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Forensic Investigation of Fraud in Village Government Agencies: An Ethnographic Study in Indonesian

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Abstract

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Keywords

fraud, internal control, village government finance, patron-client relations, ethnographic studies.

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Forensic Investigation of Fraud in Village Government Agencies: An Ethnographic Study in Indonesian

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The utilization of the Village Fund budget has resulted in many improvements in facilities and infrastructure for rural areas. Still, we cannot deny there is a misuse of the funding in some village governments. In this study, we aimed to understand how fraud occurs in village government institutions because there is a patron-client relationship in a bureaucratic environment. This research is an ethnographic study using data collection methods in the form of field observations, documenting files that have relevance for research, and in-depth interviews with informants by applying the snowball technique to obtain informants. The field findings show that the social relations between the political sponsor (patron) and the head of the village government (the client) make the internal control system that regulates financial procedures not run properly. In the end, it opens opportunities for the patrons to misuse the village budget. Fraud behavior is not limited to causing economic losses but also has implications for damaging the social joints of village community life. This research offers a village government monitoring model expected to help district governments develop a monitoring system.

Keywords: fraud, internal control, village government finance, patron-client relations, ethnographic studies

Introduction

The Republic of Indonesia Law Number 6 of 2014 concerning Villages, mandates the central government to allocate several state budgets to village government institutions. From 2015 until now, the central government continues to transfer Village Funds to village governments throughout Indonesia. But ironically, the village apparatus in some village governments misused the village funds. Indonesian Corruption Watch (ICW) in the 2018 Village Fund Outlook (<https://www.antikorupsi.org/id>) noted that corruption cases involving village governments in Indonesia have increased. In 2015, financial abuse cases engaged as many as seventeen village governments. In 2017, it increased by ninety-six from the total village government institutions, recorded at eighty-three thousand three hundred and forty-four in the same year (www.bps.go.id). The head of the village government involved in corruption cases in 2015 was fifteen people, and in 2017 there was an increase of sixty-five people. Village government heads involved in corruption cases experienced a four-fold increase throughout 2015 – 2017. During this vulnerable time, they have accumulated state losses of Rp.47.560.000.000, -. The increasing instances of village government corruption do not heed the call from the central government not to misuse the village budget (<https://www.tempo.co>). Instructions from the central government have not made cases of misuse of the Village Fund budget immediately decrease.

In 2019, the number of villages recorded in the Central Statistics Agency was 83,820, spread throughout Indonesia (www.bps.go.id). This amount is not proportional to the number of functional auditors who supervise. Several local governments in Indonesia are experiencing a shortage of functional auditors. Pasuruan Regency Inspectorate Office (www.pasuruankab.go.id), East Kalimantan Provincial Inspectorate Office (www.inspektorat.kaltimprov.go.id) and Kuansing Regency Inspectorate Office (www.riauonline.co.id) are several governments areas with a shortage of auditors. This deficiency does not include the shortage of functional examiners in other local governments. Auditors are limited in number, causing the supervisory task not to be carried out optimally for the village government. The distance between village areas and districts that are far apart is one of the obstacles to the supervision of the village government.

Bureaucratic violations of the budget also occur in public organizations. Abuse of authority can arise from the management level (Marzuki et al., 2020), causing bureaucratic breaches in the form of corruption (Bali, 2018; Lopez-valcarcel et al., 2017) and bribery (Hanousek & Kochanova, 2016; Soans & Abe, 2015) in public organizations. One of the violations of public budgets occurs in public goods procurement activities that have implemented an electronic system (Maulidi, 2017; Zahra et al., 2021)

Alatas (1987) reveals that humans always build social relationships (social relations), but these relationships often lead to nepotism and collusion in public organizations. As a result, the internal control procedures of public organizations do not run as they should. Failure of the internal control system can pave the way for fraud perpetrators (Bali, 2018; Huefner, 2011). So far, research in forensic accounting has not seen many aspects of social relations as one factor that can potentially cause fraud behavior.

Building a complete understanding of corruption requires communication between scientific fields (Jancsics & Jancsics, 2014). Scott (1972) introduced the concept of the patron-client relationship, which examines society's social relations, which is the subject of discussion in the social sciences and humanities. So far, research in the forensic accounting field has not paid much attention to aspects of social relations in conducting fraud investigations. Current research uses aspects of patron-client social relations to fill this gap in the forensic accounting field.

In Indonesia, patron-client relationships are part of the social interactions of rural communities (Putra, 2007). Patron-client relationships also develop in the social interactions of local government bureaucracies (Kausar, 2009). A similar relationship also grows in the village government bureaucracy. The election of the head of the village government has opened a democratization space in the village area. However, the selection of the leadership democratically, there is still a patron-client political practice of several candidates. After an election, candidates who win the electorate often include their networks into the village government bureaucracy and form a patron-client network (Andhika, 2018). The establishment of patron-client relationships in the village government bureaucracy is an affiliation of the interests of several parties associated with local political alliances.

The patron-client relationship mutated into the bureaucratic system harmed governance (Sarker, 2008). The public budget is in the co-optation of associated parties in patron-client ties. Certain parties affiliated in patron-client relationships use public budgets to fulfill the interests of specific individuals or groups. The shared development budget becomes a compensation medium in the reciprocal relationship between patron and client (Golden, 2000). Exclusivity for certain parties provides an opportunity for violations of internal control procedures to lead to fraudulent actions against the budget within the village government. This situation makes the public budget enjoyed by specific individuals or groups (Hanif, 2009).

Based on this description, the researcher asks how the pattern of budget abuse arises through the patron-client relationships that develop in the village government bureaucracy.

Research Purposes

To understand the causes of fraud by observing patronage relationships in the village government bureaucracy through qualitative research.

The Context of the Researchers

Entering early 2013, researchers began to give academic attention to the field of village financial management studies. Researchers' attention to village financial management increased when the Indonesian government passed Law number 06 of 2014 concerning villages which contained one of them about the village fund budget. This regulation provides an opportunity for the village government to allocate the village funds budget from the central government every year. The village government must manage the village fund budget following regulations as part of the state finances. Meanwhile, many village apparatuses do not have technical competence in the governance of the village budget at that time. To overcome these obstacles, researchers assist village apparatus, especially those who carry out village financial governance functions in some village governments. Since then, researchers have often interacted with the village apparatus and, at the same time, observed and follow many events that occur in the village government bureaucracy, including on research sites. Since being on the research site, researchers have made observations from outside the bureaucracy and direct observations from within the bureaucracy and found that good government governance practices have not been running as expected. This indication the author found, especially in the village's financial governance practices, is not following regulations, causing material losses for the local village government.

Methodology

Why Choose Ethnography?

Ethnographic approaches can help researchers examine and understand social and cultural practices within social groups of either part or all of those communities (Green & Bloome, 2004). Investigative research using qualitative approach can provide a more contextual understanding of the meaning of fraud. Previous research in forensic accounting used qualitative tracing methods (Suleiman & Othman, 2021). Interpretive qualitative methods are also present in crime studies (Miner-Romanoff, 2012). In the rural context, so far, the supervision of village government administration has only taken pictures of the quantitative aspects, but the qualitative aspects have not received serious attention. Qualitative aspects such as social relations in the bureaucracy often hurt village governance. Qualitative elements such as social relations in the bureaucracy often hurt village governance. Ethnographic studies, which are part of the interpretive family, help gain knowledge of socio-cultural realities in a bureaucratic environment. Research methodology is determined based on how a researcher perceives a social phenomenon (Wahyuni, 2012). To gain an in-depth understanding of how people behave and interact socially in the bureaucratic environment of the village government, researchers used ethnographic methods. Patron-client social relations that develop in the village government bureaucracy motivate researchers to use ethnographic methods in this research.

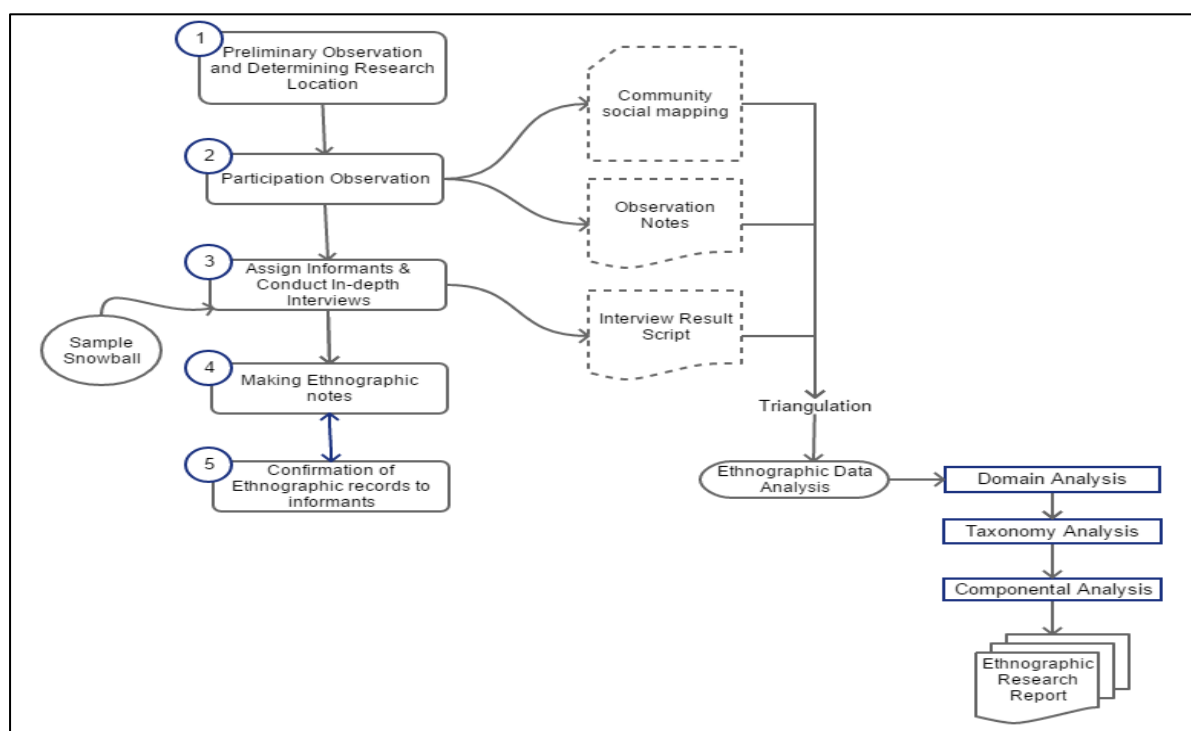
Ethnographic studies allow researchers to observe, uncover, and understand the meaning naturally of social systems (Giazitzoglu & Payne, 2018). Therefore, the steps taken by researchers are to involve themselves in social group activities but not as full members. This method is known as participating observers (Bryman, 2012). This technique can provide an opportunity for the ethnographer to capture and feel for himself the context of the ongoing cultural event. Nevertheless, researchers experienced minor obstacles to participating

observers because the study occurred during the Covid-19 debate. Due to Covid-19 reasons, one of the residents refused when the researcher wanted to stay at his house. However, two weeks later, one of the residents agreed to accept the researcher to stay temporarily at his home by maintaining health protocols.

The ethnographic data analysis of the Spradley (2007) model has three stages (see Figure 1), namely, making a domain analysis, taxonomic analysis (subdomain), and componential analysis. Qualitative data analysis of the Spradley model can help researchers find semantic relationships between cultural themes found explicitly on the research site. The ethnographic data analysis took place concurrently with the researcher doing the field work. Researchers identify and define cultural themes according to qualitative searches while at the research site. Domain themes turn into sub-domain details (taxonomies) to gain more specific and contextual knowledge. The final stage of the ethnographic data analysis is a componential analysis which deals with Reflection on fraud behavior. In the process of data analysis, a researcher should have sensitivity in distinguishing views according to his knowledge with the ability to hear and interpret behavior and reflect on others (Fusch et al., 2018).

Research Stages

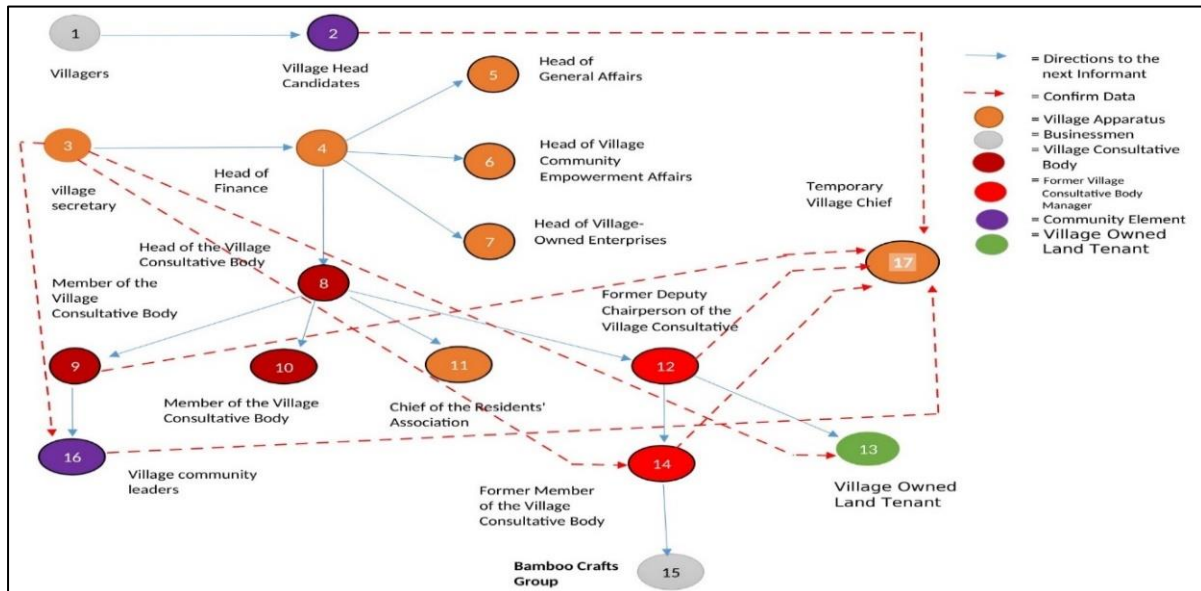
Figure 1
Ethnographic Research Steps



Informant selection techniques with “snowball” methods can help researchers improve access to hidden individuals and groups in qualitative research (Johnson, 2005; Woodley & Lockard, 2016). Informants include elements of the village government, the Village Consultative Body, both current and former members, and aspects of the village community (community leaders and village residents who rent land owned by the village government). The research sample rolled like a snowball so that the number of informants continued to grow because it came from the direction of previous informants. In addition to following orders of earlier informants, the researcher took the initiative to meet certain informants based on

developing information from the interviews. Figure 2 indicates the flow of informant circulation.

Figure 2
Snowball Sample Flow Chart



Note. Processed by researchers

Involving researchers in bureaucratic activities that should be part of the village apparatus does not run smoothly. Researchers hope that involving themselves in bureaucratic activities can help obtain a contextual picture and in-depth information. However, the reality is not so; elements of the village apparatus show a closed attitude and limit the activities of researchers in financial administration activities when the participating observers take place. This situation made the researcher decide to leave the bureaucratic environment and start building communication with the Village Consultative Body elements and several other parties outside the village bureaucracy. Since then, the flow of information has continued to flow through interviews with several informants. Increasing the scope of informants in qualitative investigations, especially when conducting fraud investigations, is a good step for researchers to obtain more in-depth information. Researchers can expand the range of informants if they have difficulty securing informant information from internal bureaucracy when searching qualitatively for fraud.

Researchers can do qualitative data testing through confirmation between informants and documentation (Patton, 2014). Through the triangulation process, the compilation of research data has an element of validity. The dotted line in Figure 1, leading from one informant to another, is the data validity line (triangulation). Data that has been confirmed and has content consistency means that the data contains an element of validity. Positive confirmation of the information from essential informant information (informant 17) with non-village informant means the data has a part of validity. However, the interview script from the village secretary (informant 3) with the information provided by the tenant of the land owned by the village government (informant 13) contained inconsistencies that showed contrasts. Table 1 included several interview scripts and triangulation of informant data.

Table 1
Triangulation of Interview Results

No	Interview Script from non-apparatus informants	Triagulation	Village Government Official Interview Script
a.	<p>The weakness in this village is that the human resources of the residents are still far behind. The educational backwardness of the villagers makes the rulers in the village government act authoritarian. (Informant 16)</p> <p>The human resources of the villagers are meager. We can count on the fingers the number of children who graduate from high school and college; the number is much less. (Informant 16)</p>	Consistent	<p>...one of them, the low education of the villagers, often makes local authorities act arbitrarily. (Informant 17)</p> <p>For 12 years, the political sponsors of the village chief acted as an authoritarian ally in the village government bureaucracy. The party sometimes performs repressive actions if there is a complaining party (Informant 17).</p>
b.	<p>He is not the head of the village government but has more power than the village head. (Informant 1)</p> <p>Residents already know that the village government head's political sponsor (patron) is more in control of the village government, even though he is not part of the village bureaucrat. (Informant 14)</p> <p>Political sponsors (patrons) of the village government head have been controlling clove and coffee plantations, including controlling the village government bureaucracy (Informant 9)</p>	Consistent	The village government head's political sponsor (patron) pressured the village apparatus to follow his wishes despite violating the applicable regulations. (Informant 17)
c.	He (the patron) is not an element of the apparatus in the village government but always interferes when the Village Consultative Body proposes activities. (Informant 14)	Consistent	The political sponsor (patron) unilaterally canceled the development program resulting from village deliberations, and the village government leadership approved the action. (informant 17)
d.	Villagers already know that the political sponsor (patron) of the head of the village government is	Consistent	He (patron) is the contractor for every village infrastructure

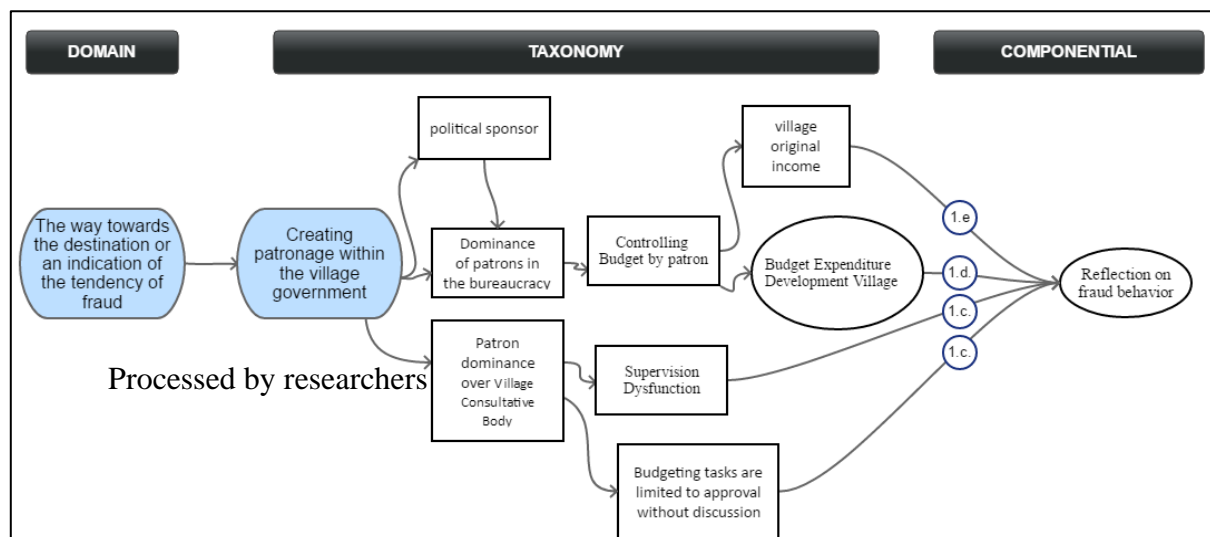
	more powerful to determine the policy of the village government, including development policies whose contractors are the political sponsors themselves. Informant 14		development activity. (informant 17)
e.	We have rented land owned by the village government for 250 “tumbak” since 30 years ago. Rent value per "tumbak" Rp. 2,000 every year. (1 “tumbak” = 14 square meters). (Informant 13)	Inconsistent	So far, the village government does not have the potential for original village income”. Informant 3

Data Analysis

Domain and Taxonomy Analysis

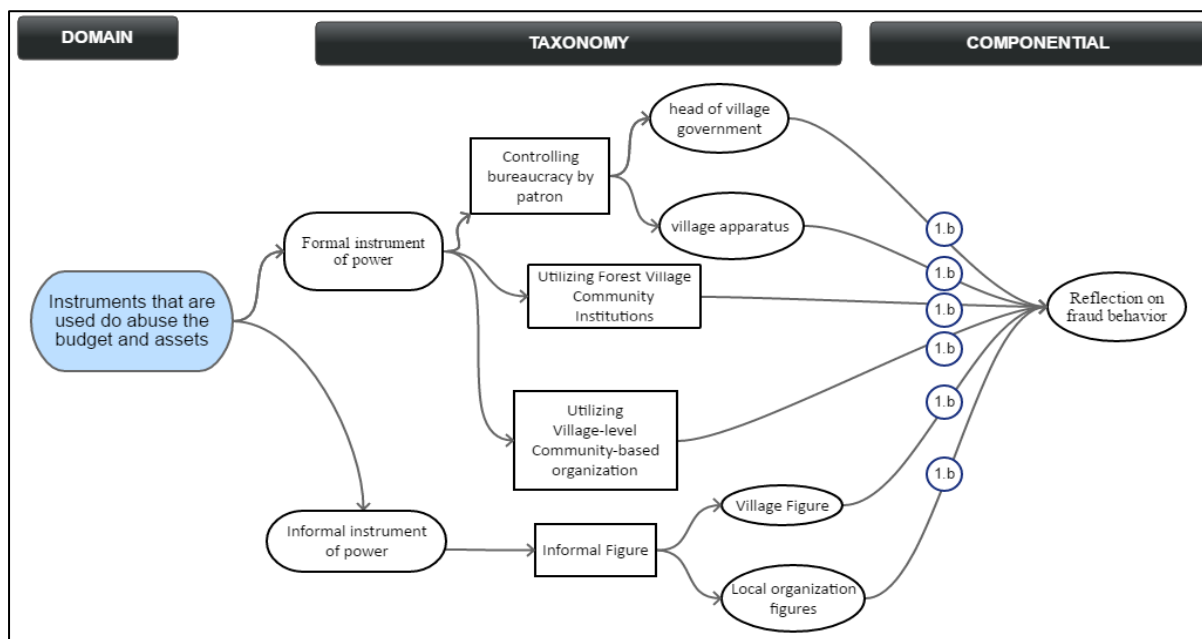
This stage analyzes the cultural theme and breaks it down into cultural sub-themes according to participatory observations and interviews while the researchers are in the field. The cultural theme is related to patronage relations within the village government bureaucracy. The influence of patronage begins with local political activities and then transforms into the bureaucratic environment of the village government. The patron-client relationship in the bureaucracy has terrible implications for public budgets at the village level. Figure 3 illustrates the flow of the domain and taxonomy analysis process.

Figure 3
The Way Towards the Destination of the Tendency of Fraud



Spradley suggests using semantic relationships when determining domains in ethnographic analysis (Mungin, 2015). One of the nine semantic relationships, namely the function element, is defined by the researcher as an instrument (Figure 4). The analysis in Figure 4 explains the mechanisms used by political sponsors (patrons) in dominating the village bureaucracy. This influence puts the village government bureaucracy under the patron's control.

Figure 4
Instruments that are Used to Abuse the Budget and Assets



Note. Processed by researchers

Results

Reflection on Fraud Behavior

Village Social and Economic Overview

The distance between the village area and the city area is far apart, making it difficult for the district government to monitor the implementation of the village government. The situation led to the supervision of the performance of the village government being less optimal. The electronic document-based surveillance system is considered an active solution to overcome these geographical constraints. However, remote monitoring through electronic media can only capture material aspects but has not touched the social dimensions hidden in the bureaucracy. Social elements and negative values in individuals can encourage the onset of abuse (Alatas, 1987; Irianto et al., 2017; Schwartz, 1994; Yuwanto, 2015), but electronic surveillance systems have not detected such indications.

Researchers began the ethnographic research process with field observations in a village area not so far from the center of the provincial capital. Still, they had limited village infrastructure compared to surrounding villages. Most residents spend time on agricultural land to meet the needs of family life. Some farmland residents rent from the village government as landowners. In addition to the farming sector, residents develop coffee plantations on land owned by the central government to agree on a profit-sharing system. Limiting social activities due to the pandemic has made nomads in urban areas lose their jobs (Sulistyorini, 2020). Losing their jobs forced people to return to their villages and start farming activities.

Education is a family burden for villagers on research sites with limited economic conditions. Economic resources are more remarkable for the fulfillment of short-term consumption than the future investment of the family through education. The reality of people with these conditions occurs in rural areas far from the reach of educational facilities (Basrowi

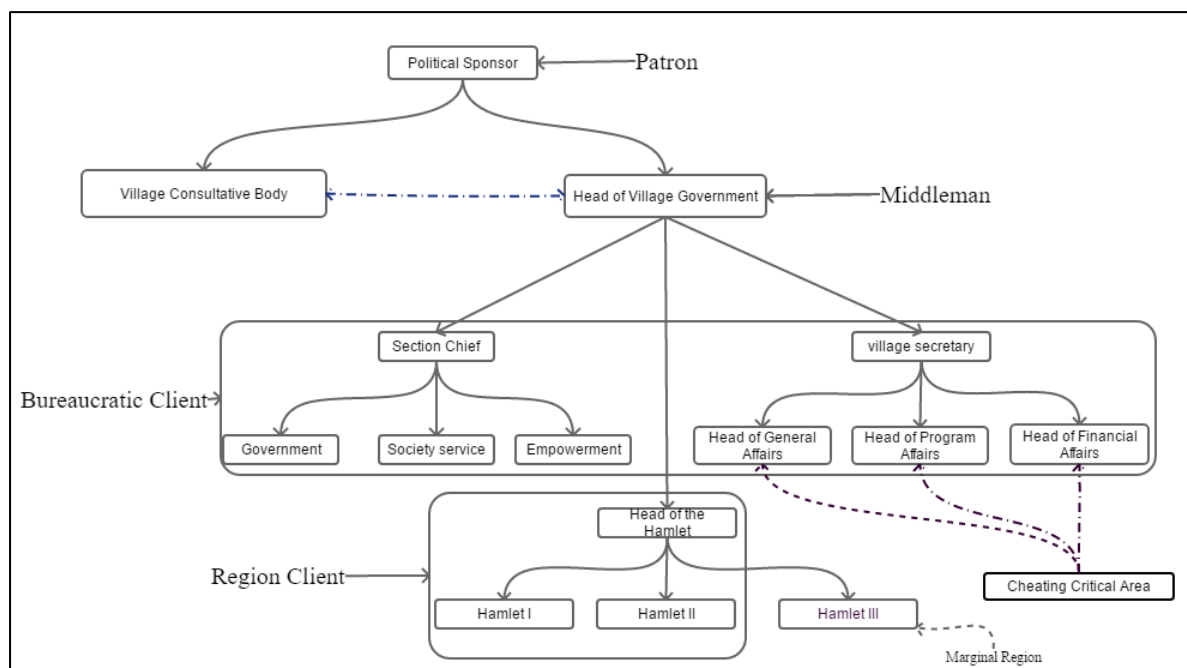
& Juariyah, 2010). Observation of researchers on the research site, the limitations of education cause economic limitations of rural communities. Local rulers often take advantage of the financial limitations of villagers for the political interests of the village level.

Village Bureaucracy in the Shadows of Patrons

The head of the village government institution is the head of the village government, but the political sponsor controls the bureaucracy. Political sponsors are influential figures in the village environment or informal figures (Jefta, 1995). Relaxed figures dominate bureaucratic affairs, thus creating patronage within the village government. The approval of the patron must precede bureaucratic activities. In de jure, the highest power of the village bureaucracy lies with the head of the village government, but de facto authority rests with the patron. The patron's decision always precedes the formal collective judgment that the village government should arrange bureaucratically. The domination of patrons in the village bureaucracy is so strong that violations of village procedural regulations often arise. Figure 5 is a chart of the organizational structure of the village government which we provide additional information to show the position of patron-client relations in the bureaucracy.

Figure 5

The Patron-Client Relationship in the "X" Village Government Structure

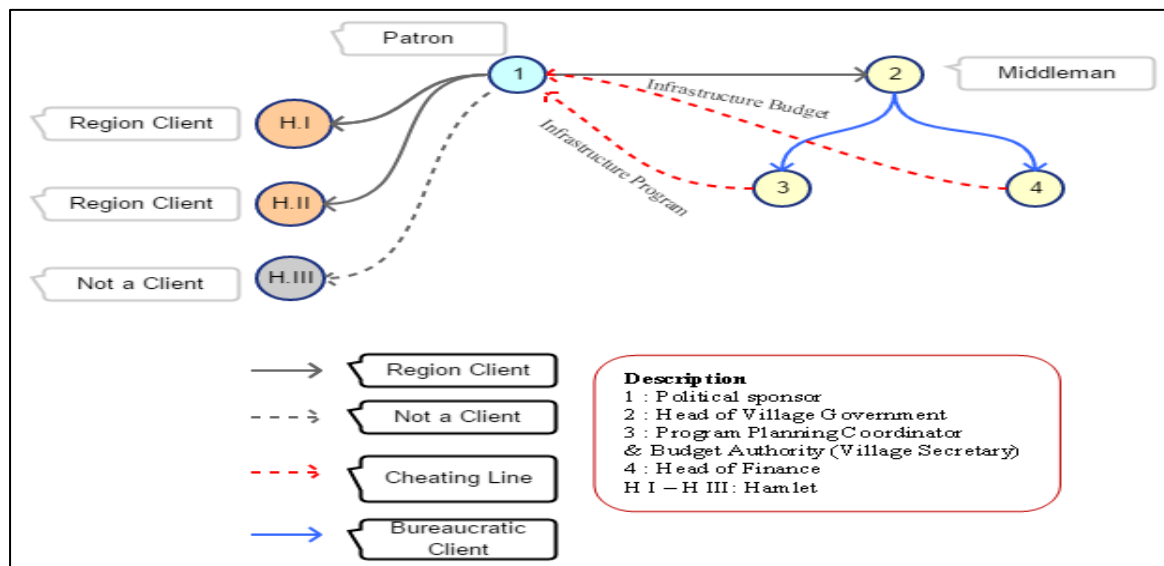


Village Budget Politics: Discrimination between Villages

Observations on the research site, the local village government compiled a development program according to the planning regulations. Still, unilaterally the patron canceled and rearranged the development plan according to his political interests. The patrons relocated the development program to the electoral base area. On the other hand, locations whose citizens do not provide electoral support will not allocate village development programs. The realization of the village development program is more oriented towards fulfilling the political interests of patrons rather than prioritizing the villagers' aspirations. The patrons and heads of village government elaborate the authority of village government institutions to achieve their

economic and political interests. Figure 6 shows patron dominance in village infrastructure development programs.

Figure 6
Sociogram of Patron Domination in Village Infrastructure Program



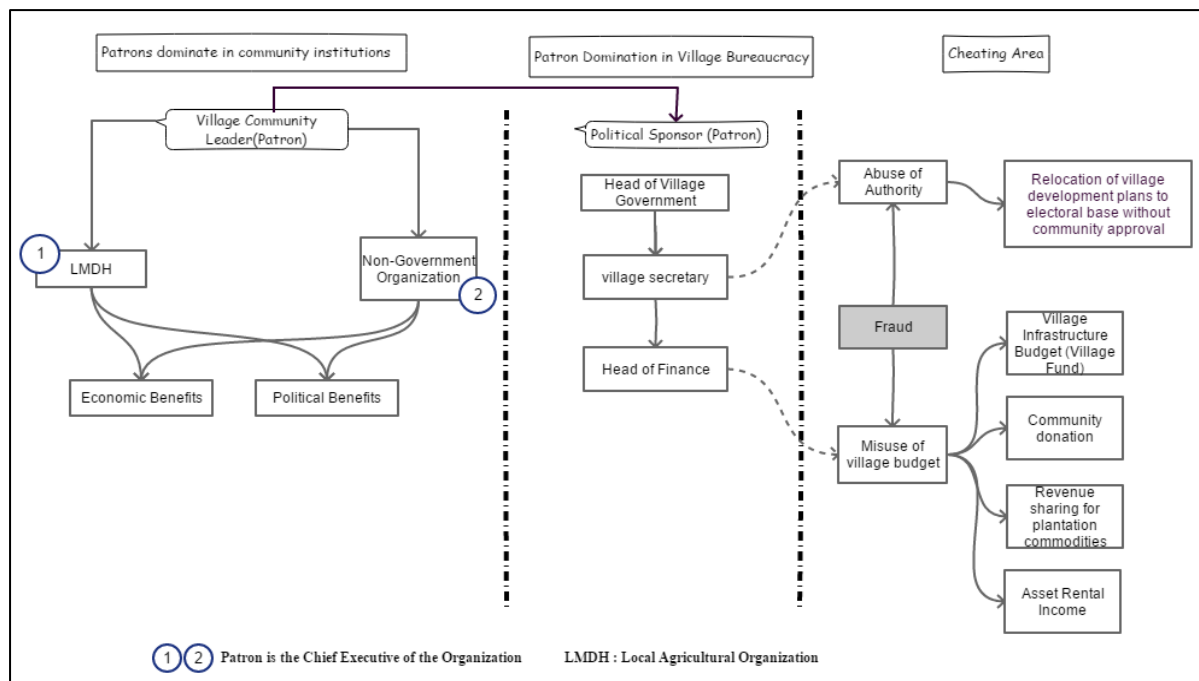
Note. Processed by researchers

Village Budget Fraud Pattern

Village government bureaucrats under patron control cause village financial governance regulations to run improperly. Violations of village financial governance regulations often occur due to pressure from patrons. The village infrastructure development budget should be under the control of the village government head, but instead, the patron controls the budget as a builder of buildings. Patron's control of the village infrastructure development budget opens opportunities for budget abuse.

Another aspect of this village is that some of the villagers worked on farmland owned by the village government. Land owned by the village government is known as the local land *carik*. Local farmers grow various types of vegetables and secondary crops on *carik* soil. The farmers rented the land from the village government. The Minister of Home Affairs Regulation Number 1 of 2016 concerning Village Asset Management states, "Lease is the use of assets belonging to the village government that other parties use for a certain period, and the village government receives cash rewards." According to the Minister of Home Affairs Regulation Number 20 of 2018 concerning Village Financial Management, cash rewards from asset rental, Article 12 Letter b is a "Village original income group." However, the excerpts from interviews with village secretaries differ from farmers who rent land belonging to the village government (Table 1, Number 1e.). The village government should recognize the receipt of land lease proceeds as the original income of the village, but the fact is not like that.

Figure 7
Village Government Budget Fraud Patterns on the Research Site



Note. Processed by researchers

Discussion

Fraud is an expression of someone's behavior shown in the form of cheating. Fraud triangle theory explains that someone commits an act of fraud because of the encouragement of three main elements, namely pressure, opportunity, and rationalization (Cressey, 1964). Several previous studies add to the elements that make up the Fraud Triangle Theory (Imoniana et al., 2016; Maulidi, 2020; Schuchter & Levi, 2016). This research finds that social relations in organizations can pave the way for budget fraud if the relationship leads to exclusivity. In this context, the social relation factor is a finding that can fill the elements in the fraud triangle theory.

Fraud Triangle Theory as a perspective can analyze the background of a person or group driven to commit acts of fraud. Observations and interviews with informants on research sites show that social relationships in the form of patron-client can lead to budget fraud in the village government bureaucracy.

The patronage value deliberately created by the patron in the village bureaucracy is understood to present dominance in the village government bureaucracy. Therefore, given the fraud triangle theory, the patron-client relationship between the political sponsor and the village government head meets the criteria of the element of opportunity. This situation makes the patrons dominate in the bureaucratic environment, which opens opportunities for fraudulent behavior in the village budget.

The desire imposed by the patron led the village apparatus to follow the will of the patron even though they were aware of violating the provisions of the regulation. Thus, the patron's attitude, who often imposes his will in the view of the fraud triangle theory, is a pressure experienced by the ranks of the village apparatus. The desire imposed by the patron led the village apparatus to follow the will of the patron even though they were aware of violating the provisions of the regulation. Thus, the patron's attitude, who often imposes his

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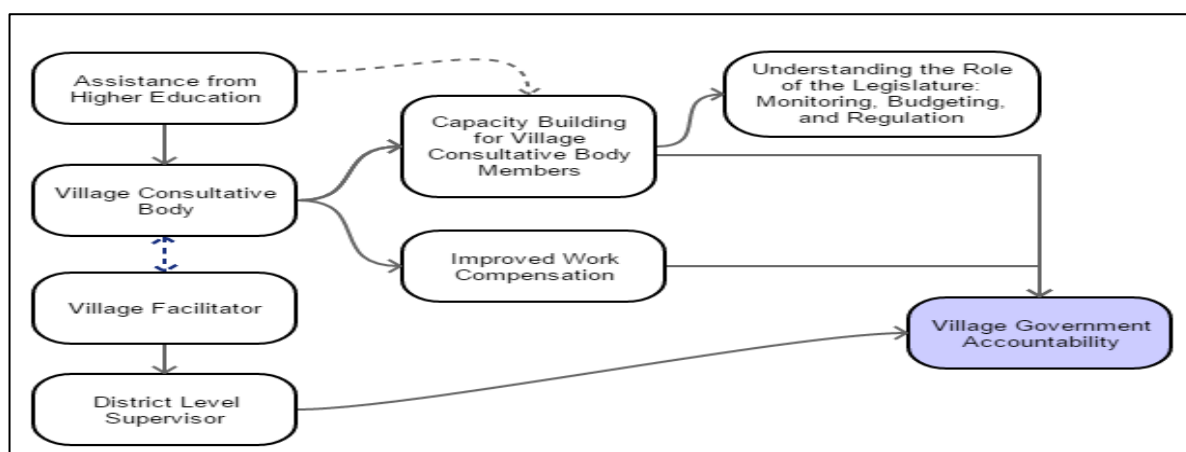
Recommended Monitoring Model

The conceptualization of the supervision model for the village government was prepared based on the bureaucratic conditions encountered during field research. The village consultative agency as a representative of the village community has not been able to carry out the supervisory function of the village government as it should. Knowledge of the role as a member of the village consultative body is not well known. As a result, monitoring, budget, and regulatory functions have not been running, which led to fraud in the village government. The village government runs without adequate supervision so that there are many bureaucratic violations. Therefore, universities and village governments need to increase the Village Consultative Agency members' capacity. Higher education institutions play a role in increasing the power of human resources for members of the Village Consultative Body.

University actors transfer knowledge to members of the village consultative body to improve the supervision performance of the village government bureaucracy. They function as the village consultative body members and become a primary responsibility, not just filling in leisure activities.

Village escort personnel can monitor the implementation of fencing and establish partners with sub-district level supervisory teams. Thus, the supervision of the village government runs by internal and external parties. Sub-district supervisors play leadership from external parties, and village consultative bodies play internal management. Primordial elements in rural communities that often give rise to bureaucratic bias can be controlled by involving supervisors from external bureaucracies. This model can be a consideration for the government to minimize fraud and bring the village government accountable.

Figure 8
Village Government Supervision Model



Note. Processed by researchers

Conclusion

Some literature explains that applying internal control systems can suppress potential fraud in organizations (Albrecht et al., 2012; Huefner, 2011; Karyono, 2013; Sawyer, 2006). However, the findings in this context show that the existence of patron-client relations in the

bureaucracy has succeeded in overriding the provisions of financial procedures, which means there is a failure to implement the internal control system in the village government. The social relations between the patron and the village head make monitoring and guaranteeing the implementation of the internal control system not functioning correctly. This situation made the internal control system excluded from bureaucratic operations and, in the end, opened the way for patrons to commit budget fraud within the village government.

Since 2015 - 2019, the allocation of Village Funds has increased from year to year. However, in 2020, the allocation value stagnated due to the recession due to COVID-19. In 2021, through the Republic of Indonesia's finance ministry, the government will allocate a Village Fund of 72 trillion-rupiah (www.kontan.co.id). The government hopes that the Village Fund budget supports economic recovery but will face risks if the monitoring system is not improved. The model (Figure 6) of optimizing supervision of the Village Government can be an academic offer that the government can use to regulate the village government's supervisory system.

Finally, this research resulted from a very contextual field study. Developing this research can be used using a mixed methodology for subsequent researchers. In addition, this research can also be grown in other village areas with different social, cultural, political, and economic backgrounds. Research in other villages can increase the internality element of this research.

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