

Factors Causing Fraud In Villages Credit Institutions (VCI) In Bali

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Abstract

Village Credit Institutions (hereinafter referred to as VCI) are microfinance institutions that have an important role in supporting the economy of rural communities, but recently a number of VCIs have experienced poor health conditions, some even stopped operating. The poor health conditions of VCIs in Bali are likely caused by irregularities (fraud) in their management. This argument is supported by a number of mass media reports that write that several VCI managers are entangled in legal cases such as corruption. Based on this, this study was conducted to explore the factors that cause irregularities (fraud) in VCIs in Bali. The study was designed in the form of qualitative research, namely by digging up information from a number of practitioners and academics. The determination of informants was carried out using the snowball technique, where in this case nine informants were obtained who had qualifications regarding VCIs. The results of the exploration found that the main factors causing fraud were weak supervision, weak governance, weak integrity of management, weak human resources and regulations, weak leadership, management, and regulations, poor management mentality, weak management, and poor cooperation.

Keywords: *fraud, supervision, good corporate governance, integrity, HRM, Leadership*

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I. Introduction

Village Credit Institution (hereinafter referred to as VCI) is a microfinance institution owned by indigenous villages in Bali. Since the beginning of the formation of VCI, precisely in 1988, based on the Regional Regulation of the Provincial Region Level I of Bali Number 2 of 1988 concerning Village Credit Institutions. Regulations regarding VCI have been refined several times to strengthen the institution of the financial institution, and can provide better benefits to the village community. Improvements are carried out through Bali Provincial Regulation Number 8 of 2002, and Bali Provincial Regulation Number 3 of 2017. These changes in regulations are intended as an effort to improve VCI governance in order to be able to provide better services to the local village community.

The existence of VCI since its establishment has provided great benefits to the socio-economic strengthening of village communities, especially village communities in the lower middle economic class. Therefore, the existence of VCI needs to continue to be improved in its management system so that it is gradually able to provide better services.

Although the government has repeatedly revised/improved regulations regarding VCI, there are still VCIs that have not been able to make improvements in the desired direction. This can be seen from the fact that there are still VCIs that are not healthy, unhealthy, and even not operating. There are a number of possibilities why VCI is experiencing a lack of or unhealthy conditions, one of which is the implementation of poor governance. The implementation of good corporate governance (hereinafter referred to as GCG) or poor governance can cause irregularities that result in the health of VCIs deteriorating. This argument is evidenced by the results of research by Irwansyah & Zega (2023) which found that corporate governance has a negative effect on fraud tendencies. This means that poor governance provides a great opportunity for fraud to occur. The results of his research also found that negative internal supervision significantly affected cheating. According to Onesti & Palumbo (2023), the implementation of GCG in a sustainable manner is able to prevent deviations. Based on a number of research results, it can be stated that GCG has an important role in preventing fraud or fraud.

In addition to good governance, supervision also contributes to minimizing the occurrence of fraud. Weak supervision carried out by the party obliged to carry out supervision can result in the opportunity for fraud to occur. Based on existing regulations, VCI supervision is carried out by local village customary villages. Meanwhile, the selection of customary villages in some customary villages is based on the results of direct elections (sometimes without administrative requirements that have competency relevance to their authority as VCI supervisors). The limitations of supervisory competence possessed by a supervisor can be

II. Method

This research is designed in the form of qualitative research, which explores the factors that cause fraud in VCI in Bali. The informants who will be used as sources of information are practitioners and academics who have qualifications in knowledge about VCI. The technique for determining informants in this study is the snowball technique, which is to look for informants based on the recommendations of previous informants. The number of informants is targeted until the information obtained is considered saturated, so no further information is needed. Data mining was carried out with a direct interview technique based on a grid of questions that had been prepared, recorded with a special recording tool. The results of data collection (in the form of recordings) are then extracted from the essence of the respondents' answers to be compiled in the form of data tabulation. This data is then processed statistically descriptively.

III. Results And Discussion

During the process of conducting the research, the researcher interviewed 9 (Nine) informants, 3 informants each were VCI practitioners, and 6 informants were academics. Based on the information collected from the 9 informants, a summary of the informants' opinions regarding the factors causing fraud in VCI in Bali can be made, as shown in Table 1.

Table 1. Summary of Information from a number of Informants

It	Report	Summary of Interview Results
1	Mr. Ketut Madra (former Chairman of VCI Kedonganan)	It was stated that the factors that caused fraud in VCI include: a) lack of understanding of the situation as a supervisor, b) institutional and governance weaknesses, c) regulatory weaknesses, d) management weaknesses, and e) structural weaknesses. It was emphasized that the main factor is weak supervision. The solutions offered are: improving regulations, structures, management and governance, as well as making agreements on an intermittent basis.
2	Mr. Anak Agung Rai (Plt. LPVCI-Bali).	Some of the factors that allow fraud to occur are a) the mentality of managers, b) weak control and supervision, c) weak regulations, d) no written provisions on cash management, e) weak quality of human resources, f) weak governance system, The solution is to hold internal controls for VCIs that manage large assets (above 50 billion), create or improve perarem that strengthens control, create control SOPs, it is necessary to carry out competency certification for VCI human resources, strengthen the risk-based supervision system.
3	Prof. Dr. I Wayan Wesna Astara, SH., MH., M. Hum (Lecturer at the Faculty of Law, Warmadewa University).	Stated that the main factors that cause are: a) the integrity of the management, b) the supervisor who does not understand the aspect of supervision, c) the principle of weak prudence, d) leadership, e) poor governance. The solutions offered: provide technical guidance to supervisors, increase innovative creativity of leaders, provide sanctions for violators, for example kerampang (take assets) for violators. Supervision must have an understanding of management, finance/accounting. Standardize supervision (improve the competence of supervisors).
4	Prof. Dr. I Made Suwitra, SH., MH. (Lecturer, Faculty of Law, Warmadewa University)	Factors that dominate the occurrence of fraud include the integrity of the management (chairman, treasurer), governance (not yet meeting modern governance), poor recruitment, unprofessional supervisors, LPVCI has not played an optimal role, the role of MDA in maintaining customary consistency, Solutions, building commitment from the top and bottom, building role models, conducting regular monitoring, improving the quality of supervisors and supervision.
5	Prof. Dr. I Gede Riana, SE., MM. (Lecturer, Faculty of Economics and Business, Udayana University)	According to him, the factors that cause fraud include counterproductive work behavior, supervisory competence, low sense of management togetherness, and management integrity.
6	Prof. Dr. I Wayan Gede Supartha, SE., SU. (Lecturer, Faculty of Economics and Business, Udayana University)	According to Prof. The factors that cause Prof. are: the possibility of cooperation among management, supervision (ex-koefesio: traditional bendesa) who do not necessarily have microfinance governance skills, management competence, powerful VCI chairman, Solution: the formation of an VCI governance team, improvement of competence, and renewal of the administrative system (IT). It is necessary to perform a ceremony (witness god) for those who will become administrators. It is necessary to improve governance continuously.
7	Prof. Dr. I Made Suyana Utama, SE., M.Si. (Lecturer at the Faculty of Economics and Business, Udayana University).	He also stated that the main factor in the occurrence of fraud is the integrity of VCI management. In addition, it is also said that supervision is not carried out properly, because supervisory human resources lack (in) understanding of what must be supervised.
8	Dr. I Gede Made Sadguna, SE., MBA (Former Deputy Chief Representative	According to him, the factors causing irregularities include: weaknesses in governance, weaknesses in regulations, weaknesses in operational

	of Bank Indonesia Region III (Bali and Nusa Tenggara).	management, weaknesses in internal and external control systems. The solutions offered are: improve the PERDA (Governor and DPRD), improve the VCI management structure.
9	I Ketut Suseno (Chairman of VCI Pengotan-Bangli Traditional Village).	According to Mr. Ketut Suseno (often called by the name of Mr. Gatot) that the fraud occurred because of weak community control, control and empowerment from external parties (LPVCI).

Source: Live Interview Results (2024)

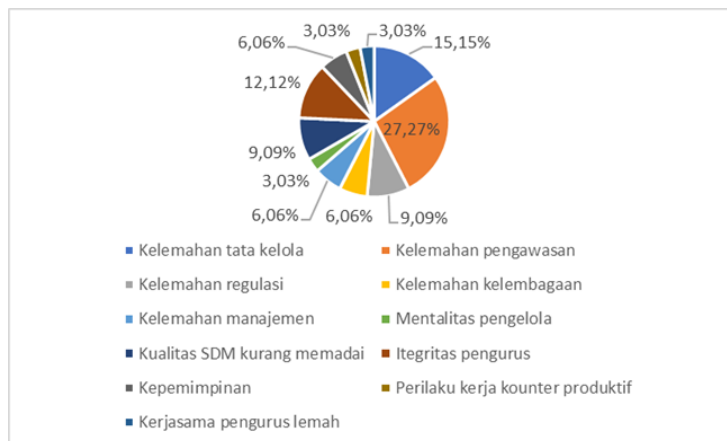
Based on the summary of information as shown in Table 2, the frequency distribution of informants' answers is then compiled, to find out the factors that dominate the cause of fraud in VCI in Bali, as shown in Table 2

Table 2. Distribution of Frequency of Informants' Answers About the Factors Causing Fraud in VCI in Bali

No	Factor	Report									Ket	
		1	2	3	4	5	6	7	8	9	Total	Average
1	Weaknesses of governance	v	v	v	v				v		5	15,15%
2	Disadvantages of supervision	v	v	v	v	v	v	v	v	v	9	27,27%
3	Regulatory weaknesses	v	v						v		3	9,09%
4	Institutional weaknesses	v							v		2	6,06%
5	Management weaknesses	v							v		2	6,06%
6	Manager mentality		v								1	3,03%
7	Inadequate quality of human resources		v	v			v				3	9,09%
8	Integrity of the management			v	v	v		v			4	12,12%
9	Leadership			v			v				2	6,06%
10	Counterproductive work behavior					v					1	3,03%
11	Poor managerial cooperation					v					1	3,03%
											33	100%

Source: Live Interview Results (2024)

The frequency distribution of respondents' answers as shown in Table 2, is then realized in the form of a pie graphic as shown in the following graph 1.



Graph 1. Distribution of Frequency of Informants' Answers About the Factors Causing Fraud in VCI in Bali

Paying attention to Graph 1, it is clear that the most dominating factor in the cause of fraud according to a number of informants is the weakness of VCI supervision, which is as much as 27.27%. In the second position, according to the informant, the factor causing fraud is weak VCI governance, which is 15.15%. Furthermore, in third position is the integrity of VCI management (manager), which is 9.09%. In the fourth position, the factors that cause fraud in VCI in Bali are weak human resource competence and weak regulations. In the next position (sixth) is weak leadership, institutional, and management, which is 6.06% each. Meanwhile, in the last position are mentality, cooperation, and counterproductive behavior at 3.03% each.

Weak supervision of VCI is the main source of fraud in VCI in Bali. This is understandable, because the supervision of VCI according to applicable provisions is carried out by the Customary Village (ex-koefisio), where we know that the customary village is chosen by the village community by acclamation, without considering the ability to carry out supervision. Weak supervisory capabilities create an open space for fraud and irregularities that are not detected quickly.

Poor governance (not transparent, not accountable, dishonest) can also be an entry point for managers who will behave fraudulently. Moreover, there is poor supervision, so there is a very wide opportunity for perpetrators to commit fraud.

IV. Conclusions And Suggestions

Based on the results of the exploration, it can be stated that there are at least eleven factors that can cause fraud in VCI in Bali. The eleven factors in order of the highest percentage are weak supervision, weak governance, integrity of administrators or managers, quality of human resources and regulations, leadership, institutions, and management, mentality, cooperation, and counterproductive behavior. By knowing the factors that cause these irregularities (fraud), in order to minimize these irregularities, efforts can be made such as making supervision effective through improving the ability/quality of supervisors. In addition, it can also be done through improving and improving good governance, as well as increasing the integrity of VCI management. In addition, it is necessary to carry out regular and continuous trainings on supervision, governance, and the use of information technology to ensure the accuracy of the presentation of VCI reports.

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