

## FRAUD PREVENTION IN VILLAGE FINANCIAL MANAGEMENT: AN ANALYSIS OF THE REGIONAL INSPECTORATE'S ROLE IN BOYOLALI REGENCY

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### Abstract

Transparent village financial management is essential for good governance, yet fraud risks remain. This study examines the role of the Boyolali Regency Inspectorate in preventing fraud using the Three Lines Model. This qualitative case study collected data through interviews and document analysis. Findings reveal that the Inspectorate functions as an external supervisor ensuring accountability, though not part of the village's internal structure. Given that primary oversight lies with the community and Village Consultative Body (BPD), the Three Lines Model is not fully applicable at the village level. To strengthen fraud prevention, the Inspectorate introduced innovations such as Auditor Pendamping, Jadi Kades, SAPU DESA, the Monitoring Center of Development, and cultural approaches, enhancing early detection and preventive control.

**Keywords:** Fraud Prevention; Internal Audit; Regional Inspectorate; Three Lines Model; Village Financial Management

### Abstrak

Pengelolaan keuangan desa yang transparan penting untuk mewujudkan tata kelola yang baik, namun risiko kecurangan masih terjadi. Penelitian ini mengkaji peran Inspektorat Kabupaten Boyolali dalam pencegahan kecurangan dengan pendekatan *Three Lines Model*. Penelitian ini menggunakan metode kualitatif studi kasus melalui wawancara dan analisis dokumen. Hasil menunjukkan bahwa Inspektorat berperan sebagai pengawas eksternal yang memastikan akuntabilitas, meskipun tidak termasuk dalam struktur internal desa. Karena pengawasan utama ada di masyarakat dan Badan Permusyawaratan Desa (BPD), penerapan *Three Lines Model* tidak sepenuhnya sesuai di tingkat desa. Untuk memperkuat pencegahan kecurangan, Inspektorat mengembangkan inovasi seperti Auditor Pendamping, aplikasi Jadi Kades, SAPU DESA, *Monitoring Center of Development*, dan pendekatan budaya yang meningkatkan deteksi dini dan pengawasan preventif.

**Kata Kunci:** Audit Internal; Inspektorat Daerah; Pencegahan Kecurangan; Pengelolaan Keuangan Desa; Three Lines Model

## INTRODUCTION

Since the enactment of Law Number 6 of 2014 concerning Villages (Undang-Undang Nomor 6 Tahun 2014 tentang Desa), village governments in Indonesia have gained greater autonomy, supported by significant fiscal transfers through the Village Fund (Dana Desa). This fund is intended to accelerate rural development and reduce inequality between urban and rural areas. On average, each village receives nearly IDR 900 million annually, while the national allocation has consistently exceeded IDR 70 trillion in recent years.

**Table 1. Allocation of Village Fund (2020-2024)**

| No | Year | Total Budget (Rp) |
|----|------|-------------------|
| 1. | 2020 | 72 Trillion       |
| 2. | 2021 | 72 Trillion       |
| 3. | 2022 | 68 Trillion       |
| 4. | 2023 | 70 Trillion       |
| 5. | 2024 | 71 Trillion       |

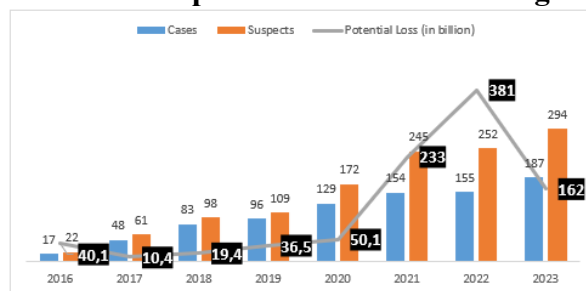
Source: Directorate-General of Regional Fiscal Balance (2020-2024)

However, the increase in fiscal resources has not been fully accompanied by strong governance practices. According to Indonesia Corruption Watch (Anandya & Ramadhana, 2023) the village sector ranks highest in the number of corruption cases handled by law



enforcement agencies, with financial fraud such as fictitious projects, mark-ups, and misuse of funds commonly reported.

**Figure 1. Trends in Corruption in Indonesia's Village Sector (2016-2023)**



Source: (Anandya & Ramadhana, 2023)

Data from figure 1 show a consistent upward trend in both the number of corruption cases and the number of suspects in the village sector, especially since 2016—two years after the Village Fund program was launched. Although the number of reported cases is relatively small compared to the total of 75,265 villages in Indonesia, the possibility remains that many incidents have not been formally investigated or prosecuted.

A prominent case occurred in Boyolali Regency, where the former village head of Manggis Village, Mojosongo District, was accused of embezzling approximately IDR 1.02 billion from the Village Budget (APBDes) through ten fictitious activities—comprising nine infrastructure projects and one capital injection to a village-owned enterprise (BUMDes)—during 2019–2021. The funds originated from financial assistance provided by the Central Java Provincial Government. The case is currently under investigation by the Boyolali District Prosecutor's Office under Indonesia's Anti-Corruption Law (Law No. 31/1999 as amended by Law No. 20/2021).

This phenomenon reveals a persistent gap between the expected quality of financial governance and actual practices at the village level. Although internal control mechanisms are in place, including the presence of the Regional Inspectorate as the internal supervisory body, fraud cases persist. This indicates a need to evaluate the actual role and effectiveness of the Regional Inspectorate in fraud prevention.

Previous studies have investigated internal control and community participation in reducing fraud risks. For instance Deza & Utomo (2024) found that the implementation of internal control systems and citizen oversight significantly reduce fraud; however, their study excluded the role of formal internal auditors. Petrașcu & Tieanu (2014) emphasized internal auditors' responsibility in fraud risk assessment, though their focus was not on village-level institutions. Rustendi (2017) explored the role of internal auditors in fraud detection but did not emphasize preventive strategies in public sector contexts.

More recently, Febiarty et al. (2022) demonstrated the impact of accountability and internal control on fraud prevention in village fund management, moderated by community participation. Yet, again, their concept of internal control referred to village officials' practices rather than formal audit structures. Jeppesen (2018) outlined how internal auditing can mitigate corruption in public and private sectors through compliance and prevention; however, the study did not explore Indonesia's decentralized village governance framework.

This study fills a gap in existing literature, which has largely focused on detection and compliance, by analyzing the preventive role of Regional Inspectorates in decentralized village financial management using the Three Lines Model.

## **LITERATURE REVIEW**

### **Three Lines Model**

The Three Lines Model is a risk management framework that categorizes the roles and responsibilities of internal control within an organization into three distinct lines. This model was developed to ensure that all duties are carried out effectively and efficiently (COSO, 2015). According to COSO (2015) when these three lines function well and coordination is smooth, the organization is more likely to manage risks optimally and improve the effectiveness of internal management in achieving strategic objectives. The model is a refinement of the original “Three Lines of Defense” introduced by the Institute of Internal Auditors (IIA). Unlike its predecessor, the Three Lines Model is more flexible and emphasizes collaboration between the lines. It highlights that good governance results not only from clearly separated roles but also from effective communication and integration across lines (IIA, 2022).

The first line is directly responsible for executing activities to achieve organizational goals (IIA, 2020). As explained by Utami (2019), the first line focuses on risk management and internal control within operational processes through adequate authorization procedures and supervision. The second line oversees and supports the first line, ensuring that risk management is conducted in accordance with standards and that the first line is functioning effectively. The first and second lines can be either integrated or separate, with some second-line roles carried out by specialists who complement, support, and monitor the first line (IIA, 2020). The third line, internal audit, plays an independent role in providing assurance regarding the effectiveness of governance, risk management, and internal control. As Utami (2019) points out, internal audit evaluates the effectiveness of the first and second lines and contributes independently to the organization's risk control and governance objectives.

### **Internal Audit**

The definition of internal audit has evolved significantly over the years. In the 1990s, Tugiman (1997), as cited in Christianto & Soeherman (2019) described internal auditing as an independent assessment function within an organization that evaluates its operations. Similarly, Sawyer (2005), as cited in Fauzi & Wardono (2022), defined it as a systematic and objective assessment activity conducted by internal auditors on a company's operations and controls. These early definitions highlight internal auditing as an assurance-focused function.

The Institute of Internal Auditors (IIA), as cited in Christianto & Soeherman (2019) updated the definition: internal auditing is an independent and objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic and disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes (Edelblut & Murdock, 2008). This reflects a paradigm shift in the internal auditor's role—from merely identifying errors to acting as a strategic partner that provides solutions to complex organizational challenges.

Over time, internal auditors have shifted from being "watchdogs" to consultants and catalysts who contribute long-term value to the organization (Chrystabel & Hapsari (2020)). The modern approach emphasizes prevention rather than detection. According to Rahayu et al. (2018) and Pickett (2010) this evolution involves several dimensions, including a shift from hard to soft controls, from control evaluation to self-assessment, from control to risk focus, from detective to preventive strategies, and from audit knowledge to business knowledge. As consultants, internal auditors facilitate dialogue with auditees to find effective solutions, maintaining efficiency, effectiveness, and economy. As catalysts, they help management recognize potential risks and ensure effective implementation of internal controls and governance (Mehta, 2024).

In the public sector, the internal audit function is performed by Government Internal Supervisory Apparatus (APIP), as regulated by Government Regulation No. 60 of 2008. APIP consists of institutions such as the Financial and Development Supervisory Agency (BPKP), Inspectorates General, Provincial Inspectorates, and Regency/Municipal Inspectorates. The latter oversees all activities funded by the regional budget (APBD) and reports directly to the Regent or Mayor.

### **Fraud Theory (Klitgaard's Formula)**

Fraud refers to intentional illegal acts carried out to obtain personal gain at the expense of an organization. According to Albrecht (2002), as cited in Manossoh (2016) fraud encompasses a variety of deceptive methods used by individuals to benefit at the expense of others through misrepresentation, without physical force, but through dishonesty and breach of trust. The International Standard on Auditing (ISA) 240 defines fraud as intentional acts by one or more individuals among management, employees, or third parties involving the use of deception to obtain an unjust or illegal advantage. The Association of Certified Fraud Examiners (ACFE) also defines fraud as any intentional deceit carried out by individuals or organizations with the knowledge that such acts could cause harm to others.

Robert Klitgaard developed a well-known model for understanding the causes of corruption, formulated as:

$$C = M + D - A$$

This equation explains that Corruption (C) arises when Monopoly of power (M) is combined with Discretion in decision-making (D) and is not accompanied by sufficient Accountability (A).

- Discretion refers to the freedom of an individual to make decisions within their authority. Without clear boundaries or guidelines, this freedom can lead to abuse, especially when used for personal or group interests rather than the public good.
- Monopoly denotes exclusive control over resources or decision-making. In a monopolistic setting, the lack of competition and oversight enables actors to misuse their power for personal gain.
- Accountability is a crucial deterrent to corruption. It requires individuals or institutions to be answerable for their actions. High levels of transparency and public oversight help reduce opportunities for fraud by compelling responsible behavior and ethical governance.

In this study, the Three Lines Model is operationalized as an analytical lens to map the roles and interactions among village governments, supporting oversight functions, and the Regional Inspectorate in village financial management. The first line refers to village officials responsible for planning, implementing, and reporting village finances. The second line includes supervisory and support mechanisms at the village and regional level, such as administrative controls and guidance functions. The third line is represented by the Regional Inspectorate, whose role is analyzed in terms of independence, assurance, and preventive oversight, particularly in early detection and risk mitigation.

Klitgaard's fraud factors are used to assess fraud risks within this structure by examining how monopoly of authority, discretion in decision-making, and accountability mechanisms manifest in village financial management. The Inspectorate's preventive role is analyzed in terms of how its oversight activities reduce excessive discretion, limit monopolistic control, and strengthen accountability, thereby mitigating fraud risks.

### **Previous Studies and Research Gaps**

Several previous studies have addressed aspects of fraud prevention in public financial management, particularly at the village level.

Deza & Utomo (2024) in their quantitative study on internal control and community participation, found that the implementation of internal control systems by village officials and

active community involvement significantly reduce fraud. However, their study focused on controls exercised within the village, without assessing the role of external auditors such as the Regional Inspectorate. In contrast, this study investigates the external internal audit role played by the government through the inspectorate.

Petraşcu & Tleanu (2014) highlighted the role of internal auditors in identifying fraud risks and implementing anti-fraud controls in general organizations. While their study emphasized the internal auditor's responsibility in fraud detection and prevention, it did not focus on public institutions or the context of village-level financial management, as this study does.

Rustendi (2017) emphasized the investigative role of internal auditors in revealing fraud cases to aid top management decision-making. His work focused on post-fraud investigation, whereas this study highlights the preventive role of internal auditors in avoiding the occurrence of fraud in the first place.

Febiarty et al. (2022) through quantitative analysis, found that accountability and internal control influence fraud prevention in village fund management, especially when moderated by community participation. However, their research assessed internal controls applied by village officials rather than the oversight function of the Regional Inspectorate, which is the focus of this study.

Jeppesen (2018) examined how auditing can combat corruption through compliance assurance and preventive mechanisms like vendor audits. While his study covered both public and private sectors broadly, this research contributes a more focused analysis by examining the role of government auditors specifically in the context of village-level finance in Indonesia. From the above literature, a research gap is identified: there is limited in-depth analysis of how Regional Inspectorates as government internal auditors implement specific fraud prevention strategies in village financial governance. Existing studies either concentrate on detection or internal control by village actors while this study addresses the proactive, external, and preventive oversight provided by the Inspectorate.

## **METHODS**

### **Research Design**

This study adopts a qualitative method with a case study approach. Qualitative research aims to provide a deep understanding of a phenomenon by describing, in detail, the conditions in a natural setting as they actually occur (Fadli, 2021). This method is appropriate for exploring and describing the role of internal auditors in preventing fraud in village financial management by capturing perspectives, experiences, and real-life conditions in the field.

The case study approach was used to explore the unique characteristics of the internal auditor's role in preventing financial fraud in village governance in Boyolali Regency. Boyolali Regency was selected as the case study based on several analytical considerations. First, Boyolali manages a relatively large number of villages with substantial village fund allocations, which increases the complexity and risk of fraud in village financial management. This condition makes Boyolali a relevant setting for examining the role of the Regional Inspectorate in fraud prevention. Second, the Regional Inspectorate of Boyolali has implemented several innovative oversight mechanisms in village financial management, such as the Auditor Pendamping scheme, the Jadi Kades early detection system, and the Monitoring Center of Development. These initiatives indicate a shift in the role of internal auditors from a traditional compliance-oriented approach toward a more preventive and consultative role, which aligns with the study's theoretical framework, particularly the Three Lines Model and fraud prevention theory. Third, Boyolali represents a typical regency-level local government in Indonesia in terms of administrative structure, regulatory framework, and intergovernmental



relations between local and village governments. Therefore, findings from this case are expected to provide analytical insights that are transferable to other regencies facing similar challenges in village financial governance, rather than aiming for statistical generalization. According to Rusandi & Rusli (2021)) this approach is especially suitable for analyzing specific events in a particular place and time.

The study was conducted in several stages: the phenomenon of high fraud cases in village financial management, followed by relevant theoretical frameworks. These two chapters form the basis for answering the central research question in the next chapter: how internal government auditors play a role in preventing financial fraud in village administration. Finally, last chapter presents conclusions from the analysis and offers practical recommendations for stakeholders.

### Types and Sources of Data

This study utilizes both primary and secondary data. Primary data are obtained directly by the researcher through interviews and focus group discussions (FGDs), particularly with informants from the Boyolali Regency Inspectorate who possess knowledge and experience in preventing village financial fraud (Sugiyono, 2013).

Secondary data are indirect sources that have already been collected or documented by other parties prior to this research. As noted by Sugiyono (2013) documents complement interviews in qualitative studies. Key secondary documents used in this study include the Annual Supervision Work Program (Program Kerja Pengawasan Tahunan/ PKPT), summaries of inspection results, and regulations concerning the role of internal auditors and village governance.

### Research Informants

Informants were selected using a purposive sampling technique, where participants are chosen based on specific criteria relevant to the research objectives (Sugiyono, 2013). The informants categorized into three groups: auditors from the Boyolali Regency Inspectorate, village officials in Boyolali Regency, and academics. This categorization was made based on the informants' involvement in village financial management and their roles in the oversight system, both from a theoretical and practical perspective.

These selections were based on their responsibilities in village administration, financial management support, and the coordination of programs such as the “village change agents” initiative (Peraturan Bupati Boyolali, 2021) as well as their roles in program planning aligned with regional development strategies.

**Table 2. List of Interview Informants**

| No | Position                                     | Quantity |
|----|--|----------|
| 1. | Auditor at the Boyolali Regency Inspectorate | 6        |
| 2. | Village Officials in Boyolali Regency        | 3        |
| 3. | Academics                                    | 1        |

Source: Processed by the author

### Data Collection Method

#### Interviews

This study used semi-structured interviews, which allow for more flexibility than structured interviews and are considered a form of in-depth interviewing (Sugiyono, 2013). The researcher prepared interview guides with relevant keywords but adapted questions flexibly based on the informants' responses.

Interview procedures followed the model by Lincoln and Guba (Faisal, 1990):

1. Identify informants based on the selected sampling technique.



2. Define interview topics.
3. Open the conversation flow.
4. Conduct the interview.
5. Confirm and conclude the discussion
6. Record the interview results.
7. Identify follow-up actions based on the findings.

### **Document Study**

Document analysis was conducted to complement interview data and enhance the credibility of research findings (Sugiyono, 2013). Documents help to illustrate actions, experiences, and beliefs of informants (Bogdan & Biklen, 2007). The documents reviewed included legal regulations, policy documents, and innovative reports from informants.

These documents were used to confirm how internal auditing is implemented in the context of village fraud prevention and to validate interview data, enabling more accurate and reliable conclusions.

Data validity was ensured through methodological triangulation by systematically cross-checking interview data, document analysis, and focus group discussions (FGDs). Findings from interviews were compared with relevant regulations, policy documents, and FGD results to identify consistency, discrepancies, and confirm key themes related to internal audit practices in village fraud prevention.

### **Data Analysis**

Data were analyzed using the Miles and Huberman model, which is applied continuously from data collection to saturation. Their model includes three main steps:

- a. Data Reduction  
This step involves summarizing and focusing on relevant information from interviews and documents. The goal is to highlight key points and themes, making subsequent analysis and data retrieval more efficient.
- b. Data Display  
Reduced data are then organized and presented in narrative form to identify emerging patterns and grounded theories—those built inductively from field data.
- c. Conclusion Drawing/Verification  
This step involves drawing and verifying conclusions. Initially, conclusions are provisional and subject to change if not supported by further evidence. However, if consistent and valid data are found, the conclusions become more credible and may develop into theory.

## **RESEARCH RESULT**

### **The Role of the Regional Inspectorate in Village Financial Management The Relationship between Village Governments and Regency/Municipal Governments in the Management of Village Finances**

The governance structure between village administrations and regency/municipal governments in Indonesia is characterized by a distinctive interplay between decentralization and hierarchical oversight. While village governments are endowed with autonomy to manage their internal affairs, including financial administration, such autonomy is exercised within the confines of national and regional regulatory frameworks.

Although villages possess the authority to formulate, implement, and be accountable for their Village Revenue and Expenditure Budget (APBDes), they remain under the supervisory domain of the regency or municipal government. Informant 10 articulates this by stating that regional autonomy in Indonesia, particularly at the village level, is not absolute. Given their limited fiscal capacity, villages are often reliant on intergovernmental fiscal transfers.



Consequently, the provision of financial assistance from higher levels of government entails a corresponding obligation for oversight to ensure alignment with broader governmental development agendas. This relationship is reinforced by Law No. 6 of 2014 concerning Villages, particularly Article 112(1), which stipulates that the supervision and guidance of village governance shall be the responsibility of the regency/municipal government.

The primary objective of such supervision is to safeguard the accountability of transferred funds and to prevent potential misappropriations. As emphasized by Informant 4, “Despite having autonomy in financial management, villages still require oversight from the regency to prevent deviations and ensure accountability.” Moreover, in the budget planning process, regents/mayors are authorized to evaluate the draft APBDes to ensure coherence with regional policy priorities and adherence to prevailing legal frameworks. Informant 1 highlights that, “Although village governments are autonomous, they are still bound to comply with regulations issued at higher levels.” This is further substantiated by Article 31(2) of the Minister of Home Affairs Regulation No. 20 of 2018, which mandates that the preparation of the APBDes shall be based on guidelines stipulated in regent/mayor regulations.

In terms of accountability, village governments are required to report their financial management not only to internal stakeholders such as the Village Consultative Body (BPD) and the Village and Community Empowerment Office (Dispermasdes), but also to the regency/municipal government. As stated by Informant 2, “Village accountability, aside from being submitted to BPD and Dispermasdes, must also be reported to the regent.” This requirement is aligned with Article 70(1) of the Minister of Home Affairs Regulation No. 20 of 2018, which specifies that village heads must submit an annual financial accountability report on the realization of the APBDes to the regent/mayor via the sub-district head (camat).

In performing these supervisory functions, the regency/municipal government may delegate certain responsibilities to relevant administrative units. For instance, during the planning stage, the evaluation of the draft APBDes is typically assigned to the sub-district head, and the submission of accountability reports is also routed through the same channel. The Regional Inspectorate plays a central role in coordinating oversight and audit functions to ensure that village financial management practices remain accountable, transparent, and in accordance with both regional and national policy objectives.

### **The Role of the Regional Inspectorate as the Head of Region’s Internal Auditor**

The Regency/Municipal Inspectorate, as the Government Internal Supervisory Apparatus (APIP), is authorized by the Regent/Mayor to supervise the entire village financial management process, from planning to accountability. This implies that the Inspectorate performs an internal audit function over village governance, even though it operates outside the structural hierarchy of village government.

### **Analysis from the Perspective of Village Autonomy**

From the standpoint of village autonomy, the authority of the Regency/Municipal Inspectorate to oversee village finances is limited. According to the principle of autonomy, the Inspectorate should only supervise the use of transfer funds originating from the district government. As stated by Informant 10:

“If we acknowledge that villages possess their own autonomy, then the authority of inspectorates—whether from the Ministry of Home Affairs or the Ministry of Villages—is confined to overseeing funds transferred to the village. If the village funds come from its own enterprises, then neither central nor regional inspectorates have authority over them.”

Notably, the authority of the Regional Inspectorate to supervise village financial management is granted by the same law that recognizes village autonomy—Law No. 6 of 2014 on Villages. This reflects that the autonomy granted to villages is partial rather than absolute.

Villages may manage their finances but must remain within the regulatory framework set by higher levels of government. Thus, under this legal framework, the Regional Inspectorate has legitimate authority to supervise village financial management.

### **Analysis from the Perspective of Internal Audit**

Although the Boyolali Regency Inspectorate is not part of the village government structure, it performs audit functions similar to those of an internal auditor. The distinction between internal and external audit, as outlined by Hery (2017) is crucial: internal audits are conducted by actors within the organization to provide evaluation and recommendations, while external audits are performed independently to offer financial opinions.

The first differentiating factor is the organizational position of the auditor. Since the Inspectorate is external to the village structure and no formal internal audit unit exists under the village head, it cannot be considered an internal auditor for the village. The Village Consultative Body (BPD) functions as an oversight entity but is structurally external and not answerable to the village head.

“Internal auditors work for top management. For example, BPK is an external auditor for the government, but the Inspectorate General and BPKP are internal tools of the government. In villages, there is no internal auditor reporting to the head.” (Informant 10)

Consequently, the Inspectorate functions as part of the district’s internal control system, acting on behalf of the Regent to ensure compliance with regulations. It does not serve the village head directly but rather supports the Regent’s internal governance framework.

The second differentiation lies in the function of the audit. Internal audits provide evaluation, analysis, and suggestions. The Boyolali Inspectorate implements both mandatory and innovative assessments. These include procedures like Agreed Upon Procedures (AUP) aligned with PSAK 4400, administrative evaluations from planning to reporting, and assessments of village apparatus performance. Several informants noted the constructive and formative nature of these inspections.

Village officials acknowledged that these evaluations often result in useful recommendations and capacity-building support, demonstrating the internal control aspect of the Inspectorate’s work.

The Inspectorate also conducts annual sample-based reviews in selected villages as part of the 2024 Annual Supervisory Work Plan (PKPT). Unlike the State Audit Board (BPK), the Inspectorate does not issue audit opinions but focuses on assessing the accuracy and conformity of the village financial management process. As stated by Informant 3:

“We review the financial reports but do not provide an audit opinion.”

Additionally, internal audit outputs typically identify irregularities or potential fraud for corrective action, whereas external audits provide financial statement opinions. In cases of serious irregularities, the Inspectorate can escalate findings to the Regent or law enforcement:

“If significant irregularities are found, the Inspectorate can recommend the Regent take further action, including reporting to prosecutors or police.” (Informant 4)

This demonstrates that the Inspectorate's role aligns more closely with internal auditing, operating as the Regent’s internal control mechanism.

In conclusion, based on the concepts of local autonomy and internal audit, the Boyolali Regency Inspectorate is best characterized as the Regent’s internal auditor, not the village head’s. This is consistent with Government Regulation No. 60 of 2008 on the Government Internal Control System, which defines the Inspectorate as part of the local government's internal supervisory apparatus reporting directly to the Regent or Mayor. Although villages possess autonomy in financial management, that autonomy remains bounded by oversight from the district government. The Inspectorate plays a vital role in preventing fraud and ensuring

compliance with accountability and transparency standards, reinforcing the principle that village autonomy exists within the framework of controlled decentralization.

### **Internal Audit Functions in Village Financial Management: Assurance and Consulting**

The Regional Inspectorate of Boyolali Regency performs two core internal audit functions: assurance and consulting. The assurance function ensures village financial management complies with regulations and identifies potential irregularities. In 2024, this included full audits in eight villages and planned thematic audits focusing on delayed village fund reporting and high-risk villages based on the Siswaskeudes system. However, these thematic audits were later cancelled due to planning changes. For 2025, the Inspectorate plans targeted audits of 64 high-risk villages to investigate issues such as tax leakage and procurement discrepancies.

The Inspectorate also implements risk-based supervision using early detection systems like JADI KADES, helping prioritize villages with higher fraud risk.

In parallel, the consulting function focuses on preventive support to improve governance quality. Given limited personnel (32 auditors for 261 villages), direct annual audits are infeasible. Instead, the Auditor Pendamping program assigns one auditor to guide each sub-district throughout the village financial cycle—from planning to accountability. This approach, considered more efficient, allows consistent engagement even outside formal hours and has transformed the Inspectorate's image into that of a trusted partner. Auditors also support capacity-building initiatives and act as resource persons in village training events.

Through assurance and consulting, the Inspectorate enhances transparency, strengthens internal controls, and helps minimize financial misconduct in village governance.

### **Application of the Three Lines Model in Village Financial Oversight**

#### **The Role of Boyolali Inspectorate in the Three Lines Model**

The Three Lines Model outlines internal control responsibilities into three key roles, with internal audit as the third line providing independent assurance. In the context of village governance, no internal unit plays this role directly. The Boyolali Regency Inspectorate serves as the internal auditor for the regional government, not village governments, and thus cannot be categorized as part of the third line.

Similarly, the Village Consultative Body (BPD), which supervises village heads, operates independently and is not accountable to them. As such, BPD also does not fit the third line role. This indicates that within the village governance system, there is no institution that fulfills the formal criteria of the third line under this model. Although interviews did not explicitly discuss the practical impact of the absence of a third line, document analysis and the governance structure indicate that no independent unit is formally responsible for systematic risk assessment and continuous assurance at the village level. From a Three Lines Model perspective, this structural gap implies that fraud risks may remain undetected at an early stage and are more likely to be addressed only after external audits or public complaints.

#### **Implementing the Three Lines Model in Village Financial Management**

Although the Three Lines Model offers a structured framework for risk oversight, its application at the village level faces limitations. Village financial supervision is mostly carried out by the BPD and the community, functioning more as social controls than formal internal assurance bodies. In some regions, traditional leaders such as kyai or adat heads also play influential oversight roles, although these do not align with the Three Lines structure.

Cultural factors like pekewuh (reluctance to confront superiors) hinder internal accountability. In one case, a corruption report against a village head came from the community rather than village officials. This suggests the need for a flexible, culturally attuned oversight approach beyond the conventional Three Lines Model. Strengthening collaboration between

the Inspectorate, BPD, and local communities is key to enhancing transparent and accountable village financial governance.

### **The Role of Regional Inspectorates in Preventing Village Financial Fraud**

#### **Analysis of Fraud Factors in Village Financial Management Based on Klitgaard's Model**

As part of regional autonomy, villages have the authority to manage their own finances. However, in practice, village heads often monopolize financial decisions, especially in managing village funds. This concentration of power creates opportunities for abuse, such as controlling procurement processes and appointing close associates to key financial roles, despite existing regulations.

This monopoly is further reinforced by the passive stance of village officials and weak oversight from Village Consultative Bodies (BPD). The fear of confronting the village head and the lack of checks and balances allows decisions to be made unilaterally. Political considerations also influence budget distribution, with favoritism toward supporters.

Discretionary power in fund allocation without strong supervision increases the risk of fraud. Although financial management is supported by Siskeudes, accountability remains limited. Common issues include the absence of project transparency, misuse of taxes, and fictitious activities. One indicator is the non-payment or underpayment of taxes, which is only discovered through feedback from tax authorities.

Overall, monopoly and discretion by village heads, coupled with weak oversight and low transparency, are major drivers of fraud in village financial management. These issues enable collusion, unfair allocation, and potential tax manipulation.

### **Innovative Strategies of the Boyolali District Inspectorate in Preventing Fraud in Village Financial Management**

Despite clear regulations on the role of the Regional Inspectorate in overseeing village financial management, fraud remains common. Laws such as Law No. 6/2014 on Villages and Government Regulation No. 12/2017 on Guidance and Supervision of Regional Government Implementation provide a strong legal basis for the Inspectorate's oversight functions. However, challenges like limited resources, complex village financial processes, and weak accountability awareness keep the potential for fraud high. Therefore, innovative strategies are needed, combining conventional approaches with technology, data, and new methods to enhance supervision and prevent financial mismanagement.

#### **Auditor Assistance Program**

The Auditor Assistance Program is an innovative strategy implemented by the Boyolali District Inspectorate to improve supervision and prevent fraud in financial management at the local government and village levels. This program is an additional duty for auditors at the Inspectorate, beyond their primary oversight tasks. As explained by Source 2, each auditor is responsible for mentoring villages, offering consulting support to address village financial issues.

This program is based on the Decree of the Inspector No. 700/3/2024 dated January 31, 2024, which assigns assistance teams to provide intensive guidance and assistance to local government units, including village administrations. The assistance includes consultation, socialization, verification, and reporting, with auditors positioned as agents of change to support accountable governance.

#### **Village Financial Supervision Strategy with Audit Upon Procedure (SAPU Desa)**

The "SAPU Desa" program, using Audit Upon Procedure (AUP), is an innovative strategy to improve village financial governance. This approach aims to create transparent, accountable, and fraud-free financial management. AUP helps establish financial management parameters, assess the performance of village officials, and secure village assets. It also aims to detect potential fraud early and optimize budget use. The program includes anti-corruption

training and the formation of Integrity Task Forces and Village Integrity Ambassadors, further promoting a culture of responsibility and transparency.

#### **Fraud Detection via JADI KADES**

The JADI KADES (Village Agent Network for Monitoring Financial and Asset Management) program is an innovative strategy to reduce fraud risks in village financial and asset management. Involving agents in every subdistrict, the program provides routine updates on village financial and asset management, allowing for early fraud detection. The approach includes defining indicators for early fraud detection, conducting pilot testing in all 261 villages, and evaluating the results to refine the detection system.

#### **Monitoring Center Data for Prevention (MCP)**

To prevent corruption in village financial management, the Boyolali District Inspectorate has developed the Monitoring Center Data for Prevention (MCP) system. This initiative ensures data accuracy, reducing the risk of misallocation of funds by ensuring that only eligible recipients receive village funds. The system collects and updates social data at the village level, creating a single data source to guide accurate fund distribution. This approach prevents fraud, such as inflating recipient numbers or misdirecting funds. Although quantitative data on fraud reduction were not available, informants indicated that the MCP system supported early detection of data inconsistencies and reduced repeated findings related to beneficiary eligibility, thereby strengthening preventive controls in village financial management.

#### **Demonstrating Anti-Corruption Behavior**

The Boyolali District Inspectorate is committed to fostering an anti-corruption culture by modeling integrity in its oversight activities. One concrete example of this commitment is the Inspectorate's strict policy of rejecting any form of gratuity or gift, ensuring auditors and P2UPD staff maintain independence and objectivity. This policy serves as an example for village governments, reinforcing the importance of integrity in financial management. By rejecting corruption and demonstrating ethical conduct, the Inspectorate helps reduce bribery and conflicts of interest, ensuring better accountability in village financial management.

### **CONCLUSION**

This study set out to explore the strategic role of the Inspectorate of Boyolali Regency in preventing fraud in village financial management. Using a qualitative case study approach, the research focused on understanding how internal audit functions are applied in decentralized governance systems, where villages operate with a degree of financial autonomy under the framework of regional supervision. Data were collected through interviews, focus group discussions, and document analysis involving internal auditors, village officials, and an academic expert.

The findings confirm that the Boyolali Inspectorate plays a strategic and adaptive role as the internal auditor of the regional government, but it does not form part of the internal structure of village governance. Its role is defined within the scope of regional authority, acting as an oversight entity under the Regent. While it provides essential administrative supervision and regulatory facilitation to ensure village compliance with financial laws, it does not occupy the formal "third line" position in the Three Lines Model within the village context. The third line in village financial governance is more informally assumed by community members and the Village Consultative Body (BPD), who exercise more direct monitoring functions. This indicates that traditional internal control frameworks such as the Three Lines Model may not be fully applicable in rural governance. Instead, a more contextualized model of internal control is needed—one that acknowledges the oversight roles of the Inspectorate, the BPD, and civil society.

The study also highlights that fraud in village financial management stems from various structural and behavioral factors, including weak internal controls, limited transparency in fund usage, discretionary decision-making by village heads, and potential conflicts of interest in procurement and budget allocation. In response to these risks, the Inspectorate has initiated a series of innovative, preventive strategies. These include the Auditor Pendamping program, which ensures that each subdistrict is mentored by an assigned auditor; the JADI KADES early warning system, which empowers local agents to detect irregularities; SAPU DESA (Audit Upon Procedure), which provides standardized financial assessments; and the Monitoring Center for Development (MCD), which focuses on data quality to ensure targeted and just financial distribution. These innovations show the Inspectorate's proactive shift from reactive audit practices to preventive and risk-based oversight, tailored to the complexity of rural governance.

This study contributes to the growing literature on internal auditing in decentralized systems by showing how local government auditor institutions can leverage innovation, regulatory authority, and community-based engagement to prevent fraud in resource-constrained rural settings. It also adds depth to the understanding of internal audit implementation in Indonesia's village autonomy framework, suggesting that effective oversight is not solely a matter of compliance, but also of trust-building, mentorship, and institutional adaptability.

However, several limitations should be acknowledged. The research was conducted in a single regency, which limits the generalizability of its findings. The scope did not include comparative analysis with other regions or perspectives from beneficiaries of village programs (e.g., residents). The reliance on interviews as the primary data source also carries a risk of subjectivity, particularly when discussing sensitive issues like corruption or governance weaknesses. In addition, the study did not quantitatively measure the impact of the Inspectorate's innovations, which could be addressed in future work.

Based on these limitations, further research could extend to comparative studies across regencies or provinces to explore variations in internal audit practices. Future work may also quantitatively assess the effectiveness of innovations like SAPU DESA or JADI KADES, especially in terms of fraud reduction and accountability improvement. Moreover, a bottom-up ethnographic study involving village citizens and traditional leaders could enrich our understanding of cultural dynamics—such as reluctance to report wrongdoing (*pekewuh*)—in fraud prevention and internal control systems.

In conclusion, this study answers the central research problem by demonstrating that internal auditors—despite being outside village governance structures—serve a vital role in preventing fraud through proactive engagement, system innovation, and risk-based approaches. The Boyolali Inspectorate stands out as a model of how local internal audit institutions can adapt creatively to support financial integrity at the village level, not only through formal supervision but also through education, collaboration, and early intervention mechanisms.

Based on the study's findings that preventive oversight mechanisms and early detection systems play a crucial role in reducing fraud risks, the recommendations are prioritized as follows.

In the short term, regional policymakers and the Inspectorate should focus on strengthening existing preventive mechanisms, particularly by institutionalizing the Auditor Pendamping and JADI KADES programs, as these initiatives have demonstrated practical effectiveness with relatively low additional resource requirements. Capacity-building for auditors in digital tools and data analysis should also be prioritized to enhance early detection and responsiveness.

In the long term, broader governance capacity can be strengthened through regulatory refinement, replication of successful models across other regencies, and the institutionalization of transparency practices at the village level, including participatory planning and routine financial reporting. Empowering the BPD through technical training is also essential to ensure sustainable oversight.

Finally, future academic research is encouraged to adopt interdisciplinary approaches to further develop evidence-based models for fraud prevention in village financial management. By providing concrete, realistic, and systemic recommendations, this study aims to contribute not only to the operational improvement of internal audit systems in village governance but also to the theoretical development of public sector accountability in decentralized contexts. The evolution of fraud prevention must be continuous, contextual, and collaborative to ensure good governance from the grassroots level.

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