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Factors Determining the Level of Fraud Based on Fraud Diamond Theory in Village Governments in Puger District, Jember Regency

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Abstract

This study aims to test and analyze the influence of information asymmetry, government internal control system, organizational ethical culture, and accounting rule compliance on fraud in the village government of Puger District. This study uses a quantitative approach with a survey method. The population in this study were all village officials in Puger District totaling 120 people. The sample used in this study was 48 respondents using a purposive sampling technique. The data used are primary data obtained from questionnaires distributed to respondents. The data analysis technique used is multiple linear regression analysis. The results of the study indicate that information asymmetry and accounting rule compliance do not affect the occurrence of fraud in the village government of Puger District. While the government internal control system and organizational ethical culture affect the occurrence of fraud in the village government of Puger District.

***Keywords**: Information Asymmetry, Organizational Ethical Culture, Accounting Rule Compliance, Fraud, Government Internal Control System*

INTRODUCTION

The rapid development of the economy in Indonesia, both in the government and the private sector, has created various complex problems. In addition to bringing progress, significant economic growth has also triggered the emergence of various forms of fraud. Fraud occurs when a person or group of people intentionally or unwittingly take actions that benefit them, but have a negative impact on other parties. According to the Association of Certified Fraud Examiners (ACFE), fraud is an act committed with intent to deceive certain parties for the benefit of the perpetrator. ACFE categorises fraud into three main categories, namely misuse of assets, manipulation of financial statements, and acts of corruption (ACFE, 2016). Meanwhile, according to the Indonesian Institute of Accountants (IAI, 2012), fraud in financial reporting occurs as a result of misrepresentation committed with intent to deceive users of financial statements, resulting in the presentation of assets that are contrary to applicable accounting principles in Indonesia.

In Indonesia, accounting fraud is divided into two main sectors, namely the public sector (government agencies) and the private sector (commercial). Based on data from Indonesia Corruption Watch (IWC) in 2023, there were 1,695 suspects caught in corruption. IWC noted that there were around 204 village heads who committed acts of corruption, the most acts of corruption involving village heads occurred in East Java Province, with 64 cases of corruption that caused a loss of up to Rp 190.7 billion. Followed by North Sumatra Province with 54 cases and a loss of Rp 92 M, and West Java Province with 47 cases.

It is unfortunate that the economic development in Jember Regency is not always accompanied by integrity and good behaviour from some parties. Since 2015, with the passing of Law No. 6/2014 on Villages, which organises the management of village budgets through allocations mainly from the APBN. The budget channelled by the central government to local governments is known as the village budget. The purpose of this village budget is to improve the quality of life of villagers, as well as to support the equitable distribution of development, both in terms of infrastructure and non-physical aspects. In 2023, the government allocated IDR 68 trillion worth of funds for 75,265 villages across Indonesia. Each village can generally manage a

Vol. 2, No. 4 June 2025, Page. 1-8
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village fund budget of IDR 903 million, this figure only includes funds that come from the APBN not including the Village Fund Allocation (ADD) which comes from each region's APBD.

However, in practice, the village budget is still one of the main targets for fraud. There are still many cases of abuse of power involving village officials. For example, in Wringintelu Village, Puger Sub-district, the misappropriation of ADD funds in 2014 and 2015, DD 2015, TKD (Village Cash Land) Management 2013-2015 and the reporting of accountability for the 2014 village revenue and expenditure budget were allegedly fictitious. Villages in Puger Sub-district have not been fully transparent in the use of village funds, this can be seen from the difficulty in obtaining information and is evidenced by information boards that are not used as they should be so that the public does not know about the planning, implementation and accountability of village governments in Puger Sub-district. Therefore, the central government needs to be more careful and conduct stricter supervision of the management of funds by local governments, given the large amount of village funds available, to ensure that the objectives set out in Law No. 6/2014 are achieved.

According to ICW, the increase in village budget corruption cases is due to the low expertise of village government officials, lack of transparency, and weak control systems. These supporting factors make it easier for perpetrators to commit acts of corruption. One of the main reasons a person commits fraud is dissatisfaction with the compensation received, which is considered too low and not proportional to the workload. As a result, many employees look for various ways to earn additional income. Corrupt practices among employees usually involve the misuse of funds such as infrastructure budgets, shopping, and official travel. According to the diamond fraud theory, the main element that influences fraud is capability. This theory is a refinement of the fraud triangle concept introduced by Cressey. In terms of diamond fraud, there are four elements that form the basis for fraud, namely pressure, opportunity, rationalisation, and capability.

Research on fraud has been carried out many times before and the results obtained vary. Research on factors affecting fraud was conducted by (Aprilliyanti, 2018), the results of data analysis showed that the variables of the effectiveness of the internal control system and information asymmetry did not have a significant relationship with the tendency of fraud in the public sector. However, this is different from the results of research conducted by (Sari R. N., 2018) which states that law enforcement has proven effective in suppressing fraud, while information asymmetry contributes to an increase in the tendency to commit fraud.

BASIS THEORY

Fraud Diamond Theory

The fraud diamond theory developed by (Wolfe, 2004) states that fraud involving very large amounts of money requires specialised skills. In addition, a weak work environment with poor supervision will provide opportunities for individuals who have the ability to commit unethical acts. The element of individual ability (capability) in committing fraud is a significant risk factor. Therefore, in improving supervision and governance systems, we need to consider how to prevent individuals who have the ability to commit unethical acts, in addition to the elements of pressure, opportunity, and rationalisation. According to the diamond theory, there are four main elements that cause fraud, namely: a. pressure, opportunity, rationalisation, and capability. Capability is defined as the skill or expertise a person has to commit the fraud, which allows the perpetrator to turn fraudulent intentions into reality. In the fraud diamond theory, there is a close relationship between the four main elements, with capability being considered a key element that has a major influence on the occurrence of fraud. Therefore, this ability needs to be evaluated carefully and in depth.

Information Asymmetry

Information asymmetry is a situation where information is not evenly distributed between the principal and the agent, where the party delegating the task (principal) does not have a complete picture of how well the task is being carried out by the assigned party (agent), while the assigned party has more in-depth knowledge about his abilities, working conditions, and the entire company (Senja, 2011). Meanwhile, according to (Rosianie, 2019), information asymmetry arises due to agency problems, where the principal has difficulty monitoring the agent's real actions. This imbalance is often exploited by parties who deliberately withhold material information for personal gain, for example by manipulating financial reports, which can trigger fraudulent actions. Therefore, it is important to increase transparency in terms of information, whether related to work potential, technical operations, responsibilities, or external influences, to prevent manipulation and ensure fairness and trust between the parties involved.

Government Internal Control System

Internal controls include rules, procedures, and policies designed to protect company assets, verify the accuracy and accuracy of accounting data, improve operational performance, and ensure established procedures are followed. Meanwhile, control is a process used to trigger or direct the actions of an object, organisation, or system (Deftrianto I.M, 2018). Internal control according to Government Regulation Number 60 of 2008 concerning the Government Internal Control System (SPIP) states that a series of interrelated and ongoing activities carried out by all members of the organisation, from leaders to employees, with the aim of ensuring that the organisation operates effectively and efficiently, produces accurate and reliable financial reports, protects organisational assets, and complies with all applicable laws and regulations.

Organizational Ethical Culture

Organisational ethical culture is a set of beliefs and values that underlie the actions of all members of the organisation, this system aims to encourage good and ethical behaviour and prevent actions that can harm the organisation (Sari R. N., 2018). (Robbins, 2013) states that the ethical culture of the organisation is a shared perception of ethics that forms the culture of the organisation, which then develops into a shared value and meaning system for all members of the organisation. Organisational ethical culture can be interpreted as a basic pattern or unwritten perception that is accepted and shared by members of the organisation, which must be obeyed by every individual involved. Organisational ethical culture grows when individuals in the organisation accept and adopt the prevailing values as the main guideline. These values become a reference for members while actively involved in the organisation and serve as a distinctive feature that distinguishes the organisation from others. In addition, these values are passed on to new members so that the organisation can develop for the better.

Accounting Rules Compliance

Rahmawati (2012) explains that accounting rules provide comprehensive guidance on how financial transactions should be recorded, measured and reported in financial statements. Accounting standards regulate the presentation of financial statements based on guidelines established by IAI. For the government, Government Accounting Standards (SAP) is an accounting framework that is specifically applied in the preparation and presentation of financial statements of government entities. Meanwhile, according to (Hery, 2013), accounting standards are a conceptual framework consisting of principles, rules, and procedures established by a standard-setting body to provide guidance in the preparation and presentation of financial statements. Compliance with these standards not only supports transparency and accountability of financial management, but also ensures that financial reports meet the information needs of internal parties, such as organisational leaders, and external parties, such as investors, creditors, communities, governments, and customers. Thus, accounting standards are an important basis for maintaining trust and preventing irregularities in financial management.

METHOD

This research uses quantitative methods by collecting data directly from village officials in Puger Sub-district through questionnaires. The data obtained will be analysed to test the extent

Vol. 2, No. 4 June 2025, Page. 1-8
DOI: https://doi.org/10.62017/finance.v2i4.76

to which the views of village officials are in accordance with the theory that explains the elements that trigger fraud in village government, based on the Fraud Diamond theoretical framework.

This study examines the influence of pressure variables represented by information asymmetry, opportunities represented by the government's internal control system, rationalization represented by the ethical culture of the organization, and ability represented by compliance with accounting rules as variables that affect the level of fraud tendency in the village government in Puger District. The subjects of this study are all village government officials who are on duty in the Puger District area, Jember Regency.

RESULTS AND DISCUSSION

Based on the results of the tests conducted with SPSS 29 regarding the independent variables (information asymmetry, internal control systems, organizational ethical culture, and compliance with accounting rules) in relation to the dependent variable (fraud), the following can be described:

Descriptive Statistical Analysis

Table 1. Results of Descriptive Statistical Analysis

	N	*Minimum*	*Maximum*	*Mean*	*Std. Deviation*
Information Asymmetry	48	16.00	30.00	26.2500	4.61035
Government Internal Control System	48	13.00	25.00	20.2708	3.69439
Organizational Ethical Culture	48	17.00	35.00	27.7917	5.54655
Accounting Rules Compliance	48	14.00	38.00	26.7292	5.11460
Fraud	48	10.00	16.00	11.5208	1.99989
Valid N (listwise)	48				

Data Quality Test Results

Table 2. Validity Test Results

Variable	Item	Coefficient Correlation	Significance	Information
Information Asymmetry	X1.1	0.845	0,000	Valid
	X1.2	0.892	0,000	Valid
	X1.3	0.928	0,000	Valid
	X1.4	0.902	0,000	Valid
	X1.5	0.861	0,000	Valid
	X1.6	0.844	0,000	Valid
Government Internal Control System	X2.1	0.657	0,000	Valid
	X2.2	0.721	0,000	Valid
	X2.3	0.857	0,000	Valid
	X2.4	0.848	0,000	Valid
	X2.5	0.781	0,000	Valid
Organizational Ethical Culture	X3.1	0.471	0,000	Valid
	X3.2	0.533	0,000	Valid
	X3.3	0.835	0,000	Valid
	X3.4	0.877	0,000	Valid
	X3.5	0.887	0,000	Valid
	X3.6	0.846	0,000	Valid
	X3.7	0.848	0,000	Valid

Vol. 2, No. 4 June 2025, Page. 1-8
DOI: https://doi.org/10.62017/finance.v2i4.76

Accounting Rules Compliance	X4.1	0.592	0,000	Valid
	X4.2	0.604	0,000	Valid
	X4.3	0.722	0,000	Valid
	X4.4	0.623	0,000	Valid
	X4.5	0.446	0,000	Valid
	X4.6	0.684	0,000	Valid
	X4.7	0.781	0,000	Valid
	X4.8	0.781	0,000	Valid
Fraud	Y.1	0.615	0,000	Valid
	Y.2	0.796	0,000	Valid
	Y.3	0.751	0,000	Valid
	Y.4	0.599	0,000	Valid
	Y.5	0.546	0,000	Valid

Based on table 2, it shows that all questionnaire question items have passed the validity test because the Pearson correlation value is > 0.5, with a significance value of < 0.05. So that the item is declared valid and contributes to measuring the same construct.

Table 3. Reliability Test Results

Variable	*Cronbach's alpha*	Information
Information Asymmetry	0.811	Reliabilitas
Government Internal Control System	0.832	Reliabilitas
Organizational Ethical Culture	0.788	Reliabilitas
Accounting Rules Compliance	0.763	Reliabilitas
Fraud	0.746	Reliabilitas

Based on table 3, the results of the reliability test show that the Cronbach's alpha value of all variables is > 0.7. So it can be said that the instrument is reliable and the measurement results are consistent.

Normality Test Results

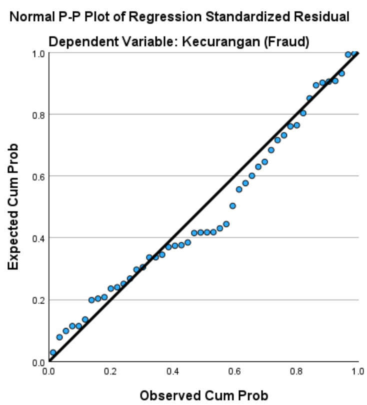

Figure 1. Normal P-P Plot of Standardized Residual Regression

Based on Figure 1, it shows that the points are seen around the diagonal line, this indicates that the residual distribution approaches a normal distribution. So it can be concluded that the assumption of normality in this regression model is met.

Vol. 2, No. 4 June 2025, Page. 1-8
DOI: https://doi.org/10.62017/finance.v2i4.76

Classical Assumption Test Results

Multicollinearity Test Results

Table 4. Multicollinearity Test Results

	Value		
Variable	***Tolerance***	**VIF**	**Information**
Information Asymmetry	0,390	2,566	Non-Multicollinearity
Government Internal Control System	0,343	2,918	Non-Multicollinearity
Organizational Ethical Culture	0,699	1,431	Non-Multicollinearity
Accounting Rule Compliance	0,921	1,086	Non-Multicollinearity

Based on table 4, the results of the multicollinearity test show that each variable has a VIF value <10. So it can be concluded that there is no multicollinearity problem in this regression model. Based on table 1.4, the results of the multicollinearity test show that each variable has a VIF value <10. So it can be concluded that there is no multicollinearity problem in this regression model.

Heteroscedasticity Test Results

Based on the test results that have been carried out, it shows that in the Scatterplot, the points (blue circles) appear randomly scattered around zero on the Y axis and there is no clear pattern formed from the points. This indicates that the residual variance is relatively constant throughout the range of predicted values. So it can be concluded that there is no indication of significant heteroscedasticity in this regression model, which means that the assumption of homoscedasticity in this regression model is met. In other words, the residual variance is constant throughout the range of predicted values, so that the regression results can be considered valid and reliable.

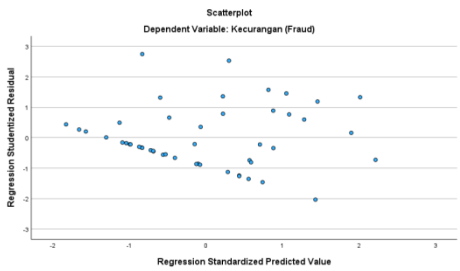

Figure 2. Scatterplot

Auto Correlation Test Results

Table 5. Autocorrelation Test Results

Table DW		**Set of Solutions**	**Information**
dL	1,3619		
dU	1,7206	dU < d < 4-dU	There is no positive or negative autocorrelation.
d	2,212		
4-dU	2,2794		

Based on table 5, the results of the autocorrelation test obtained the dU and dL values from the Durbin Watson table, with α = 5%, n = 48, and k = 4 so that it can be seen that the d value is 2.212> dU 1.7206 and the d value <4-dU value 2.2794. This means that the d value is in the middle of the dU and 4-dU values (1.7206 <2.212 <2.2794), so it can be said that there is no autocorrelation in this regression model.

Vol. 2, No. 4 June 2025, Page. 1-8
DOI: https://doi.org/10.62017/finance.v2i4.76

Multiple Linear Regression Analysis Results

Based on the results of multiple linear regression analysis, the following equation can be formulated:

$$\mathbf{Y = \alpha + \beta 1. X1 + \beta 2.X2 + \beta 3.X3 + \beta 3.X4 + e}$$

$$\mathbf{Y} = 14{,}953 - 0{,}003 - 0{,}030 - 0{,}199 + 0{,}104 + e$$

Hypothesis Test Results

Test Results

Table 6. T-Test Results

Variable	T	Sig.	Information
Information Asymmetry (X1)	-1,941	0,058	Not Significant
Government Internal Control System (X2)	-2,445	0,018	Significant
Organizational Ethical Culture (X3)	-4,164	0,001	Significant
Accounting Rules Compliance (X4)	0,995	0,325	Not Significant

Coefficient of Determination

Table 7. Results of the Determination Coefficient Test

R	*R Square*	*Adjusted R Square*
.590[a]	.348	.287

Based on table 7, the results of the determination coefficient test show that the R Square value of 0.348 indicates that the independent variables entered into the model (Information Asymmetry, Government Internal Control System, Organizational Ethical Culture and Accounting Rule Compliance) together are able to explain about 34.8% of the variation in the dependent variable (Fraud). The remaining 65.2% of the variation in conditions is explained by other factors outside this model.

CONCLUSION

The results of this study indicate that information asymmetry has no significant effect on fraud in the village government. So that the greater the information gap that exists, the higher the potential for fraudulent practices within the village government. The results of this study are not in line with the fraud diamond theory which states that the trigger for fraud in information asymmetry is pressure. Although information asymmetry is often considered a trigger for fraud, there are several reasons why in the context of village government, information asymmetry may not always have a significant effect on the occurrence of fraud. This is due to the active involvement of the village community in the supervision and management of village finances so that it can reduce the occurrence of information asymmetry, increase transparency and accountability, and make it difficult for village officials to commit fraud in the village government of Puger District. The results of this study indicate that the internal control system has a significant effect on fraud in the village government. The more effective the internal control system, the lower the potential for fraud. Based on the results of this study, it is in line with the fraud diamond theory which states that the trigger for fraud in the government's internal control system is due to opportunity, because these opportunities usually arise due to the low internal control system, lack of discipline among village officials and the low effectiveness of the audit mechanism. The government's internal control system directly focuses on eliminating or reducing these opportunities. Through strict control procedures, such as segregation of duties, transaction authorization, and financial reconciliation, the government's internal control system limits the space for individuals to commit fraudulent acts. The results of this study indicate that organizational ethical culture has a significant effect on fraud in village governments. Organizations with a strong ethical culture tend to have lower levels of fraud. Based on the results of this study, it is in line with the fraud diamond theory which states that the trigger for fraud in an ethical organizational culture is due to rationalization. So

Vol. 2, No. 4 June 2025, Page. 1-8
DOI: https://doi.org/10.62017/finance.v2i4.76

individuals who behave unethically will often abuse their position or position for personal gain. A strong ethical culture creates norms and values that oppose fraudulent behavior, in an ethical environment individuals will find it more difficult to justify their fraudulent actions, because they know that these actions are contrary to organizational values. So it can be said that the stronger the foundation of integrity and ethics in an organization, the stronger the internal control structure. The results of this study indicate that compliance with accounting rules has no significant effect on fraud in village governments. The more compliant with accounting rules will reduce the level of risk of fraud. The results of this study are not in line with the fraud diamond theory which states that the trigger for fraud in the observance of accounting rules is the existence of ability. Adherence to accounting rules and fraud diamond theory can conflict in some scenarios, especially when pressure and opportunity meet with strong rationalization. This is because the village apparatus still lacks the implementation of existing accounting rules. This obedience should be mandatory so that every accounting policy and regulation in the financial management process and the preparation of financial reports are carried out openly and accountably, thus creating effective, reliable and accurate information.

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