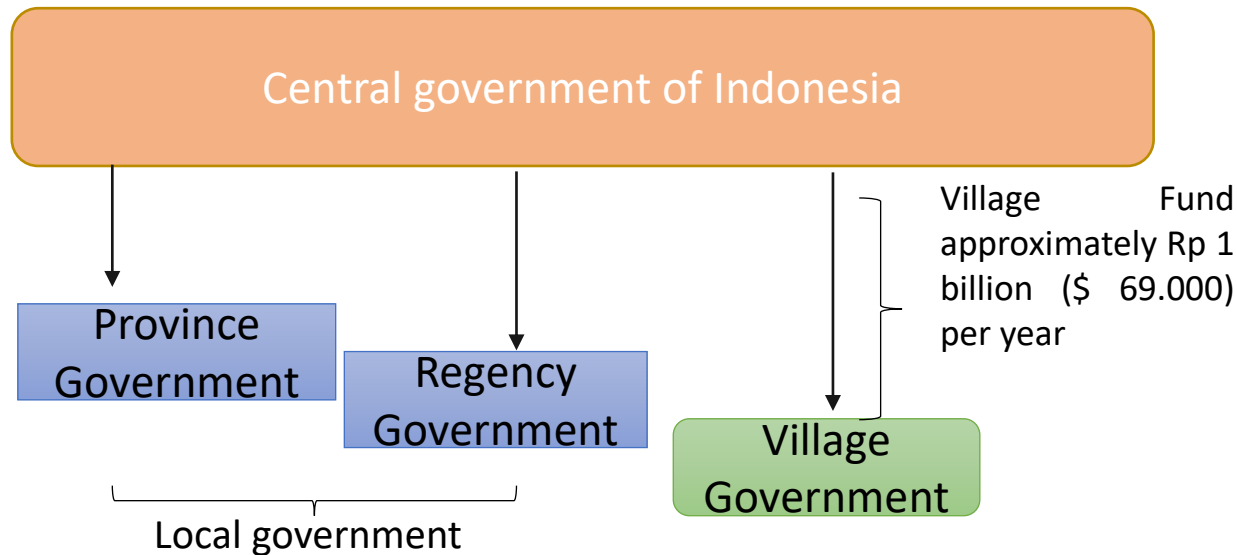# Corruption Eradication in Indonesia Village Government: Is Its Internal Control Effective Enough?

Caesar Marga Putri, Josep Maria Argiles Bosch and Diego Ravenda

Research Background

Law no.6 of 2014 (Village Law)

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Central government of Indonesia
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Village Fund approximately Rp 1 billion ($ 69.000) per year

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Province Government
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Regency Government
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Village Government
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Local government

❑ The position of the village is an autonomous political entity and a legal community unit that has its regulations in managing village life

❑ to carry out planning and enforcement of budget for community development and empowerment programs to achieve village community welfare

Number of village fund corruption (ICW)
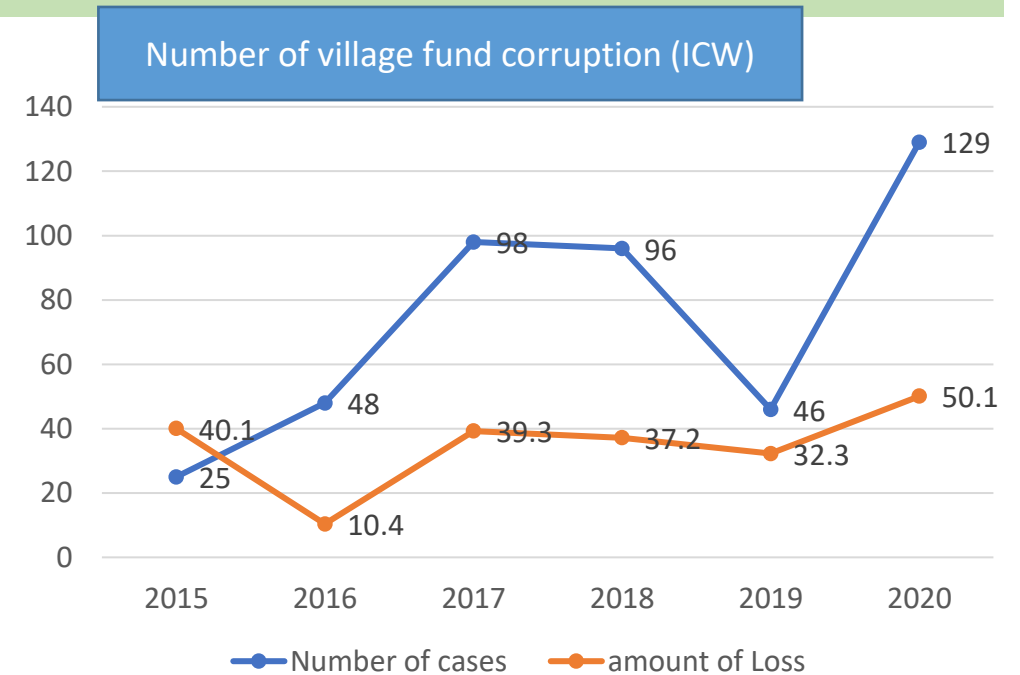
Indonesia corruption rank is 85/180 in 2019) and 102/180 in 2020 (Corruption Perception Index).

6/11 least corrupt country among Southeast Asia countries.

Research gap and research objective

Kapeli and Muhammed (2019) stated that Corruption is one of the most serious problems in Southeast Asia countries, →indicate four attributes that cause failure of anti corruption effort in Malaysia.

Shonhadji and Maulidi (2019) found that control system is fundamental for all department in local government to align with organization's goal and detect potential fraud in Indonesia local government.
→ Focusing in the province and regency government, and found risk assessment and monitoring activities are effective measures that can detect potential fraud.

In addition, many studies of corruption focus on Africa countries and China where village government also become the autonomous government.

It is important to conduct research related to internal control in the village government in Indonesia to assess its effectiveness in detecting and preventing corruption because village government as new form of autonomous entity is still suffering from corruption.

Theory and Hypothesis

The Contingency theory

This theory argues that every organization should select a control system that is compatible with the organization by taking into account the characteristic of the organization (Chenhall, 2003, Fisher 1995)

Jokipii (2009) showed that an organization's contingency characteristic influences the effectiveness of internal control.

Wood (2009) stated that the theory emphasizes on the reduction of asymmetry information between agent and principle in thwarting white-collar crime at the local government level which central government policy is classified as the most powerful contingent variable because it has several simultaneous impacts on risk management which internal control is in.

Shonhadji and Maulidi (2019) stated that Contingent variables influencing risk management practice in thwarting white-collar crime in Indonesia local governments.

Ziegenfuss, 2001; Agbejule and Jokipii, 2009; Dorminey et al.,2012 state that the two elements of COSO, namely control environment and control activities are essential in creating a fraud prevention atmosphere.

Particularly for a new form of village government which has different characteristic with other type of government, its internal control should be effective in detecting and combating corruption. Therefore the hypothesis is logically formulated as follow:

H1: Effective village government's internal control will decrease the incidence of corruption

Method

- Southeast Asia
- > 17,000 islands
- 5 big islands
- 73,500 villages

Method

- This study used a mixed method with a <u>explanatory sequential research (ESR) method</u> to conduct an in-depth investigation on the efficiency of internal controls in combatting corruption, which means a method to discover details for why something occurs.

- The process of ESR method is quantitative data are collected and analysed first, then qualitative data are collected and analysed to help explain quantitative data (Shorten and Smith (2017); Creswell (2009))

Quantitative method

✓ Five-point Likert scale questionnaire
✓ Village government as analysis unit
✓ Two groups of respondents: village government staff (to assess the IC) and village consultative council member (to assess the incidence of corruption)
✓ Distributed to 5 provinces by in Indonesia: 346 responds (Sample size counted using G*power analysis)
✓ the data tested using SMART PLS

Qualitative method

✓ Interview questions based on the finding of the quantitative study
✓ Three groups of respondent: village government staff (9), village consultative council member (11) and the Auditor (2 regency and 1 Province).
✓ semi-structured and open interviews were conducted, which were recorded and subsequently transcribed (Creswell, 2012). → *Zoom (zoom recorder)* and *WhatsApp video (voice recorder)*

Methodology:

Variabel definition and Instrument development

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➤ **Internal control**

The questionnaire development refers to Hermanson et al., (2012), Aziz et al., (2015) and COSO

<u>**Control environment**</u> is the set of standards, processes, and structures that provide the basis for carrying out internal control of the village government.

❑ Availability standard of conduct for integrity and ethical values (1,2)

❑ Availability of appropriate authorities or structures (3)

❑ Perform internal control independently (7)

<u>**Control Activities**</u> is the actions established through policies and procedures to mitigate risks for achievement of village community welfare objective.

❑ Address segregation of duties <u>(8,9)</u>

❑ Maintain process of control activities (4,5,6)

➤ <u>**Corruption** refers</u> to misuse in the realization of the village budget for private interest and harm community welfare
The questionnaire adapted from Sihombing (2018) and Bierstaker (2006)
❑ Take away the rights of people (2)
❑ Take advantage for personal gain (1)
❑ Take away of others money (4, 3)
❑ Bribery (5)

Result: Demographic data

Tabel 1.
Demographics data

Province	Number	%
Jawa Timur	63	18%
Jawa Tengah	140	40%
Jawa Barat	47	14%
Banten	90	26%
DIY	6	2%
Total	**346**	**100%**
Position of respondent	**Number**	**%**
Village head	18	5%
Village secretary	74	21%
Village Treasurer	52	15%
unit head	148	43%
unit staff	54	16%
Total	**346**	**100%**
Education level	**Number**	**%**
Junior High school	2	1%
Senior high school	227	66%
Diploma	19	5%
Bachelor's degree	97	28%
Master's degree	1	0.29%
Total	**346**	**100%**
Training*	**Number**	
Administratif	271	78%
Not getting	75	22%
	346	**100%**
Salary	**Number**	**%**
< $69.95	5	1%
$69.95 – $174.85	275	79%
$174.90 – $279.75	60	17%
> $279.75	6	2%
	346	**100%**

> No relationship between these demographic variables to corruption variable

Result: Quantitative result

Measurement Model analysis

Tabel 1.
Validity and Reliability

Latent Variable	Mean	SD	Loading
Internal control (Composite Reliability = 0.858; Alpha=0.814; AVE =0.505)			
Internal control 3	4.62	0.57	0.782
internal control 4	4.29	0.67	0.618
internal control 6	4.25	0.60	0.774
internal control 7	4.16	0.66	0.646
internal control 8	4.37	0.57	0.801
internal control 9	4.20	0.64	0.615
Corruption(Composite Reliability = 0.910; Alpha= 0.876; AVE = 0.670)			
Coruption 1	1.54	0.80	0.744
Coruption 2	1.39	0.61	0.776
Coruption 3	1.41	0.69	0.878
Coruption 4	1.42	0.70	0.840
Coruption 5	1.46	0.72	0.847

Structural model analysis

The coefficient is -0.041 with a score of *p-value* is 0.258 (not significant). R square 0.169
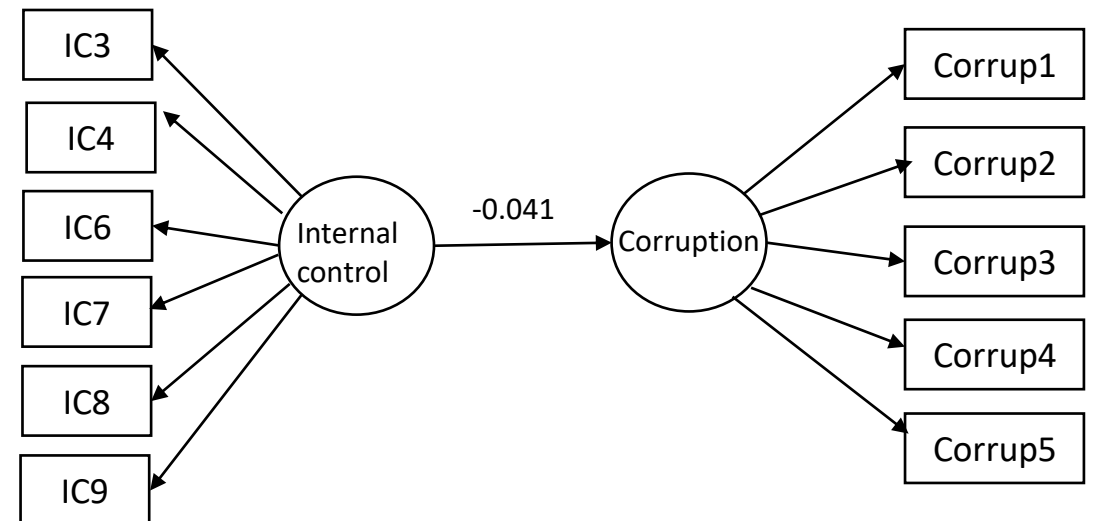
Hypothesis 1 is not supported

Conclusion and Discussion

- Village government with these specific characteristics cannot be governed in the same way with another government level, especially for its internal control. Moreover, village law states that a village becomes an autonomous government that has the authority to manage its finances and it is separated from other levels of government.

- It is consistent with contingency theory that underpins this study, every organization should select a control system that is compatible with the organization by taking into account the characteristic of the organization (Chenhall, 2003, Fisher 1995). Contingency theory argues that by considering contingency characteristics, each company needs to select the most effective control method or fraud prevention. Jokipii (2010) showed that an organization's contingency characteristic influences the effectiveness of internal control.

- It is also in line with Burns and Waterhouse (1975) that stated control is associated with size, a small firm is a personal control, and the large one with administrative control. In addition, Cenhall (2003) stated that in small organizations, control is still informal while in large organizations a more formal control system is needed.

Therefore, it can be concluded that Village's internal control is not effective in decreasing the incidence of corruption which is caused by the absences of law or government regulation on village government internal control. The internal control effectiveness is contingent on whether or not it law suits to particular characteristic's of village government.

Thank you!