

## Investigative audit of irregularities in village fund management

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### Abstract

Village funds are a vital component of fiscal decentralization policies aimed at directly supporting rural development and community empowerment. However, various reports indicate that irregularities in the management of village funds remain widespread across different regions. This study aims to analyze the implementation of investigative audits in uncovering irregularities in village fund management in Indonesia. Using a qualitative approach with a phenomenological study, the findings reveal instances of corruption such as fictitious procurement, budget mark-ups, and abuse of authority by village officials. The study recommends strengthening supervision, digitalizing village financial systems, and enhancing the capacity of village apparatus and community participation. The implications highlight the importance of legal enforcement and the improvement of procurement systems through digitalization and transparency.

**Keywords:** Investigative Audit; Mismanagement; Village Funds; Effectiveness; Audit Program; Recommendations

### 1. Introduction

An investigative audit of village fund irregularities is a systematic process conducted by auditors—whether internal government auditors (APIP), the Supreme Audit Agency (BPK), or independent auditors—to uncover suspected misuse, fraud, or legal violations in the financial management of villages, particularly concerning Village Funds (Dana Desa/DD) sourced from the state budget (APBN). Since the enactment of Law No. 6 of 2014 on Villages, the central government has allocated substantial funds to accelerate grassroots development. However, numerous cases of misuse involving tens of billions of rupiah each year have emerged (Manggu, 2017), based on various reports of village fund irregularities. Several village heads have even faced legal proceedings. This reflects the continued vulnerability of village fund management to misuse, which harms state finances and erodes public trust. Through Law No. 6 of 2014, the Indonesian government has granted substantial authority to villages to independently manage their finances. The annual allocation of village funds continues to increase, aimed at promoting sustainable development and community empowerment at the village level. In South Barito Regency, Central Kalimantan, the village fund allocation for the 2023 fiscal year amounted to over IDR 100 billion, distributed among 86 villages across several districts (Retnani et al., 2024).

The increasing allocation of village funds has not always been accompanied by improvements in governance capacity and financial oversight at the village level. Over time, various reports and audit findings have revealed irregularities in the management of these funds. Common practices include fictitious procurement, budget mark-ups, falsification of accountability documents, and abuse of authority by village heads. Several of these cases have been followed up by the District Attorney's Office and Regional Inspectorates, resulting in the identification of suspects and legal proceedings against village officials found guilty of violations. Although many studies have explored village fund corruption, most have focused on financial accountability (Ilham et al., 2024), transparency, and community participation, rather than on investigative audits as a tool for uncovering and enforcing legal action against such irregularities. In-depth studies specifically examining the role of investigative audits remain limited.

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Although regular audits by the Inspectorate are routinely conducted, the effectiveness of investigative audits as a response to suspected fraud has received little academic attention. This represents a critical gap that needs further exploration, particularly to provide insights into how investigative audits can systematically and thoroughly uncover, analyze, and recommend actions for village fund irregularities. Research by Mardiasmo and Irwan (2021) found that the effectiveness of internal oversight by Regional Inspectorates remains weak due to limited auditor resources and local political pressure. Wulandari et al. (2022) also showed that community participation does not necessarily correlate with transparency unless it is supported by open data access and public education. A study by Nugroho and Sari (2023), using a case study approach in East Lampung Regency, revealed that investigative audits were effective in exposing village fund embezzlement schemes through the manipulation of fictitious project documents. The audit findings later served as crucial evidence in corruption prosecution. However, the study did not specifically explain how investigative audits were conducted and implemented at the local level.

This study aims to fill the gap in the literature by developing an adaptive investigative audit model tailored to village contexts. Research on investigative audits of village fund irregularities is urgently needed to address the demand for a responsive oversight system. This study is also significant in providing empirical evidence to support anti-corruption policymaking, as well as in developing an evidence-based early detection and investigative response model.

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## 2. Literature Review

### 2.1. Grand Theory

This study adopts Agency Theory as its grand theory, as developed by Jensen and Meckling (1976), which posits that the relationship between principals (resource owners) and agents (resource managers) inherently carries the potential for conflicts of interest. In the context of village fund management, the public and the state (through the central government) act as principals, while village heads and their officials serve as agents entrusted with managing village funds for the public good. However, due to information asymmetry and weak oversight systems, agents tend to engage in opportunistic behavior that deviates from the principals' interests, such as corruption or misuse of funds. Therefore, control mechanisms like investigative audits are essential to detect and mitigate the risks of such irregularities.

To provide a deeper explanation of deviant behavior in the management of village funds, this study also draws on Deviance Theory (Wells, 1978). This theory asserts that deviance occurs when individuals are unable to achieve socially accepted goals through legitimate means (strain theory). In the case of village funds, high development demands, minimal oversight, and political pressure can drive village heads or officials to take shortcuts—such as engaging in corruption, budget manipulation, or embezzlement of funds (Spitzer, 1975; Al-Khowarizmi et al., 2021).

### 2.2. Investigative Audit

Investigative audit is a component of forensic auditing that focuses on the collection and analysis of evidence to uncover fraud, irregularities, and criminal acts that harm state finances (Toumi, Khelif and Khelil, 2025). Unlike regular financial audits, investigative audits are conducted when there are strong indications of misconduct and are intended to support legal proceedings with valid and credible evidence (Asnaashari, Safarzadeh and Beygpanah, 2025; Ilham et al., 2024).

According to BPKP (2021), an investigative audit is carried out in four main stages:

- Audit Planning based on preliminary information or requests from law enforcement agencies.
- Evidence Collection through interviews, field observations, document examination, and forensic testing.
- Deviation Analysis to identify patterns, perpetrators, and the amount of financial loss.
- Reporting and Recommendations for legal action and improvements to the internal control system.

Investigative audits are particularly important in the context of village funds because fraudulent practices are often disguised through formal documents that appear legitimate, while in reality, no actual activities take place on the ground (Abdelwahed et al., 2025).

### 2.3. Village Fund Management

Village fund management refers to a series of processes (as outlined in Minister of Home Affairs Regulation No. 20 of 2018), which include:

- Planning: Preparation of the Village Government Work Plan (RKPDes) and the Village Budget (APBDDes).
- Implementation: Disbursement of funds and execution of development and empowerment activities.

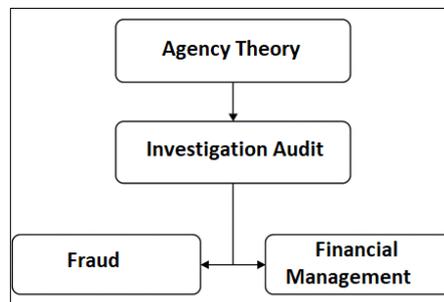
- Administration and Reporting: Recording of transactions and reporting of budget realization.
- Accountability: Reporting on fund utilization, which is audited by the Inspectorate or the Supreme Audit Agency (BPK).

According to Minister of Home Affairs Regulation No. 20 of 2018, village fund management must be carried out based on the principles of transparency, accountability, participation, orderliness, and budgetary discipline. However, in practice, many villages face limitations in human resources and accounting knowledge, leading to administrative errors and creating opportunities for fraud.

From the perspective of Agency Theory, village fund irregularities are understood as a consequence of conflicts of interest between the agent (village officials) and the principal (the community and the state), particularly when oversight systems are not functioning effectively. Investigative audits serve as a mechanism to restore control functions and detect violations that may not be visible through regular audits. By integrating Agency Theory, investigative auditing, and Deviance Theory, this study aims to provide a comprehensive understanding of village fund irregularities, both empirically and conceptually.

Financial Management of Village Funds refers to the process of planning, budgeting, executing, administering, reporting, and supervising the use of financial resources allocated to villages (Finkler, Calabrese and Smith, 2025). These funds, especially in Indonesia, come primarily from the national budget (APBN) and are intended to improve rural welfare and infrastructure, reduce poverty, and strengthen village autonomy (Juma, David and Muniru, 2025).

Effective financial management of village funds is essential for good governance at the grassroots level, ensuring that funds truly benefit rural communities and contribute to sustainable development. Strengthening transparency, capacity, and accountability mechanisms is key to achieving these goals (Ogbara, 2025).



**Figure 1** Conceptual Framework

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### 3. Methodology

This study employs a phenomenological approach, focusing on several villages in Indonesia that have undergone investigative audits by the Regional Inspectorate and the District Attorney's Office. Data collection techniques include document analysis (audit reports, official examination records), interviews with auditors, village officials, and community leaders. The data is analyzed using a qualitative descriptive method.

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### 4. Discussion

The investigative audit was conducted at the request of the Inspectorate and the District Attorney's Office of Buntok, following a public report concerning one of the villages in the Dusun Selatan subdistrict. The audit was carried out by a team of auditors from the Regency Inspectorate in collaboration with auditors from BPKP and prosecutors from the District Attorney's Office.

The investigative audit procedures include:

- Initial Problem Identification: Based on public reports regarding unreleased or unrealized village infrastructure projects.
- Data and Evidence Collection: Including interviews with village officials, verification of the Village Budget (APBDes) and physical project realization, as well as field observations.

- Transaction Analysis and Financial Activity Reconstruction: To identify discrepancies between the budget and actual implementation.
- Preparation of the Investigative Audit Report: Including an estimated value of the state's financial loss.
- The investigative audit revealed several key findings as follows:
- Fictitious Projects: Two physical development projects (a culvert and a village bridge) were listed in the Village Budget (APBDes), but were never carried out in the field.
- Forgery of Receipts and Accountability Documents: Invalid documents related to the purchase of construction materials were found, including receipts that were reprinted without any actual transactions.
- Improper Fund Transfers: Village funds were transferred to the personal bank accounts of the village head and treasurer without valid accountability reports (SPJ).

The audit findings estimated a state financial loss of IDR 385 million for the 2022 fiscal year, out of a total village fund budget of IDR 1.2 billion. An investigative audit of village fund irregularities is a systematic process conducted by auditors (APIP, BPK, or independent auditors) to uncover suspected misuse, fraud, or legal violations in village financial management, particularly regarding Village Funds (Dana Desa/DD) sourced from the national budget (APBN). The results demonstrate the effectiveness of this method in exposing irregularities that are not detected through regular audits. Investigative audits are more forensic and in-depth in nature, tracing evidence down to the level of transaction documents and actual field activities.

These findings support Agency Theory, in which the village head, as the agent, holds greater access to information compared to the community or the central government (the principal). The absence of a strict oversight system creates opportunities for deviant behavior. Based on the audit results, the lack of standard operating procedures (SOPs) for fund management, limited understanding of financial systems among village officials, and the suboptimal role of the Village Consultative Body (BPD) further reinforce the potential for irregularities.

The investigative audit has served as the legal basis for:

- The designation of suspects by the Buntok District Attorney's Office involving the village head and village treasurer.
- The issuance of a restitution order by the Inspectorate for the recovery of state losses.
- The improvement of internal oversight systems through the recommended establishment of a sub-district-based Village Fund Monitoring Team.

This study is in line with the findings of Nugroho and Sari (2023) in East Lampung Regency, where investigative audits were effective in uncovering detailed schemes of village project manipulation. However, unlike that study, the case in South Barito reveals that irregularities were also driven by the low financial literacy of village officials, not merely by intentional misconduct.

Academically, this study reinforces the importance of integrating agency theory and investigative auditing to explain the dynamics of public fund irregularities at the micro level. Practically, it encourages local governments to expand training in village-level finance and accounting, implement risk-based auditing systems for village fund management, and establish independent audit units under the regional inspectorate with investigative competencies.

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## 5. Conclusion

Investigative audits have proven effective in uncovering irregularities in village fund management that cannot be identified through regular audits. Through investigative methods, findings such as fictitious projects, document forgery, and misuse of personal accounts can be forensically and measurably verified. The irregularities in village fund management in South Barito Regency occurred due to weak internal control systems, limited human resource capacity in financial management, and the suboptimal preventive oversight role of the Village Consultative Body (BPD) and the Inspectorate. These irregularities can be explained through Agency Theory, in which the imbalanced relationship between the community (principal) and the village head (agent) creates opportunities for opportunistic behavior, driven by information asymmetry and weak controls. The follow-up to the investigative audit goes beyond the legal designation of suspects; it also contributes to improving village financial governance systems through recommendations such as the formation of oversight units, capacity building for village officials, and strengthening community participation. This study emphasizes that in the context of public financial management at the village level, investigative audits play a strategic role as instruments of accountability and justice, and they help promote the development of more transparent and professional village governance.

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