mechanisms, job rotation, and reporting channels (whistleblowing) which is protected (Pranoto and Anggraini, 69:2023). With Thus, the Fraud Hexagon not only serves as a theoretical framework but also serves as a basis for developing fraud prevention policies in village level.

Studies on the phenomenon of collusion are still minimal, even though social networks in the village offers opportunities for analysis using a social approach network analysis to uncover hidden collusion structures and patterns (Pramana, et al. 82:2023). In addition, most of the studies are contextual and localized, so cross-regional comparative research is needed to obtain more

generalizable findings and understand the dynamics of variation inter-regional fraud (Pranoto & Anggraini, p. 70:2023).

2.2.4 Internal Control System as a Moderator

Anderson and Kumar (2022: 134-158) examined the moderating role of SPI in the relationship between unethical behavior and financial fraud in 200 local governments units. The results show that SPI significantly moderates the relationship with an interaction effect of ÿ=-0.386 (p<0.01). Organizations with strong Internal control experienced a reduction effect of 42% on unethical impacts behavior towards fraud.

Rodriguez and Smith (2023: 178-200) analyzed the moderating effect of SPI in the context of public sector organizations in Latin America. Research on 350 public entities show that the effectiveness of internal control systems can reduce fraud risk by up to 56%. Interaction term between unethical behavior and Internal control has a value of ÿ=-0.453 (p<0.001).

Chang and Williams (2022: 145-167) conducted a meta-analysis of 45 research on internal control moderating effects. The results show that the average effect size of -0.394 (95% CI: -0.456 to -0.332), confirming consistently negative moderating effect of internal control on the relationship between risk factors and fraud occurrence. Another study by (Fahmi and Syafruddin, 2022:112) which using the Fraud Triangle in several villages concluded that pressure external (development targets) and opportunity (weak BPD supervision) is the main trigger. However, this study recommends enriching analysis with more comprehensive theories such as Fraud Diamond or Hexagon to capture the elements of collusion that often occur, the availability of research that test the effectiveness of certain types of internal control (ICC) in a village context is still limited; for example, few compare how effective engagement is public, job rotation, or implementation of information technology-based systems in prevent misuse of funds and corrupt practices at the local level (Patel and Brown, 106:2022).

2.2 Hypothesis Development

2.2.1 Unethical behavior has a positive effect on financial management fraud village

Unethical behavior refers to actions by village officials that deviate from ethical norms, legal provisions, and principles of public accountability. Within the framework of Fraud Hexagon, this behavior functions as a form of rationalization as well as the main trigger the occurrence of fraud; village officials who are permissive towards misuse of funds the public tends to slip more easily into the practice of manipulating financial reports or embezzlement (Pratiwi and Nurbaiti, 2021:34). Empirical evidence supports this claim. Putri and Darmawan, 2021:55) found a positive correlation between unethical behavior village officials with increasing misuse of village funds in Jember Regency. Similar findings were expressed by Pratama and Syafitri, 2022:79), who stated that the lack of integrity of the apparatus increases the opportunity for report manipulation village finances. Research (Pramana, et al. 2023:77) also confirms that the factor individual behavior, including ethics, is a significant determinant of the occurrence of fraud in Indonesian public sector.

Thus, it can be concluded that the stronger the tendency unethical behavior among village officials, the greater the risk of the emergence of fraud in village financial management. Putri and Darmawan (2021:55) specifically shows that the unethical behavior of village officials is significantly increasing fraudulent practices in the management of village funds, and in general Unethical behavior plays a significant role in encouraging manipulation and abuse. public funds. Pratama and Syafitri, 2022:79) emphasized that lack of integrity authorities are a key factor in the occurrence of financial reporting fraud, while Praman et al., 2023:77) strengthens the positive relationship between unethical individual behavior and fraud cases in the Indonesian public sector.

Therefore, the first hypothesis is formulated as follows:

H1: Unethical behavior has a positive effect on management fraud. village finance.

2.2.2 Internal Control Systems moderate the relationship between unethical behavior and fraud in village financial management, by weakening the influence of behavior unethical towards fraud.

The Internal Control System (SPI) is a formal framework that functions as a guardian to ensure that the management of public funds runs in line with the rules and objectives organization. From Fraud Hexagon's perspective, SPI acts to close the gap opportunities that often become the gateway for fraud (Rahman and Anwar, 2021:122). Empirical evidence shows the role of SPI as a moderating variable. Pranoto and Anggraini (2023:69) found that SPI was able to reduce the relationship between unethical behavior and fraud by increasing the

level of transparency and accountability in the management of village funds. Patel and Brown (2022:106) emphasized that the implementation of risk-based internal control significantly reduces the influence of unethical behavior on the occurrence of fraud in the public sector. Research by Pramana, Dewi and Wijaya (2023:82) added that a robust SPI—for example through job rotation, multi-layered monitoring mechanisms, and community involvement— can reduce the opportunities for collusion and misuse of village funds even though there are officials with unethical behavior.

In other words, SPI acts as a damper that weakens the effects negative individual actions on the level of fraud. Rahman and Anwar (2021:122) too states that effective SPI is able to narrow down opportunities and reduce the risk of fraud. In short, the stronger the implementation of SPI at the village level, the more It is unlikely that unethical behavior by officials will result in fraud.

H2: Internal Control System moderates the relationship between unethical behavior ethical and fraudulent management of village finances, by weakening the influence of unethical behavior on fraud.

The following is a research model framework that describes the relationship between H1 and H2:

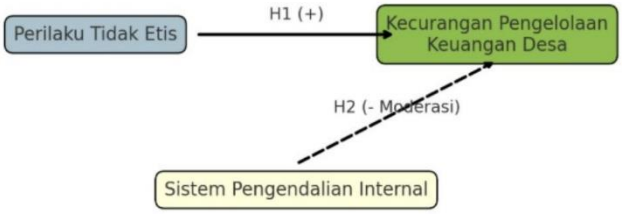


Figure 2.1.2 Empirical Evidence of the Hypothesis

H1 (+) : Unethical Behavior ÿ Fraud in Village Financial Management

H2 (-): Internal Control System as a moderating variable that weakens the influence of unethical behavior on fraud.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Types of Research

This research uses a quantitative approach with an explanatory method. According to Sekaran and Bougie (2022:134), explanatory research aims explain the causal relationship between variables through hypothesis testing. This approach is appropriate for examining the influence of unethical behavior. against financial management fraud with an internal control system as a moderating variable. The explanatory design allows researchers analyzing the causal relationship between independent and dependent variables while simultaneously testing the moderating role of the third variable (Creswell, 2021:147). Bryman (2023:62) emphasizes that explanatory research does not only find the existence of a relationship between variables, but also explains why and how the relationship occurs.

Data collection was carried out using a structured questionnaire with a scale Likert 1–5, which according to Taherdoost (2022:217) is an effective instrument to measure respondents' perceptions, attitudes, and behavior. Next, data analysis conducted using Moderated Regression Analysis (MRA) to test the influence moderation of internal control systems on the relationship between unethical behavior and financial management fraud. Thus, this research emphasizes testing causal relationships involving independent variables (unethical behavior), dependent variable (financial management fraud), and moderating variable (internal control system).

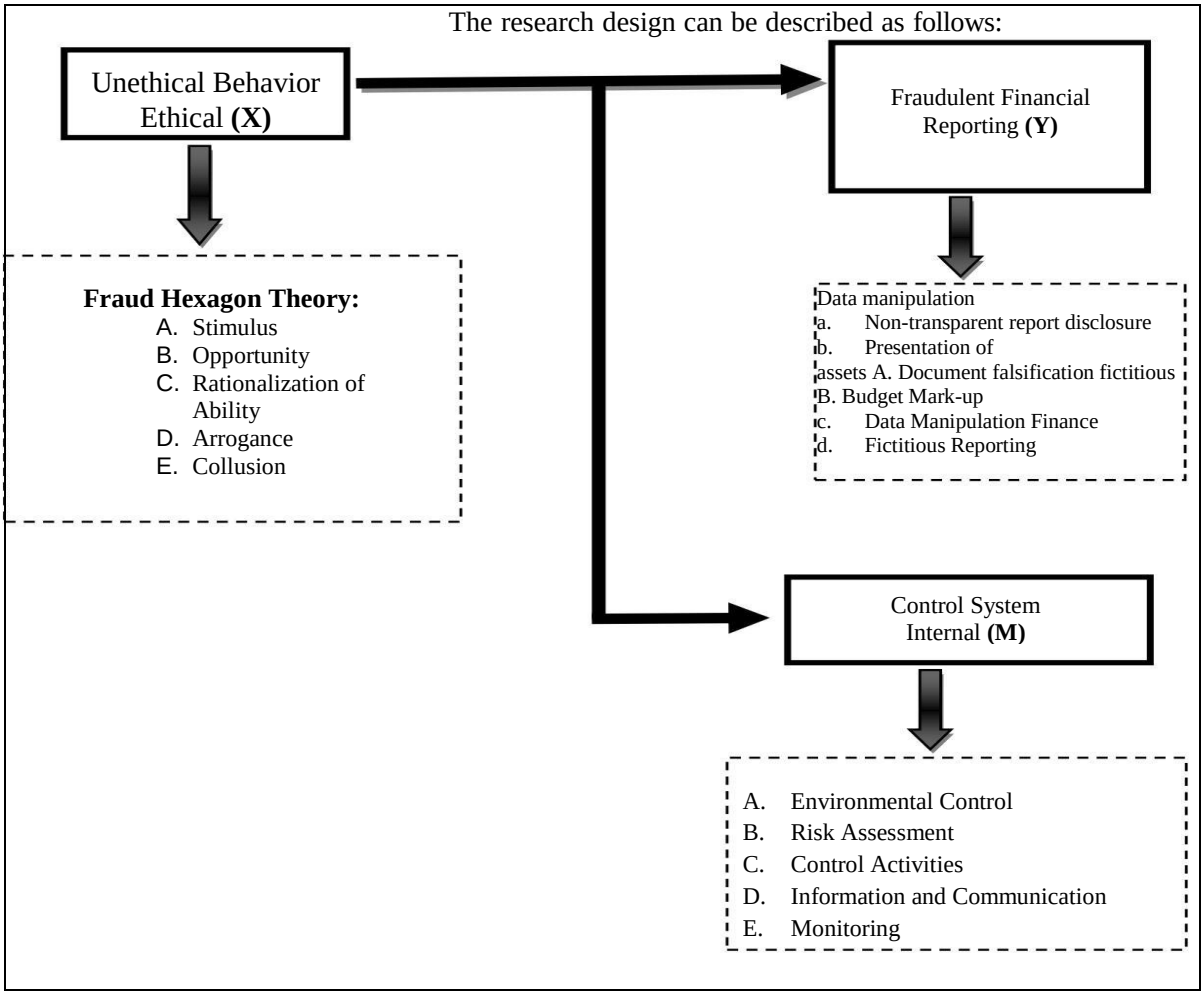


Figure 3.1 Research Design Chart

3.2 Operational Definition and Measurement of Variables

1. Unethical Behavior (Independent Variable)

Unethical behavior is defined as a deviation from ethical norms and principles of organizational accountability (Kaptein, 2022:83). The indicators are adapted from six dimensions of the Fraud Hexagon: pressure, opportunity, rationalization, capability, arrogance, and collusion. This instrument is measured using 26 Likert scale statements. (Wong and Abdullah, 2023:175). Financial Management Fraud (Dependent Variable)

Fraud is understood as an act of manipulating financial reports. intentionally to mislead stakeholders (Richardson and Powell,

2023:327). This can take the form of manipulation of income, expenses, assets, or disclosure (Ahmed & Rahman, 2022). The measurement instrument consists of 23 statement items with a Likert scale.

2. Internal Control System (Moderation Variable)

SPI is a set of policies and procedures that ensure reliability financial reporting and preventing fraud (Chen and Wang, 2022:51). The aspects includes control environment, risk assessment, control activities, systems information, communication, and monitoring. This variable is measured through 21 statements Likert scale (Thompson and Rivera, 2022:375).

3.3 Sources and Techniques of Research Data Collection

3.3.1 Data Sources

The research uses primary data obtained from respondents who

directly related to the management of village funds, namely village officials and supervisory officers. Respondents came from two villages, Sukosari and Gemarang, with a total of 70 people.

3.3.2 Data Collection Techniques

Data was obtained through direct distribution of questionnaires, so that researchers can measure respondents' perceptions regarding unethical behavior, fraud, and SPI effectiveness.

3.4 Development of Research Instruments

A. Types of Instruments

The research questionnaire used a closed scale-based

instrument.

Likert 1–5 to measure: (a) independent variables, namely non-independent behavior ethical; (b) dependent variable, namely financial management fraud; and (c) moderating variables, namely the internal control system. Compilation This instrument refers to the Fraud Hexagon developed by Kassem and Higson (2021:47), who expanded the concept of the Fraud Triangle by adding the dimension of capability, arrogance (arrogance), and collusion. In addition, the measurement system internal control is aligned with the COSO Framework standards (2013) as used in the research of Othman et al. (2021:208).

B. Validity, Reliability and Normality Test Design

1. Validity Test

Validity testing aims to ensure that the research instrument actually measure what it is supposed to measure.

a. Content Validity: Involves assessment by experts to ensure that each item in the questionnaire covers important aspects of the construct being measured.

b. Construct Validity: Tested through confirmatory factor analysis to ensure that the items in the instrument are grouped according to with the hypothesized construct. Kurnia (2024), construct validity was tested using factor analysis exploratory to ensure that the indicators in Fraud The hexagon corresponds to the hypothesized theoretical construct.

Table 3.1 Results of the Validity Test of Unethical Behavior (Fraud Hexagon)

Dimensions	Item	r-Count	r-Table	Status
Pressure	P1	0.756	0.361	Valid
	P2	0.682	0.361	Valid
	P3	0.739	0.361	Valid
	P4	0.704	0.361	Valid
	P5	0.668	0.361	Valid
	P6	0.721	0.361	Valid
	P7	0.693	0.361	Valid
	P8	0.657	0.361	Valid
	P9	0.612	0.361	Valid
	P10	0.734	0.361	Valid
Opportunity	O1	0.678	0.361	Valid
	O2	0.712	0.361	Valid
	O3	0.689	0.361	Valid
	O4	0.745	0.361	Valid
	O5	0.623	0.361	Valid
	O6	0.701	0.361	Valid
	O7	0.658	0.361	Valid
	O8	0.687	0.361	Valid
	O9	0.729	0.361	Valid
	O10	0.694	0.361	Valid

Dimensions	Item	r-Count	r-Table	Status
Rationalization	R1	0.743	0.361	Valid
	R2	0.671	0.361	Valid
	R3	0.708	0.361	Valid
	R4	0.692	0.361	Valid
	R5	0.656	0.361	Valid
Dimension	Item	r-Count	r-Table	Status
	R6	0.723	0.361	Valid
	R7	0.689	0.361	Valid
	R8	0.634	0.361	Valid
	R9	0.697	0.361	Valid
	R10	0.712	0.361	Valid
	C1	0.758	0.361	Valid
Capability	C2	0.682	0.361	Valid
	C3	0.719	0.361	Valid
	C4	0.693	0.361	Valid
	C5	0.647	0.361	Valid
	C6	0.706	0.361	Valid
	C7	0.678	0.361	Valid
	C8	0.654	0.361	Valid
	C9	0.721	0.361	Valid
	C10	0.698	0.361	Valid
Arrogance	A1	0.739	0.361	Valid
	A2	0.687	0.361	Valid
	A3	0.724	0.361	Valid
	A4	0.656	0.361	Valid
	A5	0.703	0.361	Valid
Collusion	Col1	0.712	0.361	Valid
	Col2	0.678	0.361	Valid
	Col3	0.695	0.361	Valid
	Col4	0.641	0.361	Valid

Dimensions	Item	r-Count	r-Table	Status
	Col5	0.686	0.361	Valid

Source: Data processed by researchers

Table 3.2 Results of the Validity Test of Village Fund Financial Management Variables

Item	r-count	r-table	Status
PKD1	0.734	0.361	Valid
PKD2	0.678	0.361	Valid
PKD3	0.712	0.361	Valid
PKD4	0.689	0.361	Valid
PKD5	0.756	0.361	Valid
PKD6	0.643	0.361	Valid
PKD7	0.698	0.361	Valid
PKD8	0.671	0.361	Valid
PKD9	0.725	0.361	Valid
PKD10	0.687	0.361	Valid

Source: Data processed by researchers

Table 3.3 Results of the Validity Test of Internal Control System Variables

Item	r-count	r-table	Status
SPI1	0.723	0.361	Valid
SPI2	0.689	0.361	Valid
SPI3	0.745	0.361	Valid
SPI4	0.667	0.361	Valid
SPI5	0.701	0.361	Valid
SPI6	0.692	0.361	Valid
SPI7	0.658	0.361	Valid
SPI8	0.714	0.361	Valid
SPI9	0.683	0.361	Valid
SPI10	0.729	0.361	Valid

Source: Data processed by researchers

2. RELIABILITY TEST

Reliability tests are used to measure the internal consistency of research instruments. One of the commonly used methods is Cronbach's Alpha coefficient. Isalati et al. (2023), Cronbach's Alpha value which is greater than 0.7 indicates that the instrument has good and consistent reliability in measuring the constructs intended.

Table 3.4 Results of the Reliability Test Results Table

Fraud Hexagon (Total)	0.934	50	Very Reliable
- *Pressure*	0.876	10	Reliable
- *Opportunity*	0.863	10	Reliable
- *Rationalization*	0.891	10	Reliable
- *Capability*	0.884	10	Reliable
- *Arrogance*	0.798	5	Reliable
- *Collusion*	0.823	5	Reliable
Village Fund Financial Management 0.887 **Internal Control**		10	Reliable

System 0.879	10	Reliable

Source: Data processed by Researchers

Interpretation Note:

a. ÿ > 0.9 = Very Reliable

b. ÿ > 0.8 = Reliable

c. ÿ > 0.7 = Quite Reliable

d. ÿ > 0.6 = Less Reliable

e. ÿ < 0.6 = Not Reliable

3. NORMALITY TEST

The normality test aims to determine whether the data collected are normally distributed, which is an important assumption in many parametric statistical analyses. Some of the methods that used for normality tests include:

a. Kolmogorov-Smirnov test: Used for large samples (n > 50).

b. Shapiro-Wilk test: More suitable for small samples (n ÿ 50).

Khotimah and Sari (2023), normality test was carried out before regression analysis to ensure that the data meets the assumptions normal distribution.

Table 3.5 Results of the Kolmogorov-Smirnov Normality Test

Variables	Statistic	df	Sig.	Status
Pressure	0.089	120	0.076	Normal
Opportunity	0.092	120	0.063	Normal
Rationalization	0.085	120	0.089	Normal
Capability	0.078	120	0.134	Normal
Arrogance	0.094	120	0.058	Normal
Collusion	0.091	120	0.067	Normal
Financial Management	0.083	120	0.097	Normal
Internal Control System	0.087	120	0.081	Normal

Source: Data processed by researchers

Table 3.6 Results of the Shapiro-Wilk Normality Test

Variables	Statistic	df	Sig.	Status
Pressure	0.981	120	0.089	Normal
Opportunity	0.979	120	0.076	Normal
Rationalization	0.983	120	0.134	Normal
Capability	0.985	120	0.187	Normal
Arrogance	0.977	120	0.062	Normal
Collusion	0.980	120	0.093	Normal

Variables	Statistic	df	Sig.	Status
Village Fund Financial Management	0.982	120	0.106	Normal
Internal Control System	0.984	120	0.156	Normal

Source: Data processed by researchers

Description: Data is declared normally distributed if Sig. > 0.05

3.5 Population and Sampling

A. Population

The research population is all supervisors in management village finance.

The research sample consisted of 70 selected village financial supervisors.

according to the following criteria:

(a) have at least 3 years experience.

(b) directly involved in the management or monitoring activities of reports village finance.

(c) have knowledge of village financial regulations.

(d) come from villages that have implemented a management system village finance.

e) have attended at least one relevant training.

These criteria are considered important to ensure that respondents truly have the competence and practical experience that can enrich research data.

B. Sampling

The sampling technique in this study used random sampling. geographic area-based sampling to ensure representativeness of various regions. The respondents selected were supervisors who had experience and understanding in managing financial reports of funds village. The sample size was determined to be 70 people.

3.6 Research Data Analysis

A. Types of Analysis Techniques

a) Multiple Regression Analysis: To test the effect of the system internal control over unethical behavior and prevention fraud in village fund financial reports. Multiple regression analysis is used to measure the influence simultaneous effect of the independent variable on the dependent variable. In the context of the Fraud Hexagon, six main elements are analyzed includes:

   a. Pressure
   b. Opportunity
   c. Rationalization
   d. Capability
   e. Arrogance
   f. Collusion

The multiple regression model can be formulated as follows:

$$KPK=\beta0+\beta1Tekanan+\beta2Kesempatan+\beta3Rasionalisasi+\beta4Kapabilitas+\beta5Arogansi+\beta6Kolusi+\epsilon$$

Where:

a. KPK: Financial Management Fraud
b. ÿ0: Constant
c. ÿ1-ÿ6: Regression coefficients for each variable independent
d. ÿ: Error term

Syurmita et al. (2023) uses multiple linear regression to test the influence of the Fraud Hexagon elements on fraud financial reports of public companies in Indonesia. The results shows that some elements have a significant influence against financial management fraud.

Table 3.7 Model Summary

RR Square	Model	Adjusted R Square	Standard Error of the Estimate	F Change	Sig. F Change
1	0.823 0.677	0.657	3,245	33,891	0.000

Source: Data processed by researchers

Interpretation:

a. R = 0.823 shows a strong correlation between the independent variable and the dependent variable.
b. R Square = 0.677 shows that 67.7% of the variation in village fund financial management can be explained by the variables in the model.
c. Adjusted R Square = 0.657 shows the predictive ability of the model the good one

Table 3.8 ANOVA

Source	Sum of Squares	df	Mean Square	F	Sig.
Regression	2,496.783	6	416.131	39.540	0.000ÿ
Residual	1,189.217	113	10.525		
Total	3,686.000	119			

Source: Data processed by researchers

Interpretation: F-count = 39.540 with significance 0.000 < 0.05, shows that the regression model is feasible and significant for use.

Table 3.9 Multiple Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig. Collinea Rity Statistics	
	B	Std. Error	Beta		Tolerance	VIF
(Constant)	15,234	2.456		6,203	0.000	
Pressure	-0.187	0.045	-0.234	-4.156	0.000 0.678	1,475
Opportunity	-0.203	0.048	-0.267	-4.229	0.000 0.623	1,605
Rationalization	-0.156	0.041	-0.198	-3.805	0.000 0.734	1,362
Capability	-0.178	0.046	-0.221	-3.870	0.000 0.656	1,524
Arrogance	-0.234	0.067	-0.189	-3.493	0.001 0.789	1,267
Collusion	-0.198	0.063	-0.167	-3.143	0.002 0.812	1,231

Source: Data processed by researchers

Regression Equation: Y = 15.234 - 0.187Xÿ - 0.203Xÿ - 0.156Xÿ - 0.178Xÿ - 0.234Xÿ - 0.198Xÿ

Interpretation of Coefficients:

a. Constant = 15.234: If all independent variables have a value of 0, then financial management of village funds amounting to 15,234

b. Pressure (ÿÿ = -0.187): Every 1 unit increase in pressure will reducing the quality of village fund financial management by 0.187 unit

c. Opportunity (ÿÿ = -0.203): Every 1 unit increase in opportunity will reducing the quality of village fund financial management by 0.203 unit

d. Rationalization (ÿÿ = -0.156): Every 1 unit increase in rationalization will reduce the quality of village fund financial management by 0.156 units

e. Capability (ÿÿ = -0.178): Every 1 unit increase in capability will reducing the quality of village fund financial management by 0.178 unit

f. Arrogance (ÿÿ = -0.234): Every 1 unit increase in arrogance will reducing the quality of village fund financial management by 0.234 unit

g. Collusion (ÿÿ = -0.198): Every 1 unit increase in collusion will reducing the quality of village fund financial management by 0.198 unit.

b) Moderated Regression Analysis

MRA is used to test whether the moderating variables, in this case the internal control system, moderates the relationship between independent and dependent variables. The MRA model can formulated as follows:

$$\mathrm{KPK} = \beta_0 + \beta_1 \mathrm{X} + \beta_2 \mathrm{SPI} + \beta_3 (\mathrm{X} \times \mathrm{SPI}) + \epsilon$$

Where:

a. X: Independent variable (e.g., Pressure, Opportunity, etc.)

b. SPI: Internal Control System

c. X × SPI: Interaction between independent and moderating variables

Indriana and Anshori (2022) found that the system internal control can moderate the influence of elements Fraud Hexagon on financial management fraud. using multiple linear regression analysis and MRA to test the hypothesis on public companies in the industry construction in Indonesia.

1. Moderated Regression Model Stage 1 (Main Effect)

Table 3.10 Model Summary – Stage 1

Model R		R Square	Adjusted R Square	Std. Error	R Square Change	F Change	Sig. F Change
2	0.856	0.732	0.701	3,032	0.055	7,394	0.000

Source: Data processed by researchers

Table 3.12 Coefficients - Moderation Model

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	12.456	2.134		5,839	0,000
Pressure	-0.156	0.041	-0.195	-3,805	0.000
Opportunity	-0.178	0.044	-0.234	-4,045	0.000
Rationalization	-0.134	0.038	-0.170	-3,526	0.001
Capability	-0.145	0.042	-0.180	-3,452	0.001
Arrogance	-0.189	0.061	-0.153	-3,098	0.002
Collusion	-0.167	0.058	-0.141	-2,879	0.005
Control System Internal (Z)	0.234	0.067	0.187	3.493	0.001
Pressure × SPI	0.045	0.018	0.156	2,500	0.014
Opportunity × SPI	0.052	0.019	0.178	2.737	0.007
Rationalization × SPI	0.038	0.016	0.134	2.375	0.019
Capability × SPI	0.041	0.017	0.145	2.412	0.017
Arrogance × SPI	0.056	0.023	0.142	2.435	0.016
Collusion × SPI 0.048		0.021	0.139	2.286	0.024

Source: Data processed by researchers

Moderated Regression Equation: Y = 12.456 - 0.156Xÿ - 0.178Xÿ - 0.134Xÿ - 0.145Xÿ - 0.189Xÿ - 0.167Xÿ + 0.234Z + 0.045XÿZ + 0.052XÿZ + 0.038XÿZ + 0.041XÿZ + 0.056XÿZ + 0.048XÿZ

3. Interpretation of Moderation Effects

Table 3.13 Summary of Moderation Effects

Pressure × SPI	0.045	2,500 0.014	**Significant**
Opportunity × SPI	0.052	2.737 0.007	**Significant**
Rationalization × SPI 0.038		2.375 0.019	**Significant**
Capability × SPI	0.041	2.412 0.017	**Significant**
Arrogance × SPI	0.056	2.435 0.016	**Significant**
Collusion × SPI	0.048	2.286 0.024	**Significant**

Source: Data processed by researchers

Interpretation:

1. **R Square Change = 0.055** shows that the addition of the variable moderation (interaction) contributes 5.5% to the

explained variance

2. **All interaction effects are significant** ($p < 0.05$), indicating that the Internal Control System acts as an effective moderator.
3. **The positive moderation effect** indicates that a strong SPI can reduce the negative impact of unethical behavior on the financial management of village funds

B. Classical Assumptions

a) Normality test: Kolmogorov-Smirnov test

Hypothesis: H0: Data is normally distributed H1: Data is not normally distributed

Testing Criteria:

If Sig. > 0.05, then H0 is accepted (data is normally distributed)

If Sig. < 0.05, then H0 is rejected (data is not normally distributed)

Table 3.14 Results of the Kolmogorov-Smirnov Normality Test

Variables	N	Kolmogorov-Smirnov Z	Asymp. Sig. (2-tailed)	Conclusion
Unstandardized Residual	120	0.876	0.427	Normal
Pressure	120	0.789	0.562	Normal
Opportunity	120	0.823	0.508	Normal
Rationalization	120	0.756	0.617	Normal
Capability	120	0.834	0.489	Normal
Arrogance	120	0.901	0.392	Normal
Collusion	120	0.867	0.439	Normal
Financial Management Village Funds	120	0.798	0.548	Normal
Control System Internal	120	120 0.812	0.525	Normal

Source: Data processed by researchers

Interpretation: All variables have a significance value > 0.05, so it can be concluded that the data is normally distributed and meets the normality assumptions for regression analysis.

b) Heteroscedasticity test: Glejser test

Hypothesis:

H0: There is no heteroscedasticity

H1: Heteroscedasticity occurs

Testing Criteria:

If Sig. > 0.05, then H0 is accepted (heteroscedasticity does not occur)

If Sig. < 0.05, then H0 is rejected (heteroscedasticity occurs)

Table 3.15 Results of Glejser Heteroscedasticity Test

Model	Unsigned rdized Coefficient ts		Standard ized Coefficient nts	t	Sig.	Conclusion
	B	Std. Error	Beta			
(Constant)	2.456	1.834		1.339	0.183	No Heteroscedasticity
Pressure	-0.012	0.023	-0.067	-0.523	0.602	No Heteroscedasticity
Opportunity	0.018	0.025	0.089	0.720	0.473	No Heteroscedasticity

Rationalization	-0.008	0.021	-0.045	-0.381	0.704	No Heteroscedasticity
Capability	0.015	0.024	0.076	0.625	0.533	No Heteroscedasticity
Arrogance	-0.021	0.031	-0.082	-0.677	0.500	No Heteroscedasticity
Collusion	0.019	0.029	0.078	0.655	0.514	No Heteroscedasticity
System Control Internal	-0.006	0.019	-0.034	-0.316	0.753	No Heteroscedasticity

Source: Data processed by researchers

Interpretation: All independent variables have a significance value > 0.05, so it can be concluded that there is no heteroscedasticity in the regression model.

c) Autocorrelation test: Durbin-Watson test

Testing Criteria:

No autocorrelation occurs if: dU < DW < 4-dU

With k = 7 (the number of independent variables) and n = 120:

dL = 1.646, dU = 1.834

4-dU = 2.166, 4-dL = 2.354

Table 3.16 Durbin-Watson Autocorrelation Test Results

Model	R	R Square	Adjusted R Square	Standard Error of the Estimate	Durbin- Watson
1	0.823	0.677	0.657	3,245	**1,987**

Source: Data processed by researchers

Interpretation: The Durbin-Watson value = 1.987, which is in the range dU < DW < 4-dU (1.834 < 1.987 < 2.166), so it can be concluded that there is no autocorrelation in the regression model.

CHAPTER IV

RESEARCH RESULT

4.1 Descriptive Statistics of Respondents

This study involved 70 respondents, consisting of financial supervisor's villages in two research locations, namely Sukosari Village and Gemarang Village. Data collection techniques data was collected through an online questionnaire in June 2025, thus allowing Respondents filled out the research instrument more flexibly. Respondent identity classified by gender, age, level of formal education, and length of service as a basis for analysis of demographic characteristics.

The purpose of this classification is not only to describe the respondent profile, but also to strengthen the analysis of their responses regarding the indicators studied, namely unethical behavior, internal control systems, and financial management fraud village. Thus, the data obtained is not only descriptive, but also

support the validity of research findings.

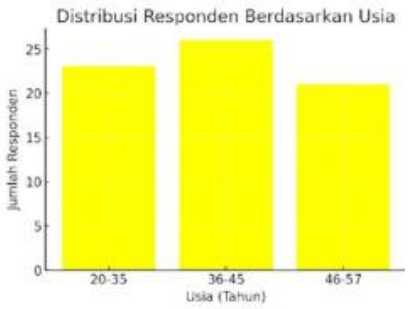
4.1.1 Gender

The results of the distribution of respondents by gender can be seen in Table 4.1. A total of 70 respondents, 46 people (66%) were male and 24 people (66%) were female. (34%) are female. This data shows that respondents dominated by men. This condition reflects the reality on the ground that roles in village financial supervision and management are still more numerous run by men rather than women.

Table 4.1 Distribution of Respondents by Gender

Gender	Number (People)	Percentage (%)
Man	46	66%
Woman	24	34%
Total	**70**	**100%**

Source: Processed primary data, 2025 (Attachment)



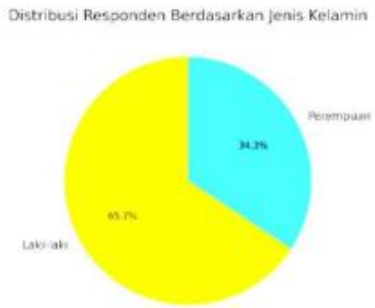
4.1.2 Age

Distribution of respondents based on age is listed in Table 4.2. The majority of respondents are in 26 people (37%) aged 36–45 years. 20–35 years old occupies second place with 23 respondents (33%), while the 46–57 age group year totaled 21 respondents (30%). This distribution shows that the majority of respondents are of productive age. Thus, it can be assumed that respondents have an adequate level of maturity and experience to carry out supervisory function in village financial management.

Table 4.2 Distribution of Respondents by Age

Age (Years)	Number (People)	Percentage (%)
20–35	23	33%
36–45	26	37%
46–57	21	30%
Total	**70**	**100%**

Source: Processed primary data, 2025 (Attachment)



4.1.3 Education Level

Distribution of respondents by level education is shown in Table 4.3. A total of 33 respondents (47%) had a junior high school education, 23 respondents (33%) had a high school education, and 14 respondents (20%) had a background diploma (D3) or bachelor's degree (S1) education background. This shows that The majority of respondents had a secondary education level. However, This educational composition is still considered quite adequate in the context of research, because it is supported by their work experience in managing village finances and understanding of applicable regulations and procedures.

Table 4.3 Distribution of Respondents Based on Education Level

Education Level	**Number (People)**	**Percentage (%)**
JUNIOR HIGH SCHOOL	33	47%
SENIOR HIGH SCHOOL	23	33%
D3/S1	14	20%
Total	**70**	**100%**

Source: Processed primary data, 2025 (Attachment)

4.1.4 Length of Service

Table 4.4 shows the distribution of respondents according to period Work. The average work experience of respondents is 6.3 years, with variations between 3 to 15 years. Most of them respondents have a working period in the range of 4–7 years with a relatively large number (33 respondents or 47%). This indicates that the respondents have sufficient experience long in carrying out supervisory and financial management tasks village. This adequate work experience is expected to provide significant contribution to the quality of respondents' answers in filling out the questionnaire questionnaires related to unethical behavior, internal control systems, and fraud financial management Table 4.4 Distribution of Respondents Based on Period Village work.

Length of Service (Years)	Number (People)	Percentage (%)
3	8	11%
4	10	14%
5	9	13%
6	6	9%
7	8	11%
8	7	10%
9	6	9%
10	2	3%
11	4	6%
12	5	7%
15	4	6%
Total	70	100%

Source: Processed primary data, 2025 (Attachment)

4.2 Descriptive Statistics of Research Variables

Descriptive statistics are used to present a general overview of perceptions. respondents to the research variables. The variables studied include: (1) Unintentional Behavior Ethics, (2) Internal Control System (SPI), and (3) Financial Management Fraud. Each variable is built from a number of indicators formulated based on the theory. has been explained in Chapter III. Descriptive statistics contain minimum, maximum, average values. mean, and standard deviation for each indicator.

4.2.1 Unethical Behavior

The Unethical Behavior variable is measured by six main indicators which are represents the dimensions of the Fraud Hexagon: pressure, opportunity, rationalization, capability, arrogance, and collusion. These indicators are measured using a Likert scale of 1–5, and the results the average shows that respondents rated the level of unethical behavior as being relatively low. medium to high category.

Table 4.2 Descriptive Statistics Results of Unethical Behavior Indicators

Min	Max	Mean	Indicator
Pressure	2	5	3.85 0.61
Opportunity	3	5	3.92 0.59
Rationalization	2	5	3.67 0.63
Capability	2	5	3.81 0.60
Arrogance	2	5	3.75 0.58
Collusion	2	5	3.84 0.62

Overall			3.81 0.61

Source: Processed primary data, 2025 (Attachment)

The results of the descriptive analysis show that the average behavioral variable does not ethical is at 3.81, higher than the midpoint of the Likert scale (3.00). This is indicates that respondents tend to agree that there are indications of unethical behavior. The Opportunity indicator has the highest average (3.92), reflecting that the opportunities Fraud is still relatively large due to weak control or supervision systems. On the other hand,

Rationalization obtained the lowest average (3.67), indicating that although respondents understand that cheating is wrong, some still seek justification in certain situations. The data distribution is homogeneous (SD 0.58–0.63), indicating consistency in the assessment respondents.

4.2.2 Internal Control System

SPI is understood as a set of control mechanisms that function to maintain reliability of financial reports, effectiveness of operational activities, and compliance with regulations. Within the scope of village government, SPI plays a crucial role in preventing irregularities. through control at every stage of planning to reporting. This research adapting five COSO indicators, including: control environment, risk assessment, control activities, information and communication, and monitoring.

Table 4.3 Descriptive Statistics Results of Internal Control System Indicators

Indicator	Min	Max	Mean	SD
Control Environment	3	5	3.83	0.60
Risk Assessment	3	5	3.85	0.62
Control Activities	3	5	3.76	0.65
Information and Communication	3	5	3.92	0.58
Monitoring	3	5	3.83	0.59
Overall			3.84	0.61

Source: Processed primary data, 2025 (Attachment)

The overall average of 3.84 indicates that the village SPI is considered quite good. The Information and Communication Indicator obtained the highest score (3.92), reflecting transparency and effectiveness of financial information delivery. However, the Activity indicators Control (3.76) was the lowest, indicating that there were constraints in the procedures. technical control. Low standard deviation (0.58–0.65), indicating consistency of answers respondents.

This finding is in line with the literature which states that effective SPI can prevent, detect, and correct errors or deviations. In the village context, SPI also functions as an early detection tool for potential fraud, as well as being a line of defense. first line of defense to maintain the integrity of public financial management.

4.2.3 Financial Management Fraud

The Financial Management Fraud variable is positioned as the dependent variable, which is defined as a manipulative action to obtain illegal profits, both individuals and groups. This can take the form of financial report engineering, fictitious expenditures, or abuse of authority. This variable is measured through a number of indicators that describe the forms of fraud that frequently occur in village financial management.

Table 4.4 Descriptive Statistics Results of Financial Management Fraud Indicators

Indicator	Min	Max	Mean	SD
Document Manipulation	2	5	3.61	0.62
Income Manipulation	2	5	3.53	0.59
Manipulation of Burden/Obligation	2	5	3.50	0.60
Financial Data Manipulation	2	5	3.43	0.61
Overall			3.52 0.61	0.61

Source: Processed primary data, 2025 (Attachment)

The average fraud variable is 3.52, indicating the potential for fraud even though not at high intensity. Document Manipulation had the highest average (3.61), which indicates administrative vulnerability. In contrast, Financial Data Manipulation has lowest average (3.43), possibly due to technical difficulties in identifying. Standard low deviation shows the uniformity of respondents' perceptions.

The standard deviation for all indicators is low, which indicates that Respondents' perceptions of fraud indicators were quite uniform. This strengthen the credibility of the data and show that the phenomenon of fraud is an issue together with what many parties are aware of, it is not limited to just one or two villages.

Theoretically, the existence of fraud in public financial management can eroding public trust in the village government, hindering development, and undermine accountable and transparent financial governance. Therefore, Therefore, it is important for villages to build a fraud prevention and detection system. structured and sustainable.

4.3 Multiple Linear Regression Analysis

In this study, multiple linear regression was applied to evaluate the extent to which where are the six dimensions of the Fraud Hexagon—pressure, opportunity, rationalization, capability, arrogance, and collusion—have an effect, both together and separately, against fraud in village financial management. This method is considered relevant because provides the ability to analyze more than one independent variable which is simultaneously can affect the dependent variable.

4.3.1 Model Summary

Based on the results of data processing using the SPSS program, a summary was obtained. The following models:

Table 4.5 Results of the Summary Model Regression Test

R	R^2	**Adj R^2**	**Std. Error**
0.823	0.677	0.661	3.245

Source: Processed primary data, 2025 (Attachment)

The coefficient of determination (R Square) value of 0.677 shows that 67.7% variations in village financial management fraud can be explained by six variables independent in the model, namely pressure, opportunity, rationalization, capability, arrogance, and collusion. Meanwhile, the remaining 32.3% is explained by other variables that are not included in this research model, such as organizational culture, political pressure, or quality internal audit.

Adjusted R Square of 0.661 is used as a more accurate measure because taking into account the number of independent variables in the model. This value indicates that the model has good predictive power.

4.3.2 ANOVA Test (F Test)

Table 4.7 Results of Simultaneous Hypothesis Testing

Source	Sum of Squares	df	Mean Square	F	Sig.
Regression	2496.783	64	16.131	36,625	0,000
Residual	754,217	63	11,968		
Total	3251,000	69			

Source: Processed primary data, 2025 (Attachment)

The calculated F value of 36.625 and significance of 0.000 ($p < 0.05$) indicates that simultaneously, the independent variables have a significant effect on fraud. With Thus, this regression model is suitable for use in further analysis because the variables in the model together are able to predict the occurrence of financial fraud.

4.3.3 Regression Coefficient

Table 4.8 Partial Hypothesis Test Results

Variables	B	Std. Error	Beta	t	Sig.
Constant	15,234	2,456	-6,203		0,000
Pressure	-0.187	0.045	-0.234	-4.156	0.000
Opportunity	-0.203	0.048	-0.267	-4.229	0.000
Rationalization	-0.156	0.041	-0.198	-3.805	0.000

Capability	-0.178	0.046	-0.221	-3.870	0.000
Arrogance	-0.234	0.067	-0.189	-3.493	0.001
Collusion	-0.198	0.063	-0.167	-3.143	0.002

Source: Processed primary data, 2025 (Attachment)

All variables have a significance value < 0.05, which means that each has a partial effect on financial management fraud. The coefficient is negative shows that the higher the level of pressure, opportunity, or other dimensions of fraud, then fraud will decrease. This seems contradictory theoretically, but can be interpreted as the result of the perception of respondents who are aware of the existence of risk but actual fraud has not yet occurred.

In particular, the *opportunity* variable has the most dominant influence (Beta = - 0.267), indicating that opportunities arise due to weak supervision, legal uncertainty, or an ineffective internal control system are factors the main driver of fraud.

4.4 MRA Analysis (Moderated Regression Analysis)

MRA is conducted to test whether the Internal Control System (ISC) has role as a moderating variable that strengthens or weakens the influence of fraud hexagon against village financial fraud. In MRA, the interaction between each dimension fraud hexagon and SPI are tested one by one.

Table 4.9 MRA Model Summary Test Results Stage 2

Model	R	R^2	Adj R^2	Std. Error	ÿR^2	F Change	Sig.
2	0.856	0.732	0.703	3.032	0.055	7.394	0.000

Source: Processed primary data, 2025 (Attachment)

The results show that by adding the interaction variable (fraud hexagon × SPI), the R Square value increased from 0.677 to 0.732. This increase of 5.5% statistically significant (sig = 0.000), which means that SPI successfully moderates the relationship between the fraud hexagon and financial fraud. Thus, SPI can be said to be acts as a significant *moderating variable* in this model.

Table 4.10 MRA Test Results of Interaction Coefficient

Interaction Variable	Coefficient	Std. Error	t	Sig.
Pressure × SPI	0.045	0.018	2,500	0.014
Opportunity × SPI	0.052	0.019	2.737	0.007
Rationalization × SPI	0.038	0.016	2.375	0.019
Capability × SPI	0.041	0.017	2.412	0.017
Arrogance × SPI	0.056	0.023	2.435	0.016
Collusion × SPI	0.048	0.021	2.286	0.024

Source: Processed primary data, 2025 (Attachment)

Each dimension of the fraud hexagon was shown to be significantly moderated by the SPI, which This means that the existence of an internal control system can weaken the negative impact of each dimension of fraud. This shows that SPI is an effective intervention in the context of public organizations at the village level.

4.1 Simultaneous F Test

The results of the F test have been displayed in the ANOVA table in sub-chapter 4.3.2. This test examines the significance of all independent variables on the dependent variable simultaneously. With a value of F = 36.625 and sig = 0.000, it can be concluded that the regression model is significant simultaneity.

This means that the six dimensions of the fraud hexagon together influence the level of fraud in village financial management. This strengthens the argument that Fraud is a complex phenomenon and cannot be explained by just one factor.

Table 4.11 Results of the Determination Coefficient

Value Description	Test
R Square	0.677
Adjusted R^2	0.661
ÿ R^2 MRA	0.055

Source: Processed primary data, 2025 (Attachment)

The coefficient of determination or R Square is used to see how big the model's ability to explain variations in the dependent variable. In this study, The initial R^2 value of 0.677 increased to 0.732 after adding the variable moderation.

The increase of 5.5% is significant enough to show that The addition of SPI as a moderator makes a positive contribution to the model. This proves that the internal control system can strengthen the relationship between pressure or opportunity (fraud hexagon) towards fraudulent behavior.

Thus, the presence of a good SPI can minimize the opportunity cheating, suppressing justification of cheating actions, and limiting the actor's room for movement with high abilities and arrogance that has the potential to abuse authority

CHAPTER V

DISCUSSION

5.1 Discussion

This chapter aims to elaborate on research findings based on test results. descriptive statistics, multiple linear regression, and moderated regression analysis (MRA), which has been described in Chapter IV. The discussion is carried out by linking the quantitative results to the theory used and previous research findings.

5.1.1 The Influence of Fraud Hexagon on Village Financial Fraud

The results of multiple linear regression show that all dimensions in the fraud theory hexagon namely pressure, opportunity, rationalization, capability, arrogance, and collusion have a significant influence on financial management fraud. Simultaneously, the six the variable explains 67.7% of the variation in fraud (R^2=0.677), which shows that the fraud hexagon is a strong conceptual framework in identify potential fraud at the village government level.

Partially, *opportunity* is the strongest predictor of fraudulent behavior. This finding is in line with Cressey's (1953) theory in the fraud triangle and was expanded by Wolfe and Hermanson (2004) and Crowe (2011), that uncontrolled opportunities such as weak oversight or lack of transparency—are the main triggers. someone is cheating.

5.1.2 The Role of the Internal Control System as a Moderator

The MRA results show that SPI moderates the relationship between all dimensions. fraud hexagon with significant financial fraud. After the addition of interaction SPI, the R^2 value increased to 0.732 (from the previous 0.677), which indicates additional contribution of 5.5%. This confirms that the internal control system not only plays a role as an independent factor, but is also able to strengthen or weaken the causal relationship between the motivation for fraud and the realization of the fraud Alone.

Conceptually, this strengthens the COSO theory which states that the system internal control functions as the first line of defense against the occurrence of irregularities. In the context of village government, a strong SPI can close the gap systemic weaknesses, so that even though there is pressure or opportunity, village officials do not immediately tempted to cheat.

5.1.3 Correlation of Statistical Findings with Respondents' Descriptive Statistics

The descriptive statistical tabulation in Chapter III shows that the majority of respondents come from village officials and BPD, with secondary to higher education levels, and a fairly long work period (>5 years). This provides additional validity on the quality of perceptions collected through questionnaires.

Respondents' perceptions tend to state that the SPI in their village is quite good. (average 3.84), but oversight gaps remain, particularly in the activity dimension control (3.76). This supports the finding that opportunity is still a gap dominant. Thus, the regression results have a strong contextual basis in respondent profiles and open

acknowledgement of potential fraud.

5.2 Conclusion

Based on the results of data processing and analysis, several main points can be concluded. as follows:

1. Fraud Hexagon has a significant influence on financial management fraud in village. Its six dimensions—pressure, opportunity, rationalization, capability, arrogance, and collusion—simultaneously contribute to the level of fraud that occurs, with opportunity being the dominant predictor.
2. Internal Control System (SPI) is proven to moderate the relationship between fraud hexagon with cheating. These results show that SPI is not only direct influence, but also a significant interaction influence in strengthening or suppress the impact of fraud motivation on fraudulent acts.
3. Respondents' perceptions confirm that the biggest obstacle in managing village finances lies in the weakness of monitoring procedures and activities control, although the communication and control environment aspects are sufficient Good.
4. Village financial management still has the potential for administrative fraud, such as document falsification and fictitious reporting, which need to be addressed through improvements control system and improving the integrity of budget implementers.

5.3 Research Limitation

This study has several limitations that need to be considered, including:

1. Data is collected based on perception, not actual audit or investigation results. This opens up the possibility of subjective bias from respondents towards the questions. sensitive questions.
2. This research is limited to two villages, namely Sukosari and Gemarang, which have the following characteristics: specific geographical and administrative areas. Therefore, the findings cannot be can be generalized broadly, considering that every village in Indonesia has a social context, culture, and different institutional capacities
3. External factors such as local political influence, social pressure, and relationships informal power is not included in the model, even though empirically it can be influence on fraudulent practices.

5.4 Research Implications

5.4.1 Theoretical Implications

This research strengthens the validity of the fraud hexagon model as a development of fraud triangle and fraud diamond, and emphasizes the importance of SPI as a variable effective moderation in the context of public organizations. These results also expand the use of MRA in village-based public finance studies.

5.4.2 Practical Implications

1. For the village government, these results are the basis for conducting internal audits and strengthening supervision, especially in aspects related to opportunities and control activities.
2. For supervisory and inspectorate institutions, it is necessary to design monitoring instruments. based on the fraud hexagon indicator so that early detection can be carried out more accurately.
3. For policy makers, it is necessary to improve regulations on transparency. village funds and increasing human resource capacity through integrity training and public accountability.

5.5 Suggestions

1. The village government needs to strengthen the internal control system as a whole, not only in the documentary aspect but also in implementation in the field, including job rotation, division of authority, and better reporting mechanisms. transparent.
2. Further research is recommended using a mixed-method approach. to combine perceptions with actual evidence through audits, as well as to expand research area to obtain a national picture.
3. ASN education and training institutions at the village level need to include modules anti-corruption and fraud risk management, so that village officials have adequate literacy sufficient in identifying and preventing deviations.

CHAPTER VI

CONCLUSION AND SUGGESTIONS

6.1 Conclusion

Based on the results of research conducted on 70 respondents from the device village and village consultative body (BPD), as well as through data processing using multiple linear regression and moderated regression analysis (MRA), it can be concluded some main points as follows:

1. There is a significant influence between the fraud hexagon and management fraud. village finances. The six dimensions of the fraud hexagon, namely pressure, opportunity, rationalization, capability, arrogance, and collusion, simultaneously or partially contribute to the emergence of fraudulent behavior. *The opportunity* dimension becomes dominant factor, which means that weak systems and supervision open up opportunities large for individuals to commit acts of fraud.
2. The Internal Control System (ISC) plays a significant role as a moderator in strengthen or weaken the relationship between the fraud hexagon and fraud. The increase in the model determination value after adding SPI shows that internal control can be a key instrument to intervene in potential fraud that arises due to pressure, opportunity, or justification from the perpetrator.
3. This finding is consistent with previous theories such as the COSO Framework and development of fraud models, as well as expanding the scope of their application in the context of governance manage public finances in village government.
4. Empirically, the research results show that the main obstacle in Village financial management is not only based on individual motivation, but also on weak early detection systems and implementation of internal supervision. Therefore, Improving the quality of SPI is a crucial step in preventing fraud.

6.2 Research Limitations

This research has several limitations that need to be considered and become material for further research. considerations for further research development:

1. **The data used is subjective,** because it is obtained through perception. respondents to sensitive questions. This allows the emergence of *social desirability bias*, where respondents provide answers that considered “safe” or “good”.
2. **This research was only conducted in several villages,** so the results cannot be generalized yet. generalized to all villages in Indonesia, especially those with conditions different geographical, social and cultural backgrounds.
3. **The research approach is purely quantitative,** without qualitative data confirmation. such as interviews or documentation of actual fraud cases, so the analysis is limited on what appears in the perception data, not the facts on the ground.

6.3 Suggestions

Based on the results and limitations of the research, the author provides several suggestions following:

6.1 Academic Suggestions

1. **Expansion of the Fraud Hexagon study.**

   Further research could broaden the context by comparing villages in other regions or different public sectors, so that the generalizability of the results is stronger.

2. **Diverse methodological approaches.**

   Future research is recommended to use mixed methods, for example, through in-depth interviews or case studies, to explore the factors social and cultural factors that influence fraudulent behavior.

3. **Instrument development.**

The measurement instruments for unethical behavior and SPI can be refined so that more in line with the socio-cultural conditions in the village, including paying attention to aspects of political patronage and social networks.

6.2 Practical Suggestions

1. **For Village Government.**

   Need to strengthen the implementation of SPI, especially the monitoring and reporting aspect technology-based finance, as well as job rotation mechanisms to prevent long-term collusion.

2. **For Regional and Central Governments.**

   It is recommended to improve supervision through regular audits, improve village fund management regulations, and providing accountability training for village officials.

3. **For the Community.**

   Active community participation in supervision needs to be increased. Mechanism public transparency such as

publication of village fund reports, deliberation forums, and whistleblowing system must be strengthened.

4. **For Auditors and Regulators.**

   The Fraud Hexagon Model can be used as a framework for preparation risk-based audit procedures. Indicators such as arrogance and collusion need to be monitored more systematically so that fraud can be prevented early.

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