THE EFFECT OF GOOD CORPORATE GOVERNANCE, THE ROLE OF INTERNAL CONTROL, AND COMPENSATION ALIGNMENT ON FRAUD PREVENTION

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Abstract
Good Corporate Governance, Internal Control, Compensation Alignment, Fraud Prevention. The frequent fraud cases occurring in village credit institutions (LPD) have resulted in a decline in public trust in LPD. The implementation of good corporate governance and internal control is a strategic step that LPD can implement to improve the quality of management and supervision. Furthermore, compensation alignment is also a factor that can prevent fraud in LPD. The purpose of this study was to determine the effect of good corporate governance, internal control, and appropriate compensation on fraud prevention. This study was conducted in ten LPDs with the largest assets in Bali. The sample size was 57 respondents, using a purposive sampling technique. The collected data were then analyzed using multiple linear regression analysis. The results showed that good corporate governance, internal control, and appropriate compensation have a positive effect on fraud prevention. The implication of this study is that the implementation of GCG, an effective internal control system, and compensation alignment can reduce the risk of fraud.
Keywords: Good Corporate Governance, Internal Control, Compensation Alignment, Fraud Prevention.

INTRODUCTION

Bali is home to a unique financial institution embedded within its traditional village communities, known as the Lembaga Perkreditan Desa (LPD), or Village Credit Institution. The LPD was conceptualized under the leadership of the former Governor of Bali, Ida Bagus Mantra. As a socially rooted institution that has long existed in Bali's customary villages (desa adat), the LPD was officially established through a gubernatorial decree in 1984. Since its inception, the LPD has played a pivotal role as a community-based microfinance institution governed by traditional laws (awig-awig). Its primary aim is to promote the welfare of the indigenous community (krama) while simultaneously fostering development in the areas of tradition, culture, and religion (Hadiati et al., 2021). The establishment of LPDs in each desa adat aims to support rural economic development by encouraging savings behavior, providing credit to small-scale businesses, eliminating exploitative lending practices, creating equal business opportunities at the village level, and increasing financial monetization in rural areas.

The Provincial Government of Bali took strategic steps to strengthen the local community-based economy by initiating the formation of LPDs. This began with the issuance of the Governor's Decree No. 972/1984 regarding the establishment of Village Credit Institutions in Bali. This policy marked a crucial milestone in the development of microfinance institutions within the traditional desa pakraman environment. The desa pakraman itself represents Bali's traditional social structure, functioning as a central hub of cultural and customary life. The initial policy was later reinforced through Regional Regulation No. 2 of 1988, which provided a stronger legal foundation for LPD operations. These regulations have continued to evolve in response to changing needs and dynamics, including Regional Regulation No. 8 of 2002 and most recently Regulation No. 3 of 2007.

According to economist I Wayan Ramantha, among all microfinance institutions, LPDs hold a particularly significant role in contributing to society. Since their establishment over 35 years ago, LPDs have expanded to nearly every desa pakraman in Bali. This growth is evident in various community activities supported by LPDs, such as temple ceremonies (piodalan), mass rites of passage (manusa yadnya), and financial support for local youth and cultural organizations (sekaa teruna). LPDs are thus not only central to individual villages but have also had a broad impact across Bali as a whole (Duta Bali News, 2022).

According to the Lembaga Pemberdayaan LPD (LP-LPD), as of December 2024, there were 1,301 LPDs operating across Bali, collectively managing assets amounting to Rp 34.536 billion. These figures reflect the LPDs' critical role in supporting the economic infrastructure of desa adat. Of these, 728 LPDs were categorized as healthy, reflecting strong financial performance and optimal risk management. However, 248 LPDs were classified as moderately healthy, indicating the need for improvements in certain areas. Additionally, 210 LPDs were identified as underperforming, while 115 were deemed unhealthy, signaling serious deficiencies in financial and operational governance. Despite these challenges, LPDs remain a pillar of economic resilience in Bali's traditional communities.

Many of the unhealthy conditions in LPDs are attributed to internal fraud and embezzlement (Sujana et al., 2018). Numerous cases of fraud have been documented, with offenders tried and sentenced in court. The financial damage from such fraud varies widely, from tens of millions to billions of rupiah. The methods employed include employee theft, misappropriation by management, and corruption by LPD leaders. Preventing fraud in LPDs requires a strong and collective commitment from all stakeholders—including village residents, customary leaders (bendesa adat), and LPD management—to safeguard these institutions. Fraud not only disrupts operational performance but can also lead to organizational collapse. In financial institutions, it not only causes monetary loss but also undermines public trust.

Mertayasa & Masdiantini (2022) identified several common forms of fraud in LPDs, including asset misuse, financial report manipulation, and corruption involving customer savings and loan accounts. For instance, the former head of LPD Gulingan was found guilty of embezzling Rp 30.9 billion through fictitious loans issued between 2004 and 2020 (detik.com, 2024). As reported by Bali Post (2024), as of May 2024, around 60 LPDs were involved in legal cases being handled by law enforcement authorities.

One notable case of suspected corruption occurred at LPD Desa Adat Ngis, Tejakula District, Buleleng. During the COVID-19 pandemic, the LPD chairperson was accused of embezzling nearly Rp 24 billion by exploiting customer trust and weaknesses in the oversight system. Allegations included manipulating financial reports, creating fictitious loans, and operating dual accounting systems. Investigations by the Bali police revealed that this LPD had long-standing financial problems despite official reports indicating otherwise. Consequently, many depositors—some of whom were entrepreneurs with substantial deposits—lost their savings. The suspect and his family reportedly disappeared, and the case remains under investigation with no clear timeline for prosecution. This case highlights the weak oversight mechanisms in Bali's LPD system and the increasing incidence of corruption in recent years (Kurniawan et al., 2024).

Internal and micro-level issues within LPDs can be grouped into three major categories (Suartana & Jati, 2015): poor governance practices, ineffective management and supervisory mechanisms, and a lack of risk management understanding among stakeholders. These issues are fundamentally linked to corporate governance failures. An effective governance framework, built through collaboration among stakeholders, is crucial for creating value. Similar to corporations, LPDs require robust governance systems involving policies and structures designed to regulate organizational behavior and prevent self-serving actions (Suartana, 2009).

The application of Good Corporate Governance (GCG) is therefore a strategic step for LPDs to improve management quality and oversight. According to Reyhan Daffa & Herwiyanti (2023), GCG is a system designed to regulate and manage institutions with the goal of creating added value for all stakeholders. GCG implementation is essential for ensuring that organizations are managed responsibly, efficiently, and professionally, without compromising stakeholder interests (Suwandi et al., 2019). Through proper GCG practices, LPDs are expected to enhance public trust, improve financial management in traditional villages, and ensure long-term sustainability for local economic development.

The National Committee on Governance Policy (KNKG, 2006) outlines five principles of good corporate governance: transparency, accountability, responsibility, independence, and fairness. Transparency involves clear information disclosure to the indigenous community, such as presenting financial statements in village forums.

Accountability ensures that LPD managers are answerable for fund utilization and strategic decisions, supported by regular audits. Responsibility highlights compliance with both legal and traditional norms (awig-awig), ensuring that decisions align not only with economic goals but also with cultural preservation. Independence guarantees that decisions are free from external interference and focused on communal interests, while fairness ensures equitable services for all members of the community without discrimination. The implementation of these GCG principles enhances trust, mitigates the risk of fraud, and reinforces LPDs as reliable and competitive community-based microfinance institutions.

Beyond GCG, internal control also plays a vital role in ensuring operational reliability and fraud prevention. Internal control functions as a monitoring mechanism to ensure that operational activities align with established policies and procedures. It includes financial recording oversight, risk management, and performance monitoring to detect irregularities early on. Amelia et al. (2023) found that effective internal control systems can significantly reduce fraud. Supriyadi and Sukirman (2021) also emphasized that strong internal control can minimize operational risk while enhancing organizational efficiency and effectiveness. In the context of LPDs, strong internal control ensures the safe and transparent management of community funds, thereby sustaining public trust.

According to Herawati et al. (2022), in addition to GCG and internal control, compensation alignment is also an important factor in preventing fraud. Compensation alignment refers to the alignment between employee expectations and the remuneration received—whether hourly wages or regular salaries—in exchange for their work (Melasari & Sukesi, 2021). Dasuki & Yudawati (2022) argue that dissatisfaction with compensation can lead to accounting fraud, making fair and appropriate remuneration a crucial safeguard.

Several studies have examined the relationships among GCG, internal control, and compensation alignment in relation to fraud prevention, but the findings remain inconsistent. For example, studies by Kurniawan & Izzaty (2019), Rohmatin et al. (2021), and Y. S. Rahayu et al. (2024) suggest that GCG plays a critical role in preventing fraud. However, Amalia & Puspitasari (2024) found no significant influence of GCG on fraud prevention.

Research on internal control and fraud prevention—such as by Suwarsa & Riani Elisabeth (2024), Yulianti et al. (2024), and Faradila et al. (2022)—indicates that internal control has a significant effect on fraud prevention. These findings highlight the importance of a robust internal control system in reducing fraud risk. However, contrasting results from Naufal (2023) and Yanti et al. (2024) found no significant effect of internal control on fraud prevention.

Similarly, studies on compensation alignment have yielded mixed results. Dewi & Adiputra (2022) found a positive relationship between appropriate compensation

and fraud prevention, suggesting that compliance with compensation-related regulations improves fraud control. Conversely, research by Firnanda et al. (2019), Asmapane et al. (2024), Yulianti et al. (2024), and Amelia et al. (2023) concluded that compensation alignment had no significant influence on fraud prevention.

This study is grounded in agency theory, first introduced by Jensen and Meckling (1976), which explains the relationship between principals (owners or shareholders) and agents (managers). In this context, the LPD chairperson serves as the agent responsible for optimizing the institution's performance for the benefit of the principal. However, agents often have personal interests, such as increasing their own welfare, which may conflict with the interests of the principal. While agents are entrusted with managing the organization, they may exploit this position for personal gain.

Based on the aforementioned background and the inconsistencies in previous findings, this study seeks to further explore whether good corporate governance, internal control, and compensation alignment affect fraud prevention, particularly within LPDs. The research focuses on ten LPDs with the largest assets in Bali Province, as these institutions tend to have more complex organizational structures, more formal governance systems, and a higher risk of fraud. The larger the assets, the more critical financial management and internal oversight become. These LPDs also serve as benchmarks for others, making the findings of this study relevant for broader application. Accordingly, the study is titled "The Effect of Good Corporate Governance, Internal Control, and Compensation Alignment on Fraud Prevention".

RESEARCH METHOD

This study employed a quantitative approach with a causal-comparative design to examine the effect of good corporate governance, internal control, and compensation alignment on fraud prevention. Data were collected through the distribution of questionnaires to the management and supervisory boards of ten LPDs with the largest assets in Bali Province. The sample was determined using a purposive sampling technique, considering that LPDs with larger assets tend to have stronger governance and oversight systems, making them more relevant for measuring the variables being studied (Sugiyono, 2019; Wibawa et al., 2022).

The object of this study is fraud prevention as the dependent variable (Y), with three independent variables: good corporate governance (X1), internal control (X2), and compensation alignment (X3). Each variable was measured using specific indicators: fraud prevention refers to anti-fraud policies, procedures, control techniques, and fraud sensitivity; good corporate governance is based on the five principles of KNKG; internal control is assessed using the five COSO components; and compensation alignment includes salary fairness, incentives, benefits, and workplace facilities. Primary data were collected using a four-point Likert scale and were

subsequently tested for validity and reliability to ensure the appropriateness of the measurement instruments (Sariwati & Sumadi, 2021; Astini & Yadnyana, 2019; Laksmi & Sujana, 2019; Suarniti & Sari, 2020).

Data analysis was conducted using multiple linear regression with SPSS version 25 to assess both simultaneous and partial effects between variables. Prior to the main analysis, classical assumption tests were conducted, including tests for normality, multicollinearity, and heteroscedasticity, to validate the model. The F-test was used to evaluate the overall feasibility of the model, the t-test was employed to assess the partial influence of each independent variable, and the adjusted R-square was applied to determine the total contribution of the independent variables in explaining fraud prevention. This method is expected to produce empirical findings that can serve as a foundation for strengthening internal control systems within LPDs in Bali (Ghozali, 2016; Sugiyono, 2019; Wiana, 2022).

RESULTS AND DISCUSSION
Data Analysis Results
1) **Classical Assumption Test**
   Normality Test

The normality test is conducted to determine whether the residual variables in the regression model follow a normal or near-normal distribution. In this study, the normality of the data was tested using the One-Sample Kolmogorov-Smirnov (K-S) method. The data are considered normally distributed if the Asymp. Sig. value is greater than the significance level of 0.05 (Ghozali, 2016). The results of the normality test are presented in the following table.

Table 1. Normality Test Results

		Unstandardized Residual
N		57
Normal Parametersa.b	Mean	,0000000
	Standard Deviation	1,57955708
Most Extreme Differences	Absolute	,115
	Positive	,061
	Negative	-,115
Kolmogorov-Smirnov Z		,115
Asymp. Sig (2-tailed)		,058c

Source: Data processed, 2025

Based on Table 1, the significance value obtained is 0.058. Since this value is greater than 0.05, it can be concluded that the residuals in this model are normally distributed.

Multicollinearity Test

The multicollinearity test is one of the classical assumption tests aimed at detecting the presence of a high linear relationship between independent variables in a regression model. Multicollinearity can cause instability in the estimation of regression coefficients, thereby reducing the accuracy of interpretation in the analysis results. This test is usually conducted by examining the values of the Variance Inflation Factor (VIF) and Tolerance. A VIF value < 10 and a tolerance value > 0.01 indicate that there is no multicollinearity disturbance in the regression model. However, if the VIF value > 10 and the tolerance value < 0.01, it can be stated that multicollinearity exists (Ghozali, 2016).

Table 2. Multicollinearity Test Results

Model	Collinearity Statistics	
	Tolerance	**VIF**
Good Corporate Governance	,519	1,926
Internal Control	,530	1,888
Compensation Alignment	,621	1,609

Source: Processed data, 2025

Based on the results of the multicollinearity test in Table 2 above, it can be seen that the Tolerance values for all independent variables are greater than 0.01 and the Variance Inflation Factor (VIF) values are less than 10, thus it can be concluded that there is no multicollinearity problem in this regression model.

Heteroscedasticity Test

The heteroskedasticity test aims to identify whether there is inconsistency in the variance of errors between observations in a regression model. The method used to detect heteroskedasticity is the Glejser test. The testing criterion is that if the significance value between the independent variables and the absolute residual value is greater than 0.05, it can be concluded that the regression model does not experience heteroskedasticity problems (Ghozali, 2013).

Table 3. Heteroscedasticity Test Results

Model	Sig.
(Constant)	,219
Good Corporate Governance	,208
Internal Control	,216
Compensation Alignment	,950

Source: Processed data, 2025

Based on the results of Table 3, the results of the heteroscedasticity test using the Glejser method show that all independent variables have a significance value (Sig.) greater than 0.05. Good Corporate Governance has a significance value

of 0.208, Internal Control is 0.216, and Compensation Alignment is 0.950. Since all significance values are greater than 0.05, it can be concluded that there is no heteroscedasticity in the regression model.

2) **Multiple Linear Regression Test**

This study employed a multiple linear regression analysis model processed with the aid of SPSS software. Multiple linear regression was used to determine the extent to which good corporate governance (GCG), internal control, and compensation alignment influence efforts to prevent fraud in the 10 Village Credit Institutions (LPDs) with the largest assets in Bali. In this model, GCG, internal control, and compensation alignment act as independent variables, while fraud prevention is the dependent variable. A summary of the regression analysis results is presented in Table 4.

Table 4. Results of Multiple Linear Regression Test

Coefficientsa					
Model	Unstandardized Coefficient		Standardized Coefficient		
	B	Std. Error	Beta	t	Sig.
(Constant)	-,259	2,630		-,098	,922
good corporate governance	,106	,047	,221	2,289	,026
internal control	,331	,065	,523	5,133	,000
compensation alignment	,235	,096	,229	2,435	,018

Source: Processed primary data, 2025

Based on Table 4, the regression equation and its components in this study are as follows.

$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$

$Y = -0.259 + 0.106 X_1 + 0.331 X_2 + 0.235 X_3$

Description:

Y = Fraud Prevention

α = Constant

X_1 = Good Corporate Governance

X_2 = Internal Control

X_3 = Compensation Alignment

e = error

The regression equation indicates a constant value of −0.259, meaning that if all independent variables (X_1, X_2, and X_3) are equal to zero, the fraud prevention value will be −0.259. Although negative and not statistically significant (Sig = 0.922),

this value merely represents a baseline before the influence of other variables is considered.

The good corporate governance variable (X_1) has a regression coefficient of 0.106 and a significance value of 0.026, indicating that GCG has a positive and significant effect on fraud prevention. This means that the better the implementation of GCG, the higher the efforts to prevent fraudulent behavior.

The internal control variable (X_2) shows the highest regression coefficient at 0.331 and is highly significant with a value of 0.000. This demonstrates that internal control has a strong positive impact on fraud prevention. The more robust the internal control system implemented, the more effective the fraud prevention efforts become.

Furthermore, the compensation alignment variable (X_3) also demonstrates a positive and significant effect on fraud prevention, with a coefficient value of 0.235 and a significance of 0.018. This means that the more appropriate the compensation provided to employees or management, the lower the likelihood of fraud occurring.

Model Feasibility Test Results (F Test)

The F-test serves to assess whether all independent variables simultaneously influence the dependent variable. The test is conducted at a significance level of 0.05. The assessment criterion is: if the significance value (Sig F) < 0.05, then there is a joint influence of the independent variables on the dependent variable, and vice versa (Ghozali, 2013).

Table 5. F Test Results

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	306,528	3	102,176	38,740	.000b
Residual	139,787	53	2,637		
Total	446,316	56			

Source: Processed primary data, 2025

Based on Table 5 of the F-test results, it is known that the calculated F value is 38.740 with a significance level of 0.000. Since the significance value is < 0.05, it can be concluded that the variables good corporate governance, internal control, and compensation alignment have an influence on fraud prevention efforts..

Coefficient of Determination Test Results (R^2)

Adjusted R^2 or the coefficient of determination is used to measure the extent to which the independent variables can explain the dependent variable. The value of this coefficient ranges from 0 to 1. The higher the value, the greater the ability of the independent variables to explain the dependent variable (Ghozali, 2013).

Table 6. R2 Test Results

Model	Adjusted R²
1	,669

Source: Processed data, 2025

Based on the results from Table 6, it is known that the Adjusted R² value is 0.669 or 66.9%. Thus, the independent variables in this study can influence fraud prevention by 66.9%, while the remaining 33.1% is influenced by other variables outside the study.

Hypothesis Test (t-Test)

The t-test is used to determine whether each independent variable has an effect on the dependent variable. The test is conducted at a significance level of 0.05. If the significance value (Sig) < 0.05, it can be concluded that the independent variable has a partial influence on the dependent variable. Conversely, if the significance value > 0.05, there is no influence (Ghozali, 2013). The t-table value is obtained from the t-distribution table using the formula for degrees of freedom (df) = n – k, where n is the number of data and k is the number of variables analyzed.

Table 7. t-Test Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-,259	2,630		-,098	,922
Good Corporate Governance	,106	,047	,221	2,289	,026
Internal Control	,331	,065	,523	5,133	,000
Compensation Alignment	,235	,096	,229	2,435	,018

Source: Processed data, 2025

Based on Table 7, the significance values for each variable are shown, consisting of the independent variables (Good Corporate Governance, Internal Control, Compensation Alignment), while the dependent variable is fraud prevention. The following is a description of the table above:

1) Based on the t-test results, the Good Corporate Governance variable has a t-count value of 2.289, which is greater than the t-table value of 2.004, with a significance level of 0.026. Since the significance value is less than 0.05, it can be

concluded that Good Corporate Governance has a positive effect on Fraud Prevention.

2) The t-test results show that the Internal Control variable has a t-count value of 5.133, which far exceeds the t-table value of 2.004. Moreover, the significance value is 0.000, which is much smaller than 0.05. Thus, it can be concluded that Internal Control has a positive effect on Fraud Prevention.

3) From the t-test results, the Compensation Alignment variable obtained a t-count value of 2.435, which is greater than the t-table value of 2.004, and a significance value of 0.018, which is less than 0.05. Based on these results, it can be concluded that Compensation Alignment also has a positive effect on Fraud Prevention.

Discussion of Research Results
The Effect of Good Corporate Governance on Fraud Prevention

The first hypothesis (H_1), which states that good corporate governance has a positive effect on fraud prevention, is accepted. This means that the better the implementation of good corporate governance principles within an organization, the more effective the efforts to prevent fraudulent acts.

The findings of this study support the theoretical view that the application of good corporate governance principles—which include transparency, accountability, responsibility, independence, and fairness—can serve as effective tools in minimizing the potential for fraud (Lisdiono et al., 2023b). The implementation of these principles enables companies to have proper supervision and control systems in place, thereby strengthening integrity in organizational management.

This finding is also in line with the study by Mufariza (2018), which asserts that the consistent implementation of good corporate governance can provide protection for companies against the risk of fraud. The higher the quality of corporate governance practices, the lower the likelihood of fraud occurring in company operations. This indicates that good corporate governance serves as an important pillar in building a clean, transparent, and accountable management system.

This research aligns with Agency Theory, which provides a foundation for understanding the relationship between owners (principals) and managers (agents) within an organization. In the context of LPDs, the paruman desa serves as the principal who delegates authority to the LPD management as the agent to manage community funds. This relationship can give rise to conflicts of interest if not supported by an adequate monitoring system, particularly due to the information asymmetry between the two parties. Therefore, the implementation of good corporate governance is an essential instrument to mitigate such risks.

GCG principles such as transparency, accountability, responsibility, and independence serve to ensure that managers perform their roles professionally,

openly, and in alignment with the interests of the institution and the community. The positive effect of GCG on fraud prevention, as revealed in this study, indirectly proves that sound governance practices can bridge the gap between the principal and the agent, thereby reducing the potential for fraud.

This finding is consistent with the study by Adnyani & Hutnaleontina (2022), which shows that good corporate governance has a positive and significant effect on fraud prevention. The application of fundamental GCG standards, such as openness, fairness, clarity of responsibility, and effective control, can minimize misinterpretation and create transparent and accountable administrative systems.

Moreover, the study conducted by Rahayu & Putra (2022) on LPDs in Kediri District, Tabanan, reveals that good corporate governance influences the tendency for accounting fraud. The better the implementation of GCG principles in LPD operations, the lower the potential for fraud. This confirms that effective and integrity-driven governance is essential for building a healthy, transparent, and trustworthy LPD in the eyes of the community.

The Effect of Internal Control on Fraud Prevention

The second hypothesis (H_2), which states that internal control has a positive effect on fraud prevention, is accepted. This indicates that the stronger the internal control system applied within an organization, the more effective the prevention of potential fraudulent acts.

The implementation of effective internal control is crucial in the operations of Lembaga Perkreditan Desa (LPDs). In the context of LPDs, internal control encompasses policies and procedures designed to safeguard the institution's assets, ensure the reliability of financial reporting, and promote compliance with applicable regulations. A strong internal control system can detect and prevent potential irregularities early on, thus minimizing the chances of fraud. Additionally, good internal control fosters accountability and transparency in operational activities, ultimately enhancing public trust in the performance of LPDs.

This research supports Agency Theory, which serves as the primary foundation for this study. Agency theory explains the relationship between principals (owners) and agents (managers), where potential conflicts of interest may arise due to information imbalances. The paruman desa acts as the principal entrusting the management of public funds to LPD managers, thereby necessitating an effective supervisory system to minimize the risk of misconduct. One such form of oversight is the implementation of strong internal control.

A robust internal control system helps reduce information asymmetry between LPD owners and managers, and increases institutional transparency and accountability. Consistent with this, Artha (2024) stated that internal control supported by clear information and communication systems can enable effective internal audits in preventing fraudulent acts, as seen in the case of LPDs in Denpasar

City. Strengthening internal control systems within LPDs is not merely a technical effort, but a concrete application of Agency Theory principles to build an honest, professional, and trustworthy institution.

This study is consistent with the research conducted by Rahman (2020), which found that internal control has a positive and significant effect on fraud prevention. Moreover, the findings are also supported by Farochi & Nugroho (2022), who stated that control activities are implemented to provide reasonable assurance that institutional objectives, including fraud prevention, can be achieved. Enhancing internal control should be prioritized in LPD management to create institutions that are healthy, transparent, and capable of maintaining long-term public trust.

The Effect of Compensation Alignment on Fraud Prevention

The third hypothesis (H_3), which states that compensation alignment has a positive effect on fraud prevention, is accepted. This finding suggests that fair and appropriate compensation can reduce individuals' tendency to commit fraudulent acts.

Rahma (2020) explained that compensation alignment represents a form of financial reward designed to attract, retain, and motivate employees to work productively. When compensation is well-managed and aligned with individual contributions, it fosters satisfaction and financial sufficiency, thereby reducing the likelihood of employees engaging in harmful activities, including accounting fraud.

In the context of Lembaga Perkreditan Desa (LPDs), the implementation of appropriate compensation is particularly important, as managing community funds requires a high degree of integrity and accountability from LPD administrators. Appropriate compensation not only improves performance but also reduces the chance of deviations or fraud, as individuals feel that their needs and contributions are valued by the institution.

This research also supports Agency Theory, which posits that in the relationship between principals (owners) and agents (managers), there often exist differing interests that may lead to conflicts. One way to address such potential conflicts is by providing appropriate incentives or compensation so that the agent's interests align with those of the principal. In this context, compensation serves as a behavioral control mechanism to ensure that agents act in accordance with the institution's goals. Fair and proportional compensation in LPDs not only impacts motivation but also plays a strategic role in preventing fraudulent actions that could harm both the institution and the community.

This study is in line with the findings of Silitonga et al. (2020), who asserted that compensation alignment has a positive and significant effect on fraud prevention. The better the compensation alignment, the higher the likelihood of fraud prevention; conversely, lower compensation alignment tends to decrease fraud prevention effectiveness.

CONCLUSION

Based on the discussion and data analysis presented in the previous chapters, the conclusions of this study are as follows:

1) Good corporate governance (GCG) has a positive and significant effect on fraud prevention. This indicates that the better the implementation of GCG principles, the more effective the efforts undertaken by LPDs to prevent fraud.

2) Internal control has a positive and significant effect on fraud prevention. A strong internal control system is capable of detecting and preventing potential irregularities at an early stage, thereby reducing the likelihood of fraud occurring in LPD operations.

3) Compensation alignment has a positive and significant effect on fraud prevention. Alignment between the compensation provided and the workload and responsibilities of LPD employees can enhance job satisfaction and reduce the potential for fraud arising from dissatisfaction with remuneration.

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