

The Dark Side of Village Governance: Analyzing the Paradoxical Effects of Discretion and Accountability on the Fraud Pentagon Model in Village Funds

(A Study in Banawa Tengah District, Donggala Regency)

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ABSTRACT

Keywords:

Discretion, Accountability,
Fraud Pentagon Model, Village
Fund Management, Symbolic
Accountability.

Purpose: This study investigates the paradoxical influence of discretion and accountability on fraud practices within the framework of the Fraud Pentagon Model in village fund management. It specifically examines whether these governance variables function as preventive mechanisms or unintended facilitators of fraudulent activities at the village level. **Methods:** Utilizing a quantitative research design, data were collected from 97 respondents involved in village fund administration. The analysis was performed using Structural Equation Modeling-Partial Least Squares (SEM-PLS) via SmartPLS 4 software to test the structural relationships between the variables. **Results:** The findings reveal a significant yet critical paradox in village governance. First, discretion exhibits a positive and significant impact on fraud, suggesting that broad authority without clear boundaries creates strategic "loopholes" for abuse. Second, accountability traditionally viewed as a deterrent unexpectedly shows a strong positive correlation with fraud. This highlights a "symbolic accountability" phenomenon, where formal administrative compliance is exploited as a facade to mask financial irregularities. Together, discretion and accountability explain 54.1% of the variance in fraud practices within the Fraud Pentagon framework. **Implications:** The study concludes that formalistic accountability without substantive oversight counterintuitively heightens fraud risks. To mitigate this, local governments must implement "bounded discretion" and transition from document-based audits to rigorous, field-based physical verifications to ensure that administrative reports align with reality.

INTRODUCTION

The management of village funds in Indonesia is a form of fiscal decentralization aimed at accelerating village development, strengthening development equity, and improving the welfare of village communities in line with national development goals. Village funds grant greater authority to village governments to determine budget priorities according to local needs. At the same time, however, discretionary authority (the limits of authority that provide room for interpretation in decision-making) has the potential to open up space for abuse of power if not accompanied by strong oversight and effective accountability (Sugiharti et al., 2021).

The large allocation of village funds is also accompanied by an increased risk of fraud or cheating in their management. The Association of Certified Fraud Examiners (ACFE) Fraud (2022) affirms that the public sector, including village governments, is a sector that is vulnerable

to fraud practices due to weak internal control and low accountability. Theories about fraud are increasingly developing in many studies to examine the driving factors of fraud. Marks (2012) as cited in Christian N, Basri Y Z (2019) proposed the Fraud Pentagon Model, which states that the elements of the fraud pentagon consist of arrogance, competence or capability, pressure, opportunity, and rationalization. Marks stated that at least 70% of fraud is committed by perpetrators by combining pressure with arrogance and greed. Arrogance is an attitude of superiority and greed that needs to be directed and corrected. Research results conducted by Ridwan (2023); Kurniawan (2023); Hidayat (2022); Faradiza (2018); Hidayat, Onasis and Siregar (2021); Mintara and Hapsari (2021); Rughova and Darmawan (2024), state that there is no significant impact of arrogance on fraud in financial statements. Fraud is an act of cheating, illegal acts, and abuse of trust. Fraud is divided into three types, namely corruption, asset misappropriation, and financial statement manipulation (Rukmana & Yusran, 2022).

Fraud in public financial management, particularly Village Funds, is an act of manipulation, abuse of authority, and administrative deviation that harms village finances and reduces public trust in village governments (N. A. Putri et al., 2024). In many cases, fraud practices often occur when village officials have significant discretionary opportunities without strong internal control and an effective accountability system. According to the literature on agency theory and the fraud triangle, the lack of oversight and weak accountability allows agents to maximize personal interests at the expense of public interest, thereby encouraging fraudulent behavior (Latifah et al., 2025).

Research by Megasyara, Imawan and Lamongan (2023) found that the application of GCG principles in village financial management reduces fraud. The GCG principles that have been implemented by village governments include community participation, transparency of village development programs and policies, accountability for the use and management of village finances, as well as discipline and orderliness in village financial management in accordance with applicable laws and regulations (Sutariani, 2025). Accountability practices, internal control systems, and employee morality influence fraud in village fund management. These findings illustrate that internal governance aspects have an important role in preventing village financial deviations (Murtin et al., 2024). Compliance with financial reporting and internal control systems does not have a significant effect on fraud prevention in village fund management (Ketut et al., 2024).

The study by Juniarti and Hartanti (2024) found that accountability and the capability of village officials contribute positively and significantly to fraud in Village Fund management, while the morality of village apparatus was not significant in their study. The competence of village officials, accountability, individual morality, and the internal control system are important variables in influencing fraud, although the level of influence may differ depending on the local context (Diadon et al., 2025). Accountability mechanisms, institutional integrity, and community participation are important elements that strengthen transparency and reduce the likelihood of fraud practices in Village Fund management (Anggi et al., 2025).

A corruption case occurred in Towale Village, Banawa Tengah District, Donggala Regency, Central Sulawesi Province, where the village head and its secretary misused the Village Fund Allocation (ADD) and Village Funds (DD) for the 2016 fiscal year, resulting in state losses of Rp 227 million. Another corruption case occurred in Mbulava Village. The former head of Mbulava Village (initials SS) used his discretion to allocate village funds amounting to Rp377,326,342 for the development of a village maternity clinic (polindes) and alternative energy rehabilitation. Indications of price markups and fictitious activities were found, even though the accountability report was administratively deemed complete by the local village facilitator. Empirical findings in

the field indicate that village fund management still faces various accountability problems. Based on a news report by Radar Palu Siradjudin (2026), residents in one village in Donggala Regency raised allegations of irregularities in the use of village funds for the 2025 fiscal year. These indications arose from a discrepancy between development realization and the predetermined budget allocation. Furthermore, the transparency of fund management is considered still low, leading to public distrust of village officials. This phenomenon indicates that internal and external oversight still needs to be strengthened.

In practice, although accountability and oversight mechanisms have been implemented, problems with village governance remain. These include ineffective internal control and a lack of community participation in monitoring how village funds are used. This opens a paradox that the flexibility provided to improve management efficiency often becomes a pathway to fraudulent practices, especially if not accompanied by strong and transparent accountability mechanisms. Apart from being a recipient of village funds, Banawa Tengah District, Donggala Regency, has local dynamics that have not been extensively empirically studied regarding the relationship between discretionary authority and responsibility for fraud. This limitation of local context, in terms of institutional culture and village financial management practices, requires further investigation to understand how these two elements simultaneously influence the occurrence of fraud.

Based on the description above, this article aims to analyze the influence of discretion and accountability on the occurrence of fraud in village fund management, while also revealing the paradox of village governance that emerges in the context of Banawa Tengah District, Donggala Regency. It is expected that the results of this study will provide a theoretical contribution to the public governance literature as well as practical implications for policymakers in formulating more effective, transparent, and fraud pentagon model-oriented village fund management strategies.

Village Governance and Village Funds

Public governance emphasizes the principles of transparency, accountability, participation, and effectiveness in managing public resources. The implementation of good governance principles is believed to enhance the quality of public services and suppress the opportunistic behavior of government apparatus (OECD, 2014). In the Indonesian context, the Village Fund policy grants broad authority to village governments in planning and financial management. While this authority is expected to encourage development based on local needs, it also increases the risk of deviations when oversight systems and the capacity of the apparatus remain inadequate (Aziz, 2016; Deza and Utomo, 2024). This condition indicates that village governance possesses the potential for "dark side governance" when authority is not balanced by effective control.

Fraud Pentagon Model

Fraud in the public sector is defined as an illegal act committed intentionally to obtain personal or group benefits at the expense of state finances ACFE (Fraud, 2022). In village fund management, opportunity becomes a dominant factor due to weak internal controls and high information asymmetry between village officials and the community (Jensen & Meckling, 2019). Recent studies show that weak oversight and the complexity of village fund regulations contribute significantly to the increasing cases of fraud at the village level (Erwin, Vina, Olivia and Nurul, 2025; Wibowo, 2023). Marks (2012) in Christian N, Basri Y Z (2019) introduced the Fraud Pentagon Model, which states that the elements of fraud consist of pressure, opportunity, rationalization, competence or capability, and arrogance.

Fraud in the public sector constitutes an abuse of authority that harms state finances. In village governance, low control and weak oversight serve as critical factors influencing the occurrence of fraud. Empirical research within the context of village fund management demonstrates that fraudulent acts are still frequent and are commonly associated with control weaknesses and employee morality (Murtin and Indah, 2023; Sukmawati, Dewi and Pravasanti, 2025).

Discretion in Village Governance

Discretion is defined as the authority granted to public officials to make decisions in situations that are not explicitly governed by regulations. Discretion can provide the necessary flexibility in decision-making; however, without robust oversight, it opens a space for opportunistic behavior that contributes to administrative deviations and financial mismanagement (Sabirin, 2025; Sadat, 2020). On one hand, discretion can enhance flexibility, decision-making speed, and the effectiveness of village programs. Conversely, excessive discretion without a strong oversight mechanism can create opportunities for the abuse of authority. This condition reflects the "discretion paradox," where instruments designed to improve performance actually have the potential to increase the risk of fraud in village funds.

Furthermore, discretion possesses the potential to lead to the abuse of power when not accompanied by an adequate oversight mechanism (Bovens, 2007). Recent research within the context of local government indicates that high levels of discretion are positively correlated with opportunistic behavior and financial deviations (Laurence et al., 2015). This reinforces the view that discretion holds a paradoxical character within public governance.

Accountability in Village Fund Management

Accountability is a mechanism for explaining and justifying the management of public resources to stakeholders. Ideally, formal accountability should suppress fraudulent behavior; however, research in Indonesia indicates that, in practice, accountability often remains focused on administrative procedures. Consequently, it becomes symbolic and ineffective in preventing fraud at the village level (Pande and Suprasto, 2023; Dimas *et al.*, 2025).

Accountability is the obligation of government apparatus to explain and take responsibility for actions and the use of public resources to the community and stakeholders. In village financial management, accountability is manifested through financial reporting, audits, and information transparency. Normatively, increasing accountability is believed to be capable of mitigating fraud. However, overly formalistic accountability can lead to "gaming behavior," which refers to the manipulation of data and reports to satisfy administrative demands. Recent empirical studies have found that pressure for formal accountability actually encourages manipulative practices in financial reporting within the local public sector (Prihatmanto et al., 2022).

The Paradox of Discretion and Accountability

Discretion and accountability are often viewed as complementary mechanisms. However, in public governance practices, these two elements can create a paradox (Mashaw, 2006). Discretion without accountability opens opportunities for fraud, while rigid accountability can encourage opportunistic use of discretion to bypass regulations.

The *paradox theory* approach suggests that two opposing elements can emerge simultaneously and produce unintended consequences (Smith & Lewis, 2011). In the context of village funds, the interaction between discretion and accountability has the potential to reinforce the "dark side" of village governance and increase the risk of fraud. In village fund management, high discretion without effective accountability enlarges the opportunity for fraud, while overly formal accountability can trigger manipulative behavior to satisfy administrative requirements

(Hood, 2010). These elements collectively demonstrate the complexities of *dark side governance* relevant to village fund fraud.

Hypothesis Development

High levels of discretion provide broad authority for village officials to make decisions without strict control, thereby increasing the opportunity for deviations or fraud (Sadat, 2020; Sabirin, 2025).

H1: Discretion has a positive and significant effect on the village fund fraud pentagon model.

Accountability that is merely formal-administrative, lacking substantive oversight, can lead to financial report manipulation and *gaming behavior* that actually facilitates fraud (Pande and Suprasto, 2023; Dimas *et al.*, 2025; Prihatmanto, Artha and Joyonegoro, 2022).

H2: Accountability has a positive and significant effect on the village fund fraud pentagon model.

When discretion is high and accountability is substantively ineffective, the potential for fraud increases. This is consistent with *paradox theory*, where the combination of two contradictory governance elements can actually reinforce negative outcomes (Smith and Lewis, 2011; Hood, 2010).

H3: The interaction between discretion and accountability reinforces the occurrence of the village fund fraud pentagon model.

METHODS

Research Design

This study adopts a quantitative approach with a causal-explanatory research design. It aims to examine the relationships between the proposed variables within the model, specifically evaluating the influence of discretion and accountability as independent variables on the village fund *Fraud Pentagon Model* as the dependent variable.

Research Location and Time

The research was conducted in villages located within the Banawa Tengah District, Donggala Regency. This location was selected based on village governance characteristics that are relevant to the observed phenomena of the discretion and accountability paradox.

Population and Sample

Population: The population comprises all village officials in the Banawa Tengah District who are directly involved in village financial management, including Village Heads, Village Secretaries, Village Treasurers, and Heads of Affairs (*Kaur*).

Sample: This study utilizes a saturated sampling method (*census sampling*). Based on field data, the established sample size is 97 respondents.

Operational Definition of Variables

The study measures three primary constructs:

1. Discretion (X1): Measured through indicators of decision-making authority, flexibility in rule interpretation, freedom in budget and program management, and limitations of control over the use of discretion.
2. Accountability (X2): Measured through indicators of task and responsibility clarity, financial reporting and documentation, accountability to the community, monitoring, evaluation, and sanctions, as well as information transparency.
3. Village Fund Fraud Pentagon Model (Y): Measured through the *Fraud Pentagon Model* using indicators of pressure, opportunity, rationalization, competence, and arrogance.

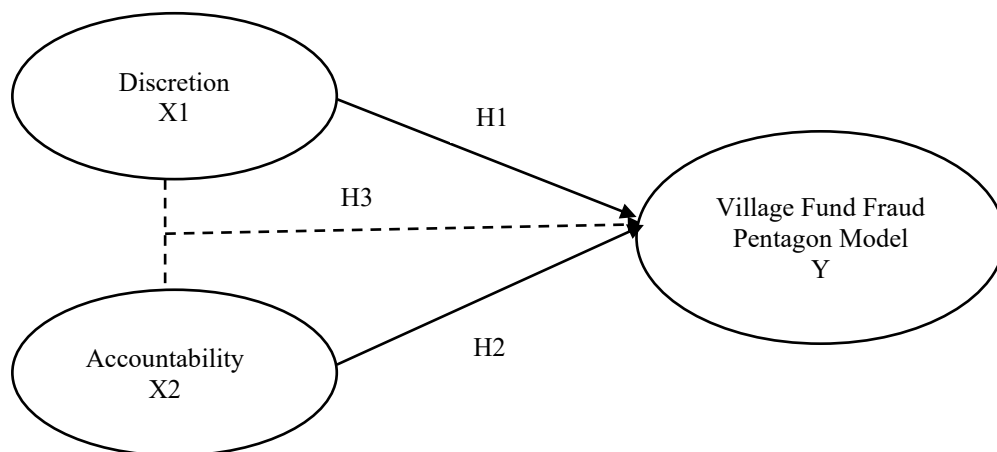


Figure 1. Conceptual Framework

Notes:

- ▶ = Individual (Partial) Effect
- - - - -▶ = Simultaneous Effect

Data Collection Technique

Data were collected using primary data through the distribution of questionnaires. The questionnaire was designed using a 5-point Likert scale to measure respondents’ perceptions of the indicators of the variables studied.

Data Analysis Technique

Data analysis in this study was conducted using the variance-based Structural Equation Modeling (SEM) method, namely Partial Least Squares (PLS), with the assistance of SmartPLS 4 software.

RESULTS AND DISCUSSION

Measurement Model Evaluation (Outer Model)

Convergent Validity

The measurement model in this study consists of a reflective measurement model, in which the variables of discretion, accountability, and the fraud pentagon model are measured reflectively. The evaluation of the reflective measurement model includes factor loadings, Cronbach’s alpha,

composite reliability, and average variance extracted (AVE).

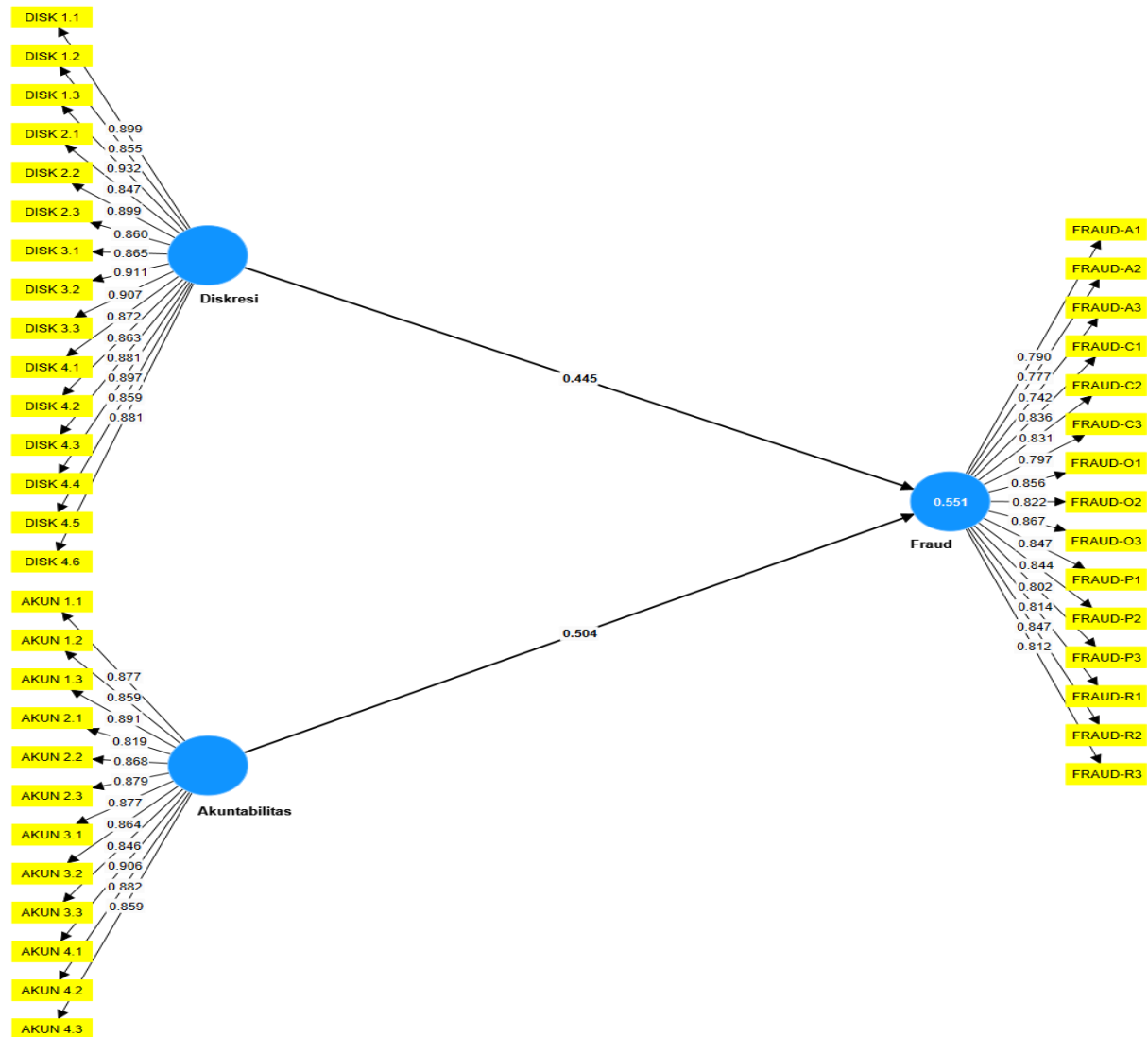


Figure 2. Outer Loading

The accountability variable was measured using 12 (twelve) items, all of which were found to be valid, as indicated by outer loading values above 0.70, ranging from 0.819 to 0.906. This suggests that all twelve measurement items adequately reflect the construct of accountability.

Table 1. Construct Validity and Reliability

	Cronbach's alpha	Keandalan komposit (rho_a)	Keandalan komposit (rho_c)	Rata-rata varians diekstraksi (AVE)
Akuntabilitas	0.971	0.973	0.974	0.756
Diskresi	0.980	0.981	0.981	0.779
Fraud	0.965	0.966	0.968	0.672

The reliability level of the accountability variable is acceptable, with a Cronbach's alpha of 0.980 (> 0.70) and composite reliability of 0.981 (> 0.70), indicating that internal consistency is satisfied. In addition, convergent validity is demonstrated by an AVE value of 0.779 (> 0.50), confirming that the construct meets the criteria for good convergent validity. Overall, the

variance explained by the measurement items of the accountability variable reaches 77.9%.

Among the twelve measurement items, AKUN 4.1 and AKUN 1.3 have the highest outer loadings (0.906 and 0.891, respectively), indicating that these items—related to internal supervision of activity implementation and village fund utilization, as well as the absence of overlapping duties among village officials in managing village funds—are the strongest indicators and should be maintained. Meanwhile, item AKUN 2.1 (every village fund transaction is supported by evidence and recorded in official bookkeeping) with a loading of 0.819, and item AKUN 3.3 (the community is given the opportunity to ask questions and provide input regarding village fund reports) with a loading of 0.846, are considered adequate but still need to be further improved.

The discretion variable was measured using 15 (fifteen) items, all of which were found to be valid, as indicated by outer loading values above 0.70, ranging from 0.847 to 0.932. This indicates that all fifteen measurement items adequately reflect the construct of discretion. The reliability level of the discretion variable is acceptable, with a Cronbach's alpha of 0.971 (> 0.70) and composite reliability of 0.974 (> 0.70), indicating that internal consistency is satisfied. In addition, convergent validity is demonstrated by an AVE value of 0.756 (> 0.50), confirming that the construct meets the criteria for good convergent validity. Overall, the variance explained by the measurement items of the discretion variable reaches 75.6%.

Among the fifteen measurement items, DISK 1.3, DISK 3.2, and DISK 3.3 have the highest outer loadings (0.932, 0.911, and 0.907, respectively). These items indicate that village heads have considerable freedom in selecting activity implementers (partners) based on their own judgment, many technical decisions are made by village officials without consulting the community, and under certain conditions, village officials may replace planned activities without village deliberation. These items should therefore be retained. Meanwhile, item DISK 2.1 (rules for the use of village funds often need to be reinterpreted according to field conditions by village officials) with a loading of 0.847, and item DISK 1.2 (village officials have significant authority to determine village fund activity priorities without always seeking approval from other parties) with a loading of 0.855, are considered adequate but still need to be further improved.

The fraud pentagon model variable was measured using 15 (fifteen) items, all of which were found to be valid, with outer loading values above 0.70 ranging from 0.742 to 0.867. This indicates that all fifteen items validly reflect the fraud pentagon model construct. The reliability level of this variable is acceptable, with a Cronbach's alpha of 0.965 (> 0.70) and composite reliability of 0.968 (> 0.70), indicating that internal consistency is achieved. Convergent validity is also confirmed by an AVE value of 0.672 (> 0.50), meeting the criteria for good convergent validity. Overall, the variance explained by the measurement items of the fraud pentagon model variable reaches 67.2%.

Among the fifteen measurement items, Rasio3 and Rasio1 have the highest outer loadings (0.867 and 0.856, respectively). These items indicate that certain actions may be tolerated for the sake of collective interests and that the use of village funds for specific purposes can be justified under certain conditions. Therefore, these items should be retained. Meanwhile, item Pres3 (high work targets create pressure for me) with a loading of 0.742 and item Pres2 (living needs encourage me to seek additional income) with a loading of 0.777 are considered adequate but still need to be further improved.

Discriminant Validity

Table 2. Discriminant Validity (HTMT)

Validitas Diskriminan (HTMT)			
	ACCOUNTABILITY	DISCRETION	FRAUD PENTAGON MODEL
ACCOUNTABILITY			
DISCRETION	0.220		
FRAUD PENTAGON MODEL	0.618	0.557	

All HTMT values are well below the threshold of 0.90, with most values even below 0.85. This indicates that each construct has good discriminant validity and that there is no issue of conceptual overlap among the constructs.

Table 3. Discriminant Validity – Fornell-Larcker

Discriminant Validity – Fornell-Larcker			
	ACCOUNTABILITY	DISCRETION	FRAUD PENTAGON MODEL
ACCOUNTABILITY	0.869		
DISCRETION	0.220	0.882	
FRAUD PENTAGON MODEL	0.602	0.556	0.820

The square root of the AVE for each construct accountability, discretion, and the fraud pentagon model is greater than the correlations between constructs. Therefore, all constructs are considered to meet discriminant validity based on the Fornell-Larcker criterion.

The results of discriminant validity testing using the Heterotrait–Monotrait Ratio (HTMT) method indicate that all HTMT values between constructs are below the threshold of 0.90. In addition, testing using the Fornell–Larcker criterion shows that the square root of the AVE for each construct is greater than the inter-construct correlations. Thus, it can be concluded that all constructs in this research model have good discriminant validity and are capable of empirically measuring distinct concepts.

Model Fit Evaluation (Goodness of Fit)

Table 4. Model Fit

Model Fit		
	Saturated Model	Estimated Model
SRMR	0.088	0.088
d_ ULS	7.051	7.051
d_ G	3.778	3.778
Chi-square	1.610.084	1.610.084
NFI	0.723	0.723

Standardized Root Mean Square Residual (SRMR)

The SRMR value of 0.088 falls within the acceptable threshold for PLS-SEM (≤ 0.10). This indicates that the difference between the observed covariance matrix and the model-implied covariance matrix is relatively small, suggesting that the model has an adequate fit.

d_ULS and d_G

The values of $d_{ULS} = 7.051$ and $d_G = 3.778$ are used as distance-based measures of model fit. In PLS-SEM, these indicators are more comparative in nature and do not have absolute cut-off values. As long as the values are stable and consistent between the saturated model and the estimated model, the model is considered to be free from specification issues. The obtained results indicate such a condition.

Chi-square

The Chi-square value of 1,610,084 is relatively large, which is a common condition in PLS-SEM, especially with large sample sizes and models with multiple indicators. Therefore, this indicator is not used as the primary criterion for assessing model fit in PLS-SEM.

Normed Fit Index (NFI)

The NFI value of 0.723 indicates a reasonably adequate level of model fit. Although it has not reached the ideal threshold of 0.90, in the context of PLS-SEM, an NFI value above 0.70 is still considered acceptable, particularly in exploratory research and predictive model development.

Overall, the model fit assessment results indicate that the structural model developed has an adequate level of fit and is suitable for further analysis. This supports that the relationships among accountability, discretion, and the fraud pentagon model have been appropriately specified and are consistent with the empirical data.

Goodness of Fit (GoF) and Predictive Relevance (Q²)

Table 5. Goodness of Fit (GoF) and Predictive Relevance (Q²)

Total Cross-Validated Redundancy			
	SSO	SSE	Q ² (= 1-SSE/SSO)
ACCOUNTABILITY	1.164.000	1.164.000	0.000
DISCRETION	1.455.000	1.455.000	0.000
FRAUD PENTAGON MODEL	1.455.000	955.581	0.343

The results of predictive relevance testing using the Q² value show that the fraud pentagon model construct has a Q² value of 0.343, indicating strong predictive capability of the model. Meanwhile, the Q² values for the accountability and discretion constructs are zero because both are exogenous variables. These findings indicate that the developed structural model has good predictive relevance in explaining fraud pentagon in village funds.

Structural Model Evaluation (Inner Model)

Table 6. Inner Model

Inner Model			
			FRAUD PENTAGON MODEL
ACCOUNTABILITY		DISCRETION	1.000

Inner Model	
DISCRETION	1.000
FRAUD PENTAGON MODEL	

The results of the structural model evaluation show that the inner VIF values for the relationships between accountability and discretion on the fraud pentagon model are each 1.000. These values are well below the recommended threshold, indicating that there is no multicollinearity issue in the structural model. Therefore, each exogenous variable contributes independently in explaining the endogenous variable.

R-Square (R^2)

Table 7. R-Square

R-Square	R-square	Adjusted R-square
FRAUD PENTAGON MODEL	0.551	0.541

The R-Square (R^2) value of 0.551 indicates that the accountability and discretion variables simultaneously explain 55.1% of the variance in the fraud pentagon of village funds. The remaining 44.9% is explained by other variables outside this research model, such as internal supervision, organizational culture, employee competence, or other independent factors. Referring to the criteria proposed by (Hair et al., 2014), R^2 values are classified as follows: 0.25 = weak; 0.50 = moderate; 0.75 = substantial. Thus, an R^2 value of 0.551 falls into the moderate to strong category, indicating that the model has good explanatory power.

The Adjusted R^2 value of 0.541 shows that after adjusting for the number of independent variables in the model, the explanatory power remains stable and consistent. The small difference between R^2 and Adjusted R^2 indicates that the model does not suffer from overfitting and that the independent variables used are relevant in explaining the fraud pentagon construct.

Effect Size – F Square (f^2)

Table 8. F-Square

F-Square	ACCOUNTABILITY	DISCRETION	FRAUD PENTAGON MODEL
ACCOUNTABILITY			0.539
DISCRETION			0.419
FRAUD PENTAGON MODEL			

The results of the Effect Size (f^2) analysis indicate that the accountability variable has an f^2 value of 0.539, which falls into the large effect category on the fraud pentagon of village funds. Meanwhile, the discretion variable also shows a large effect with an f^2 value of 0.419. These findings suggest that both variables make substantial contributions to explaining the fraud pentagon model, with accountability playing a dominant role.

Predictive Relevance (Q^2)

Table 9. Indicator-Level Predictive Relevance Analysis

	Q²prediksi	PLS-SEM_RMSE	PLS-SEM_MAE	LM_RMSE	LM_MAE
FRAUD-P1	0.289	1.060	0.855	1.367	1.102
FRAUD-P2	0.294	1.020	0.808	1.225	0.980
FRAUD-P3	0.238	1.006	0.822	1.228	0.986
FRAUD-O1	0.354	0.985	0.806	1.152	0.919
FRAUD-O2	0.331	0.979	0.780	1.120	0.907
FRAUD-O3	0.384	0.999	0.775	1.144	0.929
FRAUD-R1	0.246	1.085	0.893	1.313	1.069
FRAUD-R2	0.327	0.969	0.783	1.124	0.875
FRAUD-R3	0.252	1.044	0.829	1.244	0.988
FRAUD-C1	0.386	0.747	0.600	0.844	0.688
FRAUD-C2	0.437	0.678	0.533	0.822	0.666
FRAUD-C3	0.456	0.746	0.601	0.796	0.645
FRAUD-A1	0.397	0.769	0.623	0.942	0.766
FRAUD-A2	0.367	0.807	0.659	0.928	0.731
FRAUD-A3	0.365	0.851	0.687	1.007	0.826

Table 9 shows the model’s ability to predict each item (manifest variable) of the Fraud Pentagon Model. The $Q^2_{predict}$ values indicate that all indicators from FRAUD-P1 to FRAUD-A3 have positive values (above 0), ranging from 0.238 to 0.456.

This indicates that the model has good predictive relevance. In other words, the Discretion and Accountability variables contain relevant information to predict each dimension of the Fraud Pentagon Model in village funds.

Accuracy Comparison (RMSE & MAE): When comparing the PLS-SEM_RMSE column with LM_RMSE, all PLS-SEM values are lower. Since all error values in the PLS-SEM model are smaller than those in the linear model (LM), this research model can be classified as having high predictive power.

Table 10. Construct-Level Predictive Relevance Analysis

Prediction Summary				
		$Q^2_{prediksi}$	RMSE	MAE
FRAUD	PENTAGON	0.523	0.708	0.558
MODEL				

Table 10 summarizes the predictive power of the Fraud Pentagon Model variable as a whole latent construct. The $Q^2_{predict}$ value of 0.523, which is above 0.50, indicates that the model has very high predictive accuracy in explaining the overall phenomenon of the Fraud Pentagon Model in village funds. The RMSE (0.708) and MAE (0.558) values are relatively low, further supporting that the significant results obtained are not due to random data patterns, but rather because the model fits well with real-world conditions.

Predictive validity testing was conducted using the PLSpredict procedure to ensure out-of-sample predictive accuracy. Based on the summary of predictions at the Manifest Variable

(MV) level, all indicators of the Fraud Pentagon Model show $Q^2_{predict}$ values greater than 0, and the RMSE/MAE values of the PLS-SEM model are consistently lower than those of the Linear Model (LM). Furthermore, at the Latent Variable (LV) level, the $Q^2_{predict}$ value is 0.523. These results provide strong statistical justification that the developed model has high predictive power. In other words, the positive effects of discretion and accountability on the Fraud Pentagon Model identified in this study have high predictive accuracy and can be generalized as a real phenomenon in the research setting.

Hypothesis Testing

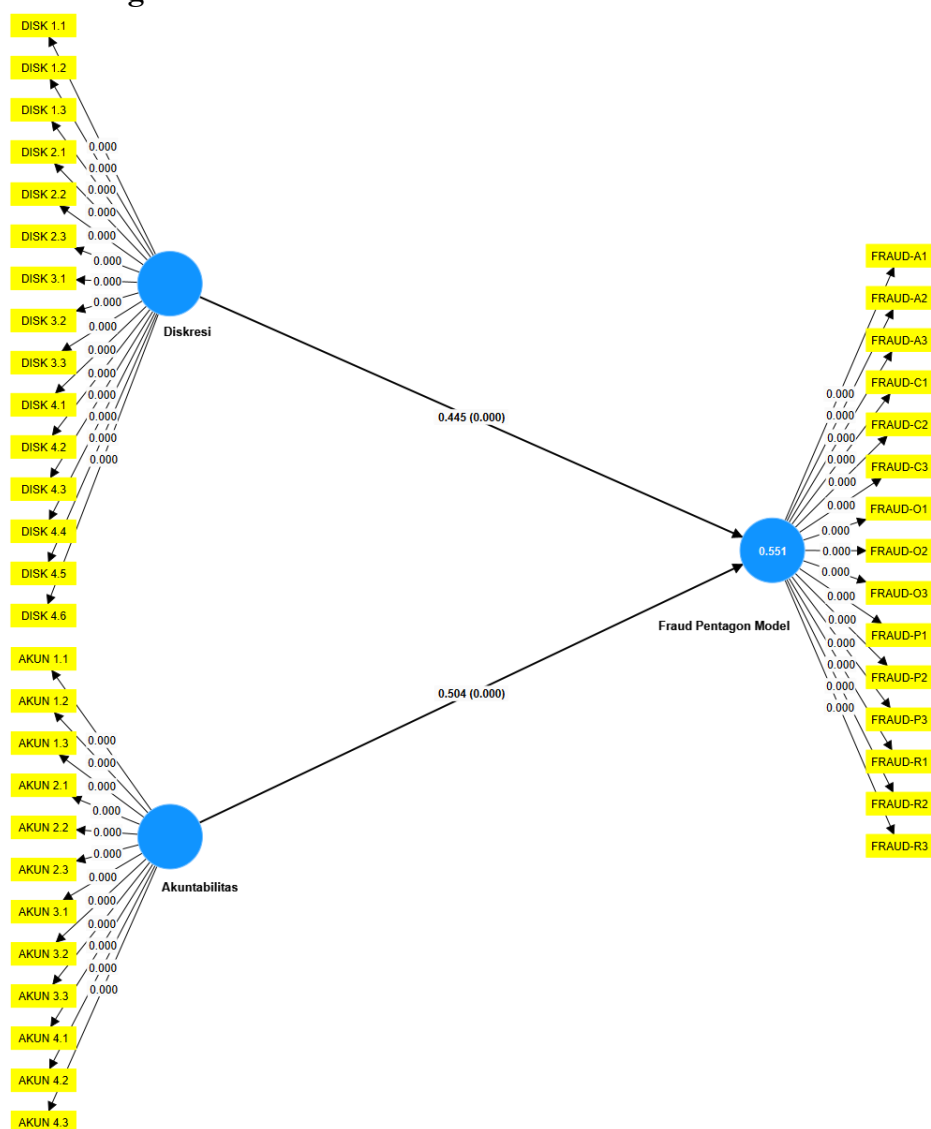


Figure 3. Full Model

Table 11. Path Coefficients (Mean), Standard Deviation, T-Values, and P-Values

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T-Statistics (O/STDEV)	P-Values	Remarks
ACCOUNTABILITY -> FRAUD PENTAGON	0.504	0.509	0.063	7.964	0.000	Significant

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T-Statistics (O/STDEV)	P- Values	Remarks
MODEL						
DISCRETION -> FRAUD PENTAGON MODEL	0.445	0.448	0.065	6.882	0.000	Significant

Based on Table 11, it can be seen how these variables operate. The key criterion is: if the P-Values < 0.05 and the T-Statistic > 1.96, then the effect is considered significant.

The Effect of Accountability on the Fraud Pentagon Model Path Coefficient (O): 0.504 (Positive) T-Statistic: 7.964 > 1.96 P-Value: 0.000 < 0.05 Interpretation: Accountability has a positive and significant effect on the Fraud Pentagon Model.

Paradoxical Meaning: This implies that higher levels of (administrative) accountability demands are associated with a greater tendency for fraud pentagon practices in Banawa Tengah District. This may occur when accountability is treated merely as a formal or procedural requirement, leading officials to manipulate information in order to meet reporting standards.

The Effect of Discretion on the Fraud Pentagon Model Path Coefficient (O): 0.445 (Positive) T-Statistic: 6.882 > 1.96 P-Value: 0.000 < 0.05 Interpretation: Discretion has a positive and significant effect on the Fraud Pentagon Model. Paradoxical Meaning: The freedom in decision-making (discretion) held by village officials tends to be misused (opportunistic behavior). The greater the level of discretion without strict supervision, the wider the opportunity for the misuse of village funds.

DISCUSSION

The Effect of Discretion on the Fraud Pentagon Model

In an organizational context, discretion provides individuals with the flexibility to interpret rules, allocate resources, and make decisions based on personal judgment. When such discretionary space is not accompanied by strong control mechanisms, the potential for abuse of authority and fraud increases. The large effect size indicates that discretion is a significant structural factor in explaining the occurrence of the fraud pentagon model.

The results further show that discretion has a positive and significant effect on the fraud pentagon model. This implies that the greater the level of individual freedom in decision-making, the higher the likelihood of opportunistic behavior leading to fraud, especially when not supported by adequate supervision and control systems. Within organizations, discretion enables individuals to interpret regulations, allocate resources, and make decisions based on subjective considerations. However, in the absence of robust control mechanisms, such discretionary power can create opportunities for the misuse of authority.

These findings are consistent with the work of Cressey (1953), who emphasized that *opportunity* is one of the key elements in the occurrence of fraud. High levels of discretion essentially expand this opportunity. In addition, these results are also in line with the development of fraud theory by Jonathan Marks and Steve Albrecht (often cited alongside Ugo in practice contexts) in the *fraud pentagon model*, where *capability* and *opportunity* are critical factors in explaining fraudulent behavior.

Furthermore, these findings are supported by various studies in Indonesia, which show that *opportunity*, as one of the elements in the fraud triangle theory, has a significant influence on the occurrence of fraud (Diany, 2014; Tessa, 2016). High levels of discretion within organizations further expand this opportunity, particularly when not accompanied by adequate internal control systems (Mintara and Hapsari, 2021; Wahyuni-TD, Haron and Fernando, 2020). Moreover, from the perspective of the fraud pentagon, the *capability* factor also strengthens an individual's likelihood of committing fraud (Biduri et al., 2022).

The Effect of Accountability on the Fraud Pentagon Model

Accountability emerges as the variable with the strongest influence on the fraud pentagon model. This finding emphasizes that accountability mechanisms play a central role in shaping individual behavior and fraud-related practices. Accountability encompasses transparency, reporting obligations, and responsibility for actions and decisions taken.

The positive direction of the relationship between accountability and the fraud pentagon model should be interpreted with caution, particularly in light of how the construct is measured. If higher scores represent formalistic or weak accountability, then this finding suggests that accountability that is not substantively implemented may fail to suppress fraud. In such conditions, accountability functions merely as an administrative procedure without effective control. This result highlights that the mere presence of accountability is insufficient; it must be accompanied by consistent implementation and effective oversight to reduce fraud pentagon practices.

These findings are consistent with several studies in Indonesia indicating that accountability is not always effective in mitigating fraud when it is not supported by strong internal control systems. Previous research has shown that accountability may not have a significant effect on fraud prevention and may fail to mediate relationships between variables (Utama & Sitawati, 2022). Furthermore, weak supervision and control systems are key factors contributing to fraud occurrence, even when accountability mechanisms are formally in place (Kusuma et al., 2025).

These findings are further reinforced by various empirical studies in Indonesia, which indicate that accountability is not always effective in reducing fraud when it is not accompanied by adequate internal control and oversight. Several studies have found that accountability is merely formalistic and has no significant effect on fraud prevention (Putri, Irawan and Widyastuti, 2023; Rahman and Yulian, 2021). Furthermore, accountability as part of organizational governance will not be effective without consistent enforcement (Mahardika, Prasetyo and Amalia, 2022; Sari, 2022). In their study, Muwahhidin & Ansar (2025) revealed that organizational ethical culture has no significant influence on the tendency to commit fraud. This finding was attributed to the strong kinship values prevailing in the Dampal Selatan region, where any potential violations tend to be resolved through consensus-building mechanisms and the direction of the village head, rather than through the imposition of formal sanctions or strict accountability mechanisms. This condition suggests that the mere existence of accountability is insufficient; it must be supported by a robust control system to be capable of suppressing fraudulent practices.

Integration of Discretion, Accountability, and the Fraud Pentagon Model

Simultaneously, the results show that the fraud pentagon model tends to increase in organizational environments characterized by high discretion and weak effective accountability. The moderate R^2 value indicates that structural and governance factors play a significant role in

explaining the fraud pentagon model.

Furthermore, the high Q^2 value strengthens the finding that the model has good predictive capability. Thus, the results are not only theoretically relevant but also practically useful in efforts to understand and mitigate fraud pentagon practices.

Theoretical and Practical Implications

From a theoretical perspective, this study enriches the fraud literature by demonstrating that accountability and discretion are important determinants in explaining the fraud pentagon model using a predictive-oriented SmartPLS approach. These findings emphasize that fraud is not merely an issue of individual ethics, but is also influenced by organizational structure and governance systems.

From a practical perspective, organizations need to strengthen substantive accountability mechanisms and manage discretion proportionally. Policies related to fraud prevention should be directed toward enhancing transparency, ensuring effective supervision, and limiting excessive discretion without compromising organizational flexibility.

Limitations and Future Research Directions

This study has several limitations. First, the model focuses only on two predictors of the fraud pentagon model; therefore, future research may include additional variables such as organizational culture, internal control systems, or ethical leadership. Second, the use of cross-sectional data limits causal inference. Future studies are recommended to employ longitudinal designs or conduct cross-sector comparisons to enhance the generalizability of the findings.

CONCLUSION

In conclusion, this study provides empirical evidence of a governance paradox in village fund management. The analysis confirms that both accountability and discretion exert a positive and significant influence on the Fraud Pentagon Model, both individually and simultaneously. Notably, accountability emerges as the most dominant predictor of fraudulent practices. These findings challenge the conventional assumption that increased accountability automatically deters fraud, revealing instead a "symbolic compliance" where administrative transparency is manipulated as a cover for irregularities. The structural model demonstrates moderate explanatory power and high predictive relevance, affirming its robustness and consistency in explaining organizational governance failures at the village level. Theoretically, this research extends the application of the Fraud Pentagon Model by integrating political and administrative discretion as critical environmental factors. To mitigate these risks, local governments must implement "bounded discretion" to limit the potential for abuse of authority. Furthermore, oversight mechanisms should transition from purely document-based audits to rigorous, field-based physical verifications. Such a shift is essential to ensure that reported administrative data reflects actual project execution, thereby transforming accountability from a formalistic facade into a substantive tool for integrity.

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