

Internal Control Systems and Their Challenges in Bureaucracy and Village Fund Governance

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Abstract

The internal control system is an effort to suppress negative behavior arising from within the government bureaucracy. This study aims to determine whether and how village governments implement internal control systems. This question is a formulation that needs answers from this research. The focus of observation in this study is one of the village government institutions, and additional observations come from supervisory institutions and elements of the village community. Researchers with the aim of obtaining an in-depth understanding of certain events with the background of events at the research location are more appropriate to use a qualitative approach in this study. The data collection methods in this study used participatory observation, in-depth interviews, and documentation. Participatory observation places the researcher in and becomes part of the bureaucratic environment to gain understanding from an internal government perspective. Participatory observation is a bridge for researchers to trace personal interactions with village officials to obtain information through in-depth interviews, including access to supporting data in the form of documentation. The results showed that the village government had implemented an internal control system with the aim of protecting government assets. However, the researcher realized that the internal control system that runs in a bureaucratic environment still faces interference in the form of socio-relationships.

Keywords

Internal Control; Village Fund; Public budget; misuse; bureaucracy

Introduction

Internal control is an unavoidable effort in implementing modern management practices in organizations. Government organizations with a bureaucratic system are required to provide better services, so to achieve this goal, the internal control system becomes a requirement (Al-Mashhadi, 2021). The internal control system provides the ability to detect internal actions that can potentially reduce performance losses for public organizations. Internal weaknesses can allow groups and individuals to take advantage of organizational resources that are not by applicable regulations. Government organizations are weak in implementing the internal control system, which can have unfavorable implications for the community to get better services.

In recent times, the issue of governance has become a public concern due to incidents of misuse that have resulted in losses to the state. Acts of misuse of authority that cause losses to state finances have drawn the public's attention, including academics. Research results show acts of corruption (Mugellini et al., 2021; Sartor & Beamish, 2020) and collusion in the procurement of public infrastructure (Signor et al., 2022), ultimately sacrificing the state's interests. Another action that hurts government entities is the abuse of power (Riyadi, 2024). Negative action behavior comes from the

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government bureaucracy's internal and external parties. Both collaborate well, even though it is not a permanent relationship.

In some cases, acts of corruption are seen as acceptable behavior and are tolerated because they only cause small losses (Ahmad et al., 2020); certain parties call it the term "petty corruption" (Baez-Camargo et al., 2020). Individuals with characteristics that make it difficult to accept the current situation, such as dissatisfaction and petty corruption, open up further opportunities for similar actions with a larger value scale. Individuals with indicators of need, open opportunities, and desire can motivate negative actions in the bureaucracy that end in acts of corruption. These three indicators are variables in measuring the potential realization of an act of corruption (Saputra & Bimas Saputra, 2021).

Acts of corruption and collusion on a small or large scale hurt the government bureaucracy. Services are far from the community's expectations due to negative behavior within the government bureaucracy. This situation creates a reduced level of public trust in government administrators. Public awareness and demands for a clean government administration system encourage many parties to advocate against negative behavior in the government bureaucracy. The development of anti-collusion detection (Signor et al., 2023) and action against acts of corruption in public infrastructure procurement (Jones, 2021) are forms of advocacy to create a cleaner government.

Internal control systems are part of the institution's efforts to reduce risk and preventive measures against bad behavior. This preventive instrument becomes a commitment and shared value owned by every organization member. Applying values in internal control creates a clean bureaucratic environment; otherwise, ignoring it can lead to adverse situations.

Risks hurt governance. Failure to identify and control risks leads to declining services to the community. Governments with the ability to measure risks can take control measures early. Stakeholders in the bureaucratic environment can play a role in ensuring the reliability of organizational wealth protection (Aytac & Cabuk, 2020). The internal control system is expected to suppress negative behavior within the government bureaucracy. Integrity systems and control systems need to be understood by organizers to improve government governance (Aziz et al., 2015).

Village governments manage budgets that come from the central and local governments. The village government's budget is an instrument for carrying out activities in rural areas. The internal control system can be an instrument to ensure that the implementation of activities runs according to applicable regulations. Based on the description above, the formulation of the research question posed is how the internal control system is implemented in the village government. This question is a formulation that needs to be answered in this study.

Previous research on internal control systems in the private and public sectors has made many scientific contributions. Researchers realize that although previous studies have paid much attention to the issue, there has not been much specific touch on village government institutions, especially in the Indonesian context. This description motivates researchers to conduct further research on implementing the village government's internal control system. The results of this study are expected to contribute to the enrichment of theory based on practice in the public sector, especially village governments.

Literature review

The government continues to be required to make the bureaucratic system run efficiently and effectively. In several incidents, certain individuals or groups utilizing the bureaucracy for certain interests have negatively influenced the government. Cases of fraud (Majid et al., 2022) or utilization of government assets for personal or group interests (Kelkusa et al., 2023) indicate that the bureaucratic internal control system is not working properly. Utilization of public resources outside the provisions has adverse implications for the service process to the community. Public services are disrupted, so the demand for clean government becomes even stronger. Illustration of the results of previous research allows similar events to occur in the government, even though they are located in different locations and social contexts.

The internal control system is a preventive effort to reduce the risk of fraud (Rashid, 2022; Sudirman et al., 2021) arising from within and outside the bureaucracy. Human resource competencies can encourage the effectiveness of implementing an organization's internal control system (Tedsungnon, 2024). Village governments with the competency capacity of village officials can assist in achieving better accountability through the internal control system in effect (Hardiningsih et al., 2020). However, on the contrary, groups and individuals within the bureaucracy,

with their influence and power, can strengthen but also weaken the performance of the village government organization's internal control system. Village government budgets in a bureaucratic environment with weak internal controls can adversely affect public budget accountability.

As part of the government system, village governments receive a budget from the Indonesian government (Junaedi, 2023; Seregig et al., 2021). Village governments receive village funds from the state budget, which has increased yearly (Studio, 2024). The budget for the public interest needs to be guaranteed so that it can benefit stakeholders in the village area. Accountable budget management is increasingly important as state budget revenues increase for village governments.

The increasing number of village funds has increased the risk of misuse. The village government controls the risk of misuse of the village fund budget by developing a web-based monitoring system (Magdalena et al., 2020). The development of a monitoring system through technology can carry out the control function with the support of the competence of human resources in the government environment (Purba et al., 2023). Although this research shows that technology-based supervision can improve internal control, informal factors such as social relations are difficult to detect by technology. This condition guided researchers to conduct qualitative methodology to explore information in more depth through field observations and in-depth interviews. The field observation technique paved the way for researchers to make direct observations in the bureaucratic environment. Then the observation information was further deepened through an in-depth interview with informants.

The internal control system can protect the appropriate use of funds for public needs. Internal control procedures run consistently can form a healthy village government environment from the bureaucratic disease of inefficiency and harm to public institutions. Bureaucratic leadership in this context is the head of the village government, who plays an important role in creating a clean bureaucracy. The role of the leader in this sense is the management style of a village to carry out the role of control through information distribution and bureaucratic communication (Ilona et al., 2022).

Other variables in presenting a healthy bureaucratic environment require competence, individual morality, and a whistleblowing system in the village government (Wahyudi et al., 2021). Morality is the basic principle of interaction in the social system. Morality becomes part of a person, including individuals in the government bureaucracy. Individual morality manifests in actions and attitudes that lead to positive behavior. Derivative individual morality in the financial context manifests in the form of compliance with the provisions of the village government's financial control system.

In contrast, previous research found different conclusions. Anisah and Falikhatun (2021) revealed that the variables of the internal control system, the competence of village officials, and commitment to the organization did not have significant implications for village government performance. The presentation of different results from previous research signals that some of these variables have not consistently provided similar results in the context of different locations. Some of the studies above work using quantitative research methodology. In contrast, the current research uses a qualitative approach that can lead researchers to understand more deeply the constraints of the internal control system within the village government bureaucracy.

Research Methodology

Scientific inquiry is an effort to gain an understanding of the meaning of an event. Researchers try to find meaning through a field research methodology approach. This methodology guides researchers when conducting field exploration gradually and systematically. Researchers are more likely to use qualitative methods than other methods to gain a deeper understanding of events at a particular location. The instruments contained in qualitative research open up opportunities for researchers to gain a deep understanding of the research focus. Researchers can understand research issues in depth because they are part of the interaction during the field data collection process.

The researcher sought to understand the village bureaucracy by becoming part of the ongoing system within the village government. Researchers conducted activities and interacted within the bureaucracy, thus providing an opportunity to capture events from within the village government. Routine activities in the bureaucracy became the object of observation while the researcher was in the bureaucratic environment. Activities that are the realization of budget implementation and services for the administrative needs of villagers are service activities that attract researchers' attention. During the observation process, the researcher obtained information directly from the events in the village government bureaucracy.

Researchers can scan bureaucratic activities that appear in the service through observation activities and the results of observations using in-depth interviews. The researcher selected informants from several village officials who could provide information about the internal village bureaucracy. Informants were determined based on purposive sampling techniques selected based on criteria. Informants from village government organizers became the criteria for selecting informants, so several elements of the bureaucracy became informants, including the Secretary of the village government, the head of financial affairs, and the implementer of activities. Researchers selected village officials as informants because they performed the function of implementing the village budget. In addition to informants from within the village government bureaucracy, this research obtained in-depth information from elements of the Village Supervisory Agency. The Village Supervisory Board is a democratic institution containing representatives of the people democratically elected by the village community. The Village Supervisory Board has an inherent supervisory function over the village government, budgeting, and legislative functions.

The determination of informants was based on competence in providing information by roles in the bureaucratic environment and social roles in the community. The village secretary manages the bureaucracy administratively, which is a strong reason for being an informant who can provide information related to the management of the village bureaucracy. Activity executors play a role in realizing the budget and dividing it into activities. Financial officers can assist in providing information related to village government finances. This research was produced using informants from the village government bureaucracy and informants from the village community. Researchers have conducted observations since 2015 in the government bureaucratic environment, but formally, the research has been running for one semester.

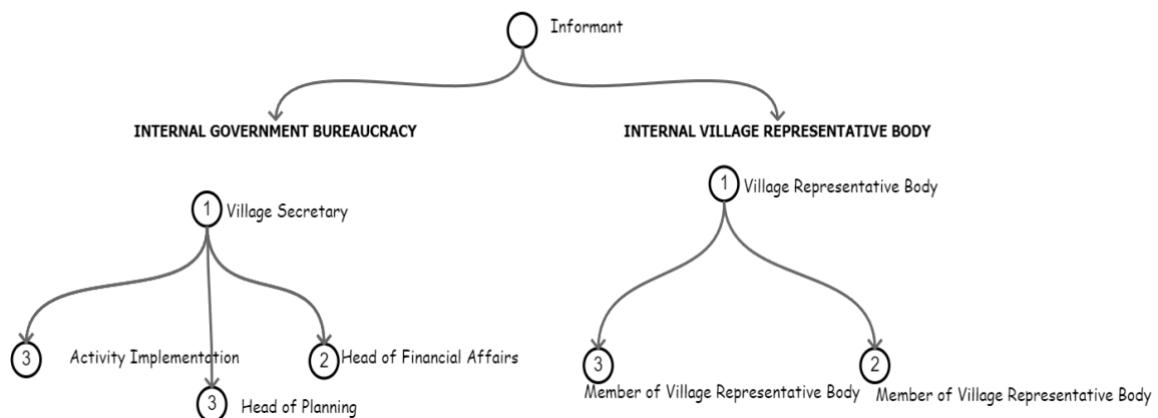


Figure 1. Flowchart of Field Research Informants

Informants are a source of information for researchers obtained through an in-depth interview process. Researchers conducted interviews by asking informants several unstructured questions (open questions). Interview activities run naturally, like two or more people talking casually. Although the researcher has compiled several points of questions, during the interview, new questions often arise, triggered by new and important information from informants. Throughout the field research, interviews with informants often took place within the village government and sometimes at homes or plantation sites. In addition to holding positions in the village government structure, some informants also cultivate crops or coffee plantations. Under these conditions, informants could sometimes be met at the village government office or when the informants were at the coffee plantation.

Qualitative data analysis is carried out after the data has undergone a validity process, better known as triangulation techniques in qualitative research. The triangulation technique has several methods, including informant triangulation, triangulation of observation data and informants, and finally, triangulation of informants and documentation. The informant triangulation method tests the truth of the data through confirmation from informants. The data shows consistency, has good data validity, and meets the criteria to continue the data analysis stage. Researchers use the triangulation technique to test the consistency of data from all sources of information.

The triangulation technique in this study aims to reduce subjective bias arising from informants. Informants provide information related to the internal control system, and it is important to ensure the consistency of the content of each statement. The consistency of information from one informant to another indicates that the information has data validity. Valid and reliable qualitative data is the main requirement for entering the data processing and analysis process.

Qualitative data analysis is a stage to systematically present data obtained through participatory observation, in-depth interviews, focus discussion groups, and documentation. Data analysis aims to sort and select relevant data (data reduction) by the research focus. Data reduction consists of the first stage of open coding, which is an effort by researchers to read the entire data to identify common themes or important ideas from the available data. The second stage, axial coding, is where researchers try to find relationships between themes successfully identified in the previous stage. This stage can help researchers find explanations of relationships between themes so that they can provide interpretations. The third stage, selective coding, is where researchers determine the main themes from all available categories to find the data's central idea (main theme). Finally, theoretical coding is a researcher's effort to find relationships between the main themes (categories) to form interconnected patterns between the available themes. This stage is an effort to form a theory from field research full of contextual identity.

Results and Discussion

Field Results

It is known that the village government entity is the smallest element of the hierarchical government system in Indonesia. Village governments manage public finances to provide services to rural communities. Village government finances are part of state financial management bound by national and regional regulations. As part of state finances, village financial management is bound by formal regulations from budget planning to public accountability.

The village government manages village finances bound by applicable regulations. The village government's financial governance provisions come from the central and local governments. The government will regulate village finances that come from state budget allocations. The central government seeks to ensure that the use of village funds aligns with the national development plan. Village funds are an instrument for the central government to implement development in rural areas. Although regulated by the central government, the village government still has room to channel development aspirations according to village needs.

The district government also allocates funds from the regional budget for village governments. Like the provisions for allocating village funds, the local government stipulates the management provisions derived from the regional budget to fulfill certain needs. Funds from the regional budget are an instrument for local governments to realize regional development plans in rural areas.

Village budgets from the central and regional governments have activity designations determined in the village development plan. The government will carry out controls to ensure that local budgets are used according to the plan and follow applicable regulations. The internal control system is a control tool that can help conduct supervision more systematically. Internal control allows each element to conduct mutual supervision within the organization. Each related element can conduct inter-party supervision. However, there are still potential obstacles to control if the parties establish negative collaboration to fulfill personal or group interests.

The village government has used the village budget for development needs and has provided benefits to the local community. Village infrastructure development has economic and social impacts on the village community. The construction of agricultural irrigation increases farmers' productivity in producing agricultural products. Agricultural road facilities facilitate the distribution of agricultural products from production land to the next processing location. Inadequate residential houses residents own are converted into decent houses using village funds. Village road infrastructure development also uses village fund financing sources. The village budget impacts the development of village infrastructure and rural areas' economy and social life. This description is in line with the recognition of one of the informants, who is the Head of Village Planning Affairs, who revealed that,

"The village government annually organizes village meetings to accommodate community development aspirations. We, as planners, carry out development activities according to the plans set out in the village budget, referring to the results of the village deliberation. So far,

the planners have compared the development plan with realizing the development implementation budget."

Village funds contribute to economic activity and improve the social life of village communities. Village governments have managed village funds well but have not yet reached the total number of village governments in Indonesia. In some places, village governments still have acts of misuse of village budgets (Gustiansyah, 2023; Siregar & Aminudin, 2020). The perpetrators of budget misuse come from internal and external village officials, who indicate that they are still involved in the internal bureaucracy (Adnan, 2020). Although the internal control system has been regulated in regulations, the principles of control and consistent application have not been implemented properly.

"In certain activities, for example, the development of village road infrastructure involves many internal and external parties to the government. In the implementation, sometimes certain parties intervene so that infrastructure development activities are handed over to the party concerned, even though the label used is Village Community Empowerment Institution".

In the view of Shore and Haller (2005), the emergence of fraud in organizations is caused by the organization's lack of supervision, transparency, and accountability. Strictly speaking, Syarif (2016) explains that the government's commitment and consistency in implementing Good Government Governance can gradually reduce fraud within the government bureaucracy. Both views emphasize the important role of supervision aspects and the application of accountability for public organizations to produce Good Government Governance.

In another view, the misuse of government resources is caused by unequal social relations in the bureaucracy. According to Markovsky et al. (1993), these social relations are a form of a Strong-Power Network used to pressure certain parties. This concept states that hierarchical structures contain social relations that are not egalitarian. The characteristics inherent in the strong-power network conception can be seen from the power possessed by one party who can exclude other parties from a relational network without any burden and without feeling any loss from his actions. Although not entirely relevant, this concept has a dimension of power domination that is relevant in understanding relational networks within the village government bureaucracy.

In some cases, strong power networks are often useful in controlling the personnel system. In this sense, the application of a strong-power network is that the ruling party can unilaterally revoke the employment status of certain parties from within the organization. In contrast, applying strong power networks in the context of village bureaucracy is more aimed at psychological pressure on village officials. The strong-power network strategy is expected to create fear by creating an attitude of obedience, loyalty, and commitment to higher parties in the bureaucratic hierarchy. Such conditions bring the village government bureaucracy under the control of certain parties.

Some aspects of the field findings are localized and were obtained during the field research. However, the situation has the potential to be found in other locations but still contains contextual content. The contextual nature confirms that the results of this research, both field findings and conclusions, cannot be applied or generalized to different systems or places, although they can be replicated with some adjustments first.

Discussion

The Village Consultative Body is equivalent to a village government institution. This provision is regulated in the Majukulon Village Regulation, Number 6 of 2016, concerning the Establishment of Organization and Work Procedures (SOTK). The village regulation states that the Village Consultative Body embodies democracy in the village area and is part of the village government organizers. Part of the village government organizers mentioned in the regulation means that the Village Consultative Body has a role in carrying out its function as a supervisor of the village government.

Misuse of public funds can hamper government efforts to improve public services. Conversely, public budgets that are unilaterally reduced through the role of certain parties can reduce service quality. The public loses their right to better public services. From a public psychology perspective, poor public budget management can cause the quality of public services to decline, leading to a decline in public trust in the bureaucracy. In such circumstances, the government is under the shadow of suspicion in the eyes of the public.

The government does not expect public trust to decline because it realizes it can impact the stability of the wheels of government. The government continues to encourage increased public satisfaction, leading to increased trust. Good governance, clean and honest government is the concept of accountable and transparent government administration. The motivation behind applying this

concept is that the government bureaucracy can work responsibly and transparently. The expected impact of this effort is that public trust can increase.

In addition to strengthening the internal control system, virtuous values must also be instilled in village officials (Dewi et al., 2021). Noble values that are integrated into the self can lead individuals to stay away from acts of misuse. Noble values accompanied by self-awareness of the adverse effects of misappropriation behavior can be an internal control. Belief in noble values can be the color of a good internal organizational culture in the government's bureaucratic environment.

Ministry of Home Affairs Regulation No. 20/2018 on Village Financial Management is implemented as an internal control tool for village governments. The regulation serves as a procedural guideline for village officials to manage village finances. The provisions of village financial management are expected to provide a guarantee of protection of village economic resources from fraud attempts. Lestari and Supadmi (2017) assert that an adequate government internal control system can reduce the potential for fraud in public organizations. Arens et al. (2008) provide a more specific view that Internal control is designed to provide reasonable assurance regarding the achievement of management objectives.

Financial supervision has been more focused on budget accountability report documents that contain quantitative information. Qualitative information, such as the network of social relations interactions within the bureaucracy, is not scanned in the village government's accountability report. This limitation further makes fraud incidents caused by social relations interactions, such as those experienced by the village government bureaucracy, cannot be clearly detected by the examiner. In this context, Markovsky et al's (1993) view of the Strong-Power Network manifests in a bureaucratic environment that is difficult to detect by relying only on formal documents without attempting to detect the dimensions of bureaucratic social relations.

The performance of the internal control system is greatly influenced by the cultural aspects developed in the government bureaucracy. Cultural elements that develop through conscious efforts or develop naturally can provide strengthening or weakening value for the performance of the internal control system in the organization. Provide a strengthening impact if cultural aspects have a positive value content in supporting the effectiveness of internal control performance for the organization. Vice versa, it weakens if the internal control system is influenced by social and cultural aspects that contain negative values for the organization.

In the view of Hofstede et al. (1990), different organizations will have different control systems, especially when viewed from the aspect of organizational culture. Based on this view, it can be understood that the social aspects of organizational culture have implications for the internal control system. Likewise, Robbin's (2012) view that the role of culture in an organization's internal control system can shape feelings and provide guidance for employee attitudes and behavior in carrying out internal mechanisms. Both opinions place cultural factors as an acceleration that runs simultaneously with human behavior and the organization's internal control system. The noble values of a culture of honesty, integrity, a sense of responsibility, egalitarianism, and human values are some of the sense-forming aspects that are transformed into the internal control system. These aspects should also be translated in the context of bureaucratic life in the village government.

Internal control systems have helped guide good bureaucratic governance. This system has put individuals in a position to monitor each other. Some organizations have succeeded in managing bureaucracy more efficiently and effectively with the implementation of internal control systems. Some other organizations have not been able to achieve the same situation despite the implementation of similar internal control instruments. One of the reasons for the difference is that the social system that develops in the bureaucratic environment manages to override the internal control system and impresses mere formality. Therefore, the policy of monitoring bureaucratic activities is not entirely based on the formality of the internal control system; it needs to capture the social relations that develop in the bureaucracy and often interfere with the effectiveness of the performance of the internal control system. Photographing from both sides, formal and informal bureaucratic governance is expected to encourage improving public services in the village area.

Conclusion

An internal control system cannot be overlooked in its role as a monitor of an organization's internal activities. The internal control system can help organizations utilize resources efficiently and ensure that activities are carried out in accordance with applicable regulations. In addition, the protection of organizational wealth is highly dependent on the implementation of the internal control

system. The village government, as a public organization, requires a means of internal control to ensure that organizational resources are used properly. The village government has consistently implemented internal controls well, although, in certain other places, it still faces serious obstacles. In certain places, the village government has misappropriated assets that have caused losses to the state. Actions contrary to applicable regulations indicate that the internal control system has not worked well. Social relations that grow within the bureaucracy are one of the obstacles to the effectiveness of the performance of the internal control system. However, social relations are also recognized as having a positive impact on mobilizing gotong royong activities.

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