

DETECTION OF FRAUD PATTERNS IN VILLAGE FUND MANAGEMENT IN INDONESIA

PURWANTO^{1*}, GUGUS IRIANTO², YENEY WIDYA PRIHANINGTIAS³ and ARUM PRASTIWI⁴

¹Department of Accounting, Faculty of Economics and Business, Universitas Brawijaya, Malang, Indonesia.

¹Department of Accounting, Faculty of Economics and Business, Universitas Madura, Pamekasan, Indonesia.

^{2,3,4}Department of Accounting, Faculty of Economics and Business, Universitas Brawijaya, Indonesia.

*Corresponding Author Email: purwanto1805@student.ub.ac.id, purwanto@unira.ac.id

Abstract

This study aims to uncover patterns of fraud in village funds, in addition to identifying influencing factors, involved parties, and necessary preventive measures. Detecting patterns of fraud in village fund management is crucial for identifying practices that harm and undermine the integrity of fund utilization. This subsection reviews the efforts to detect fraud patterns in village fund management in Indonesia. The method used is a systematic literature review, and by examining 40 related journals, several patterns of village fund fraud in Indonesia have been identified, such as project price mark-ups, embezzlement of funds, fictitious projects, bogus work, financing projects from other sources, and village fund robbery. Prevention and mitigation efforts should be integrated, involving collaboration between the government, village communities, and relevant stakeholders. The government should enhance supervision over village fund utilization through internal and external audits. Village communities should also participate actively in supervising fund usage through participation in village forums.

Keywords: Village Fund, Fraud, Village Financial Management

I. PENDAHULUAN

"Desa" is the local government institution closest to the community, aiding in the execution of village development to ensure that the programs implemented by the village directly benefit the economic growth of the community. A village represents the unity of the people and is an inseparable part of the nation's way of life. The central Government's commitment to clarify the functions and authority of the village and to strengthen the position of the village and the village community is realized through the enactment of Law Number 6 of 2014 concerning Villages. To support the implementation of Government Regulation No. 60, various realizations were issued in 2014; one of the policies related to village financial management concerns the village fund sourced from the state revenue and expenditure budget (APBN) (Wahyudi et al. 2021). However, these funds are not always used according to the Government's intended purposes. In several villages in Indonesia, they have been misused by irresponsible elements, both Village Heads and Village Officials. Fraud is an intentional act of deception or cheating aimed at causing harm/loss without the awareness of the victim and providing benefits to the perpetrator of the fraud. According to The Association of Certified Fraud Examiner (ACFE, 2020), Fraud is defined as an individual gaining an advantage through means that do not adhere to regulations, involving unexpected elements, deceit, cunning, and dishonesty that harm others. All organizations are susceptible to fraud, and many organizations worldwide are not immune to acts of bribery, corruption, and deception in their day-to-day operations. Indonesia

Corruption Watch (ICW) found that embezzlement of village funds is one of the largest contributors to corruption cases that have harmed the Government by Rp233 billion in 2021, with 154 cases related to village fund allocations involving 245 suspects (Antaranews 2022).

Village funds essentially aim to achieve inclusive economic growth through more equitable income distribution. The funding priorities intended by the Central Government constitute the success categories of village fund management. The success of village fund management can be reflected in Government Regulation Number 60 of 2014, articles 19 paragraphs 1 and 2, stating that village funds are used to finance governance, development, community, and community empowerment. Furthermore, in paragraph 1, village funds are prioritized for community development and empowerment. Village funds can also be used to assist impoverished rural communities in having decent places or environments to reside in. It's recognized that fundamentally, anything related to funds (money) should be directed towards the public good, but it's often misused for individual or specific group desires. The misappropriation of village funds has been widely reported over the last three years, indicating that these funds have been misused by officials entrusted with allocating them. Cases of village fund misuse (fraud) have become prevalent and occur in nearly every district in Indonesia. Based on this, the indicators of village fund success can be observed through the success of development and the enhancement of community well-being through village community empowerment. Since the enactment of Law No. 6 of 2014 regarding Village Funds, Village Governments have directly received village APBN funds from the central government, which are used for village development. Therefore, each village must be accountable for reporting these funds. Law Number 6 of 2014 concerning Villages has empowered villages to manage and oversee all village revenue sources as the village's responsibility in meeting its needs and priorities. Village funds originate from the state budget (APBN) allocated to the village.

The achievement of village self-sufficiency through village funds still needs improvement. The government plays a very active role in overseeing village financial management, from planning, management, to supervision of village funds, which can lead to complex issues. The government must issue regulations that create an effective, efficient, and accountable village fund management system so that its objectives can be realized. Village financial management needs to pay attention to and adhere to general principles of village financial management, namely, village finances must be managed in an orderly manner, in compliance with laws and regulations, transparent, accountable, and participatory, while considering the principles of village financial management: fairness, appropriateness, and benefits for the village community. The availability of various regulations is still considered insufficient to demonstrate the government's seriousness in empowering villages. Financial assistance and village fund allocations (good intentions) require support from all policy makers so that village officials have the capacity to manage village finances. Therefore, these various regulations must be elaborated into a mechanism that can detect fraud in village financial management. The lack of capacity among village officials to understand existing regulations does not rule out the possibility that many village administrations in Indonesia will face serious problems in the future, particularly issues related to village fund corruption.

The village budget, expected to advance and prosper the village, contributes to improved public services and village development. However, over time, the allocation of these funds has seen an increasing potential for corruption-related deviations each year. The issue of corruption at the village level has, in reality, been premeditated from the early stages of village development planning, whether by systematically structuring development programs to allow opportunities for corruption or by inflating program budget allocations beyond what is necessary. This demonstrates that corruption at the village level has become a premeditated and structured behavior.

Concerning the management of village funds, the primary concern of many is the potential for corruption in their utilization. Both intentionally and unintentionally (due to a lack of understanding of proper utilization and administrative reporting), by village officials and anyone associated with the use of village funds. The main weakness in overseeing the use of village funds originates from the sociological conditions in rural areas that still hold feudalistic traits. Any institution present in rural areas tends to weaken or can easily be undermined by the existing feudalistic culture.

Accountability in village fund management requires oversight and collaboration between the government as the manager of public finances and the community as overseers in the implementation of village fund management.

Deviations in the implementation of village governance, particularly regarding the misuse of village budgets, need to be meticulously examined to determine whether they fall under actual corruption or pseudo-corruption. Actual corruption entails forms of corruption such as embezzlement, misappropriation of village funds, accepting bribes related to the issuance of permits/licenses, and using village funds for personal gain. Several forms of village misuse frequently undertaken by Village Governments include embezzlement, budget misappropriation, abuse of authority, unauthorized levies, fictitious reporting, budget cuts, and bribery. As for the modus operandi employed by Village Governments, it involves inflating budgets by designing cost estimates exceeding market prices, creating counterfeit activities whose budgets are funded by village funds, and conspiring to commit fraud in projects funded by village funds. The multitude of actions resulting in state losses unquestionably demands solutions to prevent or minimize state losses resulting from corrupt criminal activities.

The phenomenon of misappropriation of village funds has raised concerns among both the general public and the government. The surge in corruption within the village sector paints a grim picture that is closely tied to discussions on government policy evaluations for villages. All these corruption cases have turned villages, once believed to be part of development, into new breeding grounds for corruption. Corrupted and misused Village Budgets (APBDes) can have severely negative impacts on the hopes for improving the well-being of rural communities and village development. The moral values of individual officials can influence the likelihood of village fund fraud. This is because individuals with high moral values are more likely to have good integrity and be unwilling to break rules even when there is an opportunity for fraud. Strong individual moral values prevent someone from committing fraud even under the most significant pressure. This is possible because if an individual is rooted in good ethics and holds

good values and norms, they are less likely to violate rules. If an organization has a strong ethical culture, it leads to a positive work environment and high standards of behavior. A positive work environment tends to discourage employees from breaking established rules and norms. Village finances are misused due to the lack of community participation in the development and monitoring of village budgets (Ardiana & Sugianto, 2020). The Village Consultative Body (Badan Permusyawaratan Desa) is not functioning effectively. Village funds are at a critical point in their management due to the lack of competence among village heads and officials, as well as inadequate facilities and infrastructure. Despite various legal regulations being enacted to prevent mismanagement of village funds (Utami & Ibrahim, 2019).

The phenomenon described above highlights that the ideal condition of village governance, particularly concerning the effectiveness of internal control systems, is worth investigating to prevent corrupt practices related to village fund management. In a study conducted by Wibisono (2017), it was found that the lack of guidance and supervision provided by district officials, inspectorates, the Village Consultative Body (Badan Permusyawaratan Desa), as well as the shortage of Human Resources responsible for village fund management and village heads, is the root cause of the tendency towards village fund misappropriation.

Village administrations, in managing village funds, need to uphold sincerity and provide the broadest scope possible, ensuring that the internal control system reaches all parties. Embezzlement of village budgets is a significant contributor to corruption cases in Indonesia. This indirectly indicates the weak supervision and transparency of village budgets by village administrations, and reveals that the community is not involved in supervising village budgets for prioritized village activities. Another factor that can enhance fraud prevention is a reasonable internal control system within an organization. Internal control is designed to provide reasonable assurance in achieving operational objectives, delivering reliable financial reporting, and complying with applicable laws and regulations

2. RESEARCH METHODOLOGY

This research was conducted through a systematic literature review with the topic of village fund misappropriation patterns. A systematic literature review is a research method and process used to identify and critically assess relevant studies, as well as to collect and analyze data from those studies. The aim of a systematic literature review is to provide a recent summary of the current state of research knowledge. Additionally, a systematic literature review addresses the main issues commonly encountered in research, known as research bias. This systematic literature review gathers all empirical evidence that meets the predetermined eligibility criteria to answer the specified research questions. In this review article, 50 references were selected based on formulated criteria.

A Systematic Review Process

There are four steps encompassed within the systematic review process: identification, screening, eligibility, and inclusion (Figure 1). The identification process is the initial step in this phase. First, relevant keywords are identified and integrated into the search process in both Scopus and WOS databases. It should be noted that keywords such as "village fund" and "misappropriation" were used. Next, the screening stage resulted in 6 duplicate articles being removed. In the first step, 85 references were deemed eligible, but after this process, 13 articles were excluded due to their document type. Specifically, only journal articles were selected from the Scopus and WOS databases, and they had to be written and published in English to avoid translation-related challenges and confusion. Thirdly, 12 references were eliminated as they did not focus on the main research area of village funds and misappropriation. Therefore, ultimately, 40 empirical journal articles were used in this paper's systematic literature review. The diagram below illustrates the process of literature search and journal selection employed by the researcher in conducting the study.:

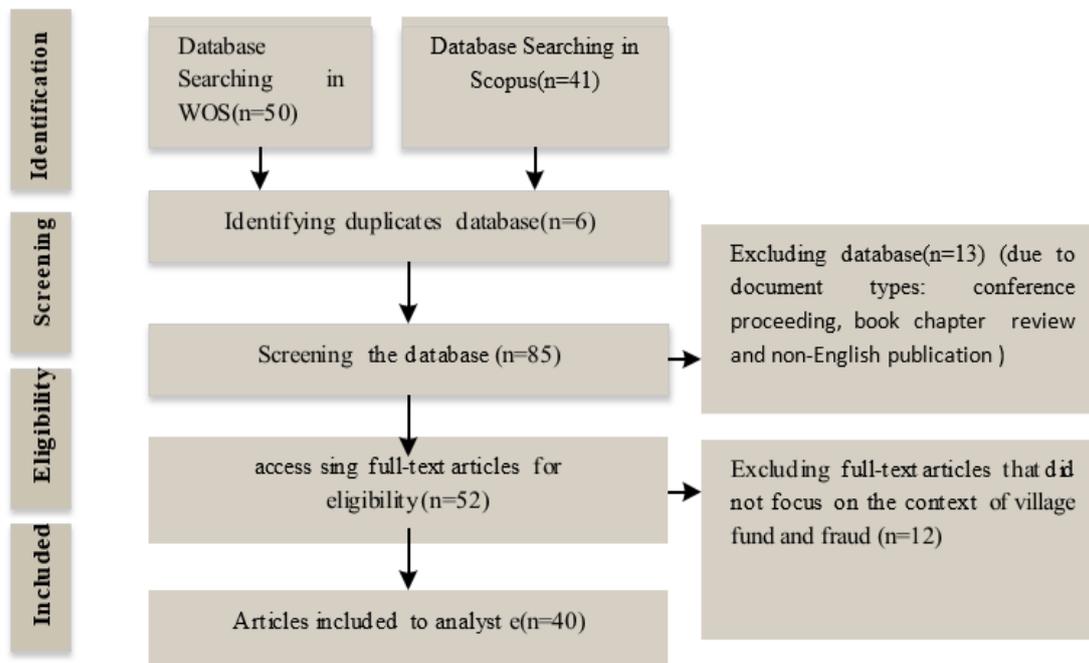


Figure 1: Flow of Systematic Review of Searching

3. RESULTS AND DISCUSSION

Journal Analysis of Research Question

Based on the above criteria, Table 1 presents some survey results from 40 articles on village funds. According to the statistics, most articles focus more on fraud prevention efforts. Several journal articles have indicated patterns of village fund misappropriation occurring in Indonesia. Furthermore, a majority of the literature argues that detecting patterns of misappropriation in

village fund management is crucial for identifying practices that are detrimental and undermine the integrity of fund utilization. In this subsection, a review will be conducted on the efforts to detect patterns of misappropriation in village fund management in Indonesia.

Patterns of Village Fund Misappropriation in Indonesia

There are several patterns of village fund misappropriation in Indonesia that frequently occur, such as project price mark-ups, fund embezzlement, fictitious projects, sham work, financing projects from other sources, and village fund robbery. These fraudulent patterns are often carried out by irresponsible village officials and contractors involved in these projects. (Aini N., Prayudi. M. A., & Diatmika. P. G., 2017; Fahjar, 2020; Djasuli .M., 2018; Lanchok .A. F., 2018).

Indicators of Fraud Patterns

Several indicators of misappropriation patterns in village fund management that can be identified through the detection method include:

Inconsistency between Budget and Implementation - Significant differences between the proposed budget and the actual project implementation.

Unreasonable Price Changes - Project price increases that are not proportional to reasonable cost changes.

Mismatched Work - Reporting of fictitious projects or work that is not actually performed.

Use of Village Funds for Personal Gain - Suspicious transactions leading to the diversion of village funds for personal gain.

Incomplete Documentation - Lack of clear documentation regarding the use of village funds or conducted projects. Purba, R. B. et al., (2022); Umar, H., & Br. Purba, R., (2020).

Impact of Village Fund Misappropriation

The impact of village fund misappropriation is quite significant, both for the country and the rural community. Economically, village fund misappropriation can harm the country since the funds that should be used for development and public services in the village are instead used for personal or specific group interests. Additionally, the rural community is also disadvantaged as development and public services in the village are not properly executed. (Vousinas, G., 2018).

Efforts for Prevention and Handling of Village Fund Misappropriation

Efforts to prevent and address village fund misappropriation should be carried out comprehensively through the synergy of government, rural communities, and relevant stakeholders. The government needs to enhance supervision over village fund usage, both through internal and external audits. The rural community should also be involved in overseeing village fund usage through active participation in village deliberation forums and monitoring development project implementation. (Atmadja, A.T., Adi, K., Saputra, K., 2017; Kurniawan Saputra, K.A., Subroto, B., Rahman, A.F., Saraswati, E., 2020; Kusumo W. K.,

Achmad .T & Zulaikha, 2022; Mulyani, S. et al., 2020; Saputra, K. a. K., Mu'ah, M., Jurana, J., Korompis, C. W. M., & Manurung, D. T. H., 2022; Siahaan, M., Umar, H., & Purba, R. Br., 2019; Wahyudi, S., Achmad, T., & Pamungkas, I. D., 2019, 2021; Widiyarta, K., et al., 2017; Wijayanti, P., Nurhidayati, & Hanafi, R., 2019).

Challenges in Detecting Fraud Patterns

Despite efforts to detect misappropriation patterns in village fund management, there are several challenges to overcome, such as limited access to financial data, lack of technical understanding at the village level, and coordination issues among supervisory institutions. (Dianto, I., 2019; Purwadinata. S., Suman. A., Susilo, & Manzilati. Asfi, 2018, 2019; Shaleh, K., Irianto, G., Djamhuri, A., & Adib, N., 2022; Umar H., Usman S., & Purba R. B. R., 2018; Uskara, A.M ET. AL., 2019; Wahyuningsih, I., 2020; Wida, S.A., Supatmoko, D., Kurrohman, T., 2017).

CONCLUSION

Village fund misappropriation is a serious issue that needs to be addressed promptly. There is a need for integrated efforts to prevent and address village fund misappropriation involving all relevant stakeholders. By doing so, it is hoped that village fund misappropriation can be minimized and the utilization of village funds can provide maximum benefits to the rural community.

Detecting patterns of misappropriation in village fund management is a crucial step in combating corruption and fraud practices. The use of appropriate detection methods and accurate indicators of fraud patterns can assist the government and society in identifying and addressing potential misappropriation in village fund management.

References

1. Undang-Undang Nomor 6 Tahun 2014 Tentang Desa
2. Peraturan Pemerintah (PP) Nomor 60 Tahun 2014 tentang Dana Desa yang Bersumber dari Anggaran Pendapatan dan Belanja Negara
3. Wahyudi, S., Achmad, T., & Pamungkas, I. D. (2021). Village apparatus competence, individual morality, internal control system and whistleblowing system on village fund fraud. *Wseas Transactions on Environment and Development*, 17, 672–684.
4. ACFE (Association of Certified Fraud Examiners) Indonesia Chapter. (2020). *Survei Fraud Indonesia 2020*. Acfe.
5. Antaranews.com. (2022). *Kejari Labuhanbatu Tahan Tersangka Korupsi BUMDes*. <https://sumut.antaranews.com/berita/492633/kejari-labuhanbatutahan-tersangka-korupsi-bumdes>
6. Ardiana, T. E., & Sugianto, L. O. (2020). The Influence Of Financial Reporting Compliance, Government Personnel Competency Towards Fraud Prevention In Village Fund Management (Case Study In Kecamatan Siman Kabupaten Ponorogo). *International Journal of Economics, Business and Accounting Research (IJEBAR)*, Vol-4(4), 1265-1275 , E-ISSN: 2614-1280 P-ISSN 2622-4771

7. Utami, W. B., & Ibrahim, K. W. (2019). Pengaruh Pembangunan Desa Dan Faktor Faktor Yang Menghambat Pengelolaan Alokasi Dana Desa Terhadap Akuntabilitas Publik Pengelolaan Dana Desa. *Jurnal Akuntansi Dan Pajak*. <https://doi.org/10.29040/jap.v20i1.551>
8. Wibisono, N., & Purnomo, H (2017). Revealing public supervision phenomenon on village funds indistrict. *AKSI J. (Account. Inform. Syst.)* 2,8–19 (2017)
9. Aini N., Prayudi. M. A., & Diatmika. P. G., (2017). "Pengaruh Perspektif Fraud Diamond Terhadap Kecenderungan Terjadinya Kecurangan (Fraud) dalam Pengelolaan Keuangan Desa (Studi Empiris pada Desa di Kabupaten Lombok Timur)," *e-Journal S1 Ak*, vol. 8, pp. 1-12,.
10. Fahjar, (2020). "Determinan Fraud Dana Desa : Analisis Fraud Pentagon (Studi Empiris pada Aparatur Pemerintah Desa diLingkup Pemerintahan Desa di Provinsi Daerah Istimewa Yogyakarta)," Universitas Muhammadiyah Yogyakarta,
11. Djasuli .M., (2018). "Tindak Pidana Korupsi Dalam Pengelolaan Keuangan Desa," <https://www.iaijawatimur.or.id/course/interest/detail/20>, 2018.] Eryana, "Keterbatasan Sumber Daya Manusia terhadap Kinerja Pengelolaan Keuangan Desa," *Iqtishaduna J.*, vol. Juni, no. 2, pp. 89–95,.
12. Lanchok .A. F., (2018). "Pola Korupsi dan Pengawasan Dana Desa," <https://aceh.bpk.go.id/wp-content/uploads/2018/09/PolaKorupsi-dan-Pengawasan-Dana-Desa.pdf>, 2018. <http://aceh.tribunnews.com/2018/07/19/pola-korupsi-dan-pengawasan-dana-desa>.
13. Purba, R. B. et al (2022). Detection of Corruption in Village Fund Management using Fraud Analysis.. *Quality - Access to Success*, 23(190). <https://doi.org/10.47750/qas/23.190.14>
14. Umar, H., & Br. Purba, R. (2020). HU Model: Incorporation of Fraud Star in Detection of Corruption. *International Journal of Economics and Management Studies*, 7(12), 1–8. <https://doi.org/10.14445/23939125/ijems-v7i12p101>.
15. Vousinas, G. (2018). Elaborating on the Theory of Fraud. *New Theoretical Extensions*. SSRN Electronic Journal. <https://doi.org/10.2139/ssrn.316333>.
16. Atmadja, A.T., Adi, K., Saputra, K. (2017): Fraud prevention in village fund management. *J. Sci. Account. Bus.* 12(1), 7–16
17. Kurniawan Saputra, K.A., Subroto, B., Rahman, A.F., Saraswati, E. (2020) Issues of Morality and Whistleblowing in Short Prevention Accounting, *International Journal of Innovation, Creativity and Change*, 12(3), pp. 77–88 202
18. Kusumo W. K, Achmad. T & Zulaikha. (2022). Effectiveness of Internal Control System as Early Detection Tool in Fraud Prevention of Village Fund Management. *Review of Economics and Finance*, 2022, 20, 119-123
19. Mulyani, S. et al. (2020) The significance of the internal control system implementation on village government performance. *Opción*, Año 36, Especial No.27(2020): 1278-1291
20. Saputra, K. a. K., Mu'ah, M., Jurana, J., Korompis, C. W. M., & Manurung, D. T. H. (2022). Fraud Prevention Determinants: A Balinese cultural Overview. *The Australasian Accounting Business and Finance Journal*, 16(3), 167–181. <https://doi.org/10.14453/aabfj.v16i3.11>
21. Siahaan, M., Umar, H., & Purba, R. Br. (2019). Fraud Star Drives to Asset Misappropriation Moderated by Internal Controls. *Journal of Southwest Jiaotong University*, 54(4). Internet Archive. <https://doi.org/10.35741/issn.02582724.54.4.24>.
22. Wahyudi, S., Achmad, T., & Pamungkas, I. D. (2019). Whistleblowing System and Fraud Early Warning System on village fund Fraud: the Indonesian Experience. *International Journal of Financial Research*, 10(6), 211. <https://doi.org/10.5430/ijfr.v10n6p211>

23. Wahyudi, S., Achmad, T., & Pamungkas, I. D. (2021). Village apparatus competence, individual morality, internal control system and whistleblowing system on village fund fraud. *Wseas Transactions on Environment and Development*, 17, 672–684. <https://doi.org/10.37394/232015.2021.17.65>
24. Widiyarta, K., et al.: (2017). Fraud prevention in management of village funds (Empirical study in village government in district). *E-J. Bachelor Account. Univ. of Pendidikan Ganesha 1*
25. Wijayanti, P., Nurhidayati, & Hanafi, R. (2019). Fraud Prevention on Village Government: The importance of Digital Infrastructure Supervision. In *Advances in intelligent systems and computing* (pp. 959–965). https://doi.org/10.1007/978-3-030-22354-0_91
26. Dianto, I. (2019). Problematika Pendamping Desa Profesional dalam Pemberdayaan Masyarakat Desa di Kota Padangsidempuan. *Dimas: Jurnal Pemikiran Agama Untuk Pemberdayaan*, 18(2), 239. <https://doi.org/10.21580/dms.2018.182.2829>.
27. Purwadinata. S., Suman .A., Susilo, & Manzilati. Asfi, (2018) Village institutional phenomenon in the base sector through the village funds for business efforts in the underdeveloped area, 15th Ubaya International Annual Symposium On Management
28. Purwadinata. S., Suman .A., Susilo, & Manzilati. Asfi. (2019). Overcoming Conflict of Interest-Based Local Culture Values in Management of Village Fund Institution. *Advances in Economics, Business and Management Research*, volume 161, Proceedings of the Conference on International Issues in Business and Economics Research (CIIBER 2019)
29. Shaleh, K., Irianto, G., Djamhuri, A., & Adib, N. (2022). Forensic investigation of fraud in village Government Agencies: An ethnographic study in Indonesian. *The Qualitative Report*. <https://doi.org/10.46743/2160-3715/2022.5097>
30. Umar H., Usman S., & Purba R. B. R., (2018). “The influence of internal control and competence of human resources on village fund management and the implications on the quality of village financial reports,” *Int. J. Civ. Eng. Technol.*,
31. Uskara, A.M ET. AL. (2019). The effect of internal control system’s effectiveness on village government’s performance, *Opción*, Año 35, No.89 (2019): 195-214
32. Vousinas, G. (2018). Elaborating on the Theory of Fraud. *New Theoretical Extensions. SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.316333>.
33. Wahyudi, S., Achmad, T., & Pamungkas, I. D. (2022). Prevention village fund fraud in Indonesia: Moral sensitivity as a moderating variable. *Economics*, 10(1), 26. <https://doi.org/10.3390/economics10010026>
34. Wahyuningsih, I. (2020). Determinants of fraud tendency in the management of village funds. *Journal of Advanced Research in Law and Economics*, 11(4), 1482. [https://doi.org/10.14505/jarle.v11.4\(50\).44](https://doi.org/10.14505/jarle.v11.4(50).44)
35. Wida, S.A., Supatmoko, D., Kurrohman, T.: (2017). Akuntabilitas Pengelolaan Alokasi Dana Desa (ADD) di Desa – Desa Kecamatan Rogojampi Kabupaten Banyuwangi (The accountability in the management of the village fund allocation in villages at Rogojampi District, Banyuwangi Regency) *IV(2)*, 148–152