

Assessing the Role of Public Auditing in Promoting Financial Inclusion Policies

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Abstract

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This study examines the role of public auditing in promoting financial inclusion policies, focusing on how effective audit mechanisms enhance transparency, accountability, and efficiency in public financial management. The main question addressed is whether auditing functions can indirectly expand access to formal financial services by improving the governance of inclusion-oriented programs. Using a systematic literature review, the study synthesizes evidence from peer-reviewed research to identify key pathways linking auditing practices with inclusion outcomes. Results indicate that robust audits help reduce resource leakages, verify beneficiary eligibility, and strengthen public trust in government-managed financial initiatives. The discussion highlights how the integration of auditing with policy design and digital infrastructure amplifies these effects, particularly in low- and middle-income countries. The findings suggest that aligning audit objectives with inclusion goals can foster more equitable access to financial services, contributing to broader economic and social development.

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1. Introduction

Public auditing is increasingly recognized as a governance instrument that can underpin financial inclusion by enhancing the credibility, efficiency, and accountability of public programs that connect low-income households to formal financial services. Financial inclusion policies often hinge on government-mediated mechanisms—such as social transfers, identification-linked payment systems, and publicly supported savings or credit initiatives—whose success depends on reliable controls, transparent flows, and deterrence of leakage. A large empirical literature shows that independent audits and public disclosure reduce corruption, improve program delivery, and strengthen trust in state institutions, thereby creating preconditions for inclusive finance to expand (Olken, 2007; Ferraz & Finan, 2008; Avis et al., 2018). At the same time, the inclusion literature documents that when funds reach intended beneficiaries and are paid through secure, low-cost digital rails, households adopt and use formal accounts more, smooth consumption, and invest (Dupas & Robinson, 2013; Suri & Jack, 2016; Cull et al., 2018). This review synthesizes peer-reviewed evidence on how public auditing interacts with these channels.

Mechanistically, auditing can promote inclusion along three pathways. First, by constraining corruption and procurement irregularities in social programs, audits improve delivery quality and timeliness, which raises households' willingness to engage with formal payment and savings products embedded in these programs (Ferraz & Finan, 2008; Avis et al., 2018). Second, by validating beneficiary lists, payment processes, and reconciliation of accounts, audits bolster the integrity of

cash transfer and subsidy schemes that often serve as on-ramps to account ownership and repeated digital transactions (Muralidharan et al., 2016). Third, audit-driven transparency and disclosure can amplify citizen oversight and administrative responsiveness, creating a virtuous cycle in which better-performing programs crowd in private-sector service provision—for example, agent networks and mobile money—at the last mile (Olken, 2007; Cull et al., 2018).

Evidence from randomized and quasi-experimental studies supports these mechanisms. Public audit lotteries and disclosure in Brazil reduced corruption and shifted voting, with downstream effects on municipal management quality that are consistent with more reliable service delivery (Ferraz & Finan, 2008; Avis et al., 2018). In Indonesia, community road projects subject to external audits experienced significantly lower missing expenditures than comparison projects, illustrating how third-party verification can limit leakage in local public works (Olken, 2007). On the inclusion side, access to simple bank accounts and secure payment technologies increased savings and investment among microentrepreneurs in Kenya (Dupas & Robinson, 2013), while the expansion of mobile money in Kenya reduced extreme poverty, especially for women, by enabling safer remittances and better risk-sharing (Suri & Jack, 2016). Where governments digitized social payments and strengthened authentication and reconciliation controls, leakages fell and beneficiaries received transfers more reliably (Muralidharan et al., 2016), a precondition for sustained account use.

Despite these complementarities, gaps remain. Many studies examine audits and inclusion separately, leaving limited causal evidence on the joint, program-level

effect of audited governance reforms on financial inclusion outcomes (e.g., account use, credit histories, and resilience). Heterogeneity also matters: the effectiveness of audits depends on disclosure design, enforcement capacity, and political incentives (Avis et al., 2018), while inclusion impacts vary with local market structure and gender norms (Suri & Jack, 2016). This review responds by systematically mapping peer-reviewed evidence across audit and inclusion literatures, identifying the institutional features under which auditing most effectively supports inclusive finance, and outlining priorities for future research on integrated audit-plus-payments reforms.

2. Literature Review

The intersection of public auditing and financial inclusion has attracted growing scholarly interest, driven by recognition that robust governance frameworks are essential for expanding equitable access to financial services. Public auditing—through systematic examination of fiscal records, program implementation, and compliance—serves as a mechanism to ensure accountability, reduce inefficiencies, and safeguard public resources (Olken, 2007; Ferraz & Finan, 2008). When effectively executed, audits can limit leakages in public spending and enhance trust in government-led programs, conditions that facilitate the uptake of financial products embedded in social protection or development initiatives (Avis et al., 2018).

Financial inclusion policies often rely on publicly funded initiatives, such as conditional cash transfers, direct benefit transfers, and microcredit programs, which aim to integrate underserved populations into the formal financial sector (Cull et al.,

2018; Demirgüç-Kunt et al., 2018). Studies show that such initiatives are more effective when accompanied by governance safeguards that audits provide—particularly in validating beneficiary databases, monitoring payment channels, and ensuring timely disbursements. For instance, biometric authentication combined with enhanced monitoring reduced ghost beneficiaries and improved delivery efficiency in India’s welfare programs (Muralidharan et al., 2016). These improvements directly support financial inclusion by enabling consistent use of bank accounts and digital payment systems (Suri & Jack, 2016).

Empirical evidence suggests that transparency induced by audits also influences citizen engagement and political accountability. In Brazil, the randomized release of municipal audit results reduced corruption and shifted electoral preferences toward cleaner candidates, indirectly improving service delivery quality (Ferraz & Finan, 2008; Avis et al., 2018). In Indonesia, third-party audits lowered missing expenditures in community projects, reinforcing the role of external oversight in resource management (Olken, 2007). Moreover, trust in institutions—fostered through visible and credible audits—has been linked to higher adoption rates of formal financial services (Allen et al., 2016).

Despite these insights, the literature reveals a fragmentation between research on auditing and research on financial inclusion. While governance studies focus on corruption control and efficiency, inclusion studies often overlook the institutional quality of program administration. Bridging these fields requires integrated analysis of how audit interventions, by improving delivery mechanisms, directly influence key inclusion metrics such as account usage, credit access, and resilience to shocks.

This review addresses this gap by synthesizing findings across disciplines, identifying institutional designs that maximize synergy between public auditing and financial inclusion objectives.

3. Methods

This study employed a systematic literature review approach to synthesize existing peer-reviewed research on the relationship between public auditing and financial inclusion policies. Relevant studies were identified through academic databases including Scopus, Web of Science, and Google Scholar, using keyword combinations such as “public auditing”, “financial inclusion”, “accountability”, and “policy implementation”. Inclusion criteria focused on empirical and theoretical works written in English and directly addressing themes related to governance, audit effectiveness, and inclusion outcomes. Excluded materials included non-peer-reviewed reports, opinion pieces, and studies without clear methodological grounding.

The selected literature was analyzed thematically to identify recurring patterns, mechanisms, and outcomes linking auditing practices to financial inclusion objectives. Particular attention was paid to studies that examined program delivery efficiency, corruption reduction, and citizen trust as mediating factors. This structured synthesis enables a clearer understanding of how public auditing can strengthen the design and impact of inclusion-oriented policies, while also revealing gaps for future empirical investigation.

4. Results and Discussion

The reviewed literature indicates that public auditing can promote financial inclusion indirectly by improving the design, delivery, and credibility of public programs that serve as on-ramps to formal financial services. A robust finding across multiple contexts is that audits and third-party verification reduce leakage and improve service delivery quality—outcomes that increase beneficiaries’ trust in government payment channels and, consequently, their willingness to adopt and use formal accounts (Ferraz & Finan, 2008; Avis et al., 2018). Experimental and quasi-experimental studies show that exposing mismanagement or enforcing verification leads to measurable improvements in local governance outcomes, which create the operational conditions for financial inclusion interventions to succeed.

Mechanisms linking audits to inclusion are evident in the program-level literature. Validation of beneficiary lists, reconciliation of payments, and verification of procurement and distribution processes reduce errors and ghost beneficiaries, ensuring that transfers reach intended recipients (Muralidharan et al., 2016). Where transfers are delivered through formal accounts or mobile rails, improved delivery reliability encourages sustained account use and transaction activity (Dupas & Robinson, 2013; Suri & Jack, 2016). Complementing these micro-level mechanisms, macro-evidence from the Global Findex and related studies suggests that systematic improvements in program delivery and trust in institutions—outcomes that audits can foster—are associated with higher account ownership and use (Allen et al., 2016; Demirgüç-Kunt et al., 2018).

Context and institutional capacity mediate these effects. The effectiveness of audit interventions depends on the legal and enforcement environment, the design of disclosure, and the presence of active oversight actors (e.g., media, civil society, and independent audit institutions) who can translate audit information into follow-up action (Peisakhin & Pinto, 2010; Peixoto & Fox, 2016). Where audit findings are publicly disclosed and paired with enforcement or electoral accountability, evidence points to stronger downstream improvements in service delivery. Conversely, in settings where enforcement is weak or political incentives favor opacity, audit disclosure may produce limited practical change, constraining potential inclusion gains (Bauhr et al., 2020).

Heterogeneity across populations and technologies matters. Studies on digital payments and mobile money show large gains in financial resilience and inclusion, but these benefits are unevenly distributed by gender, geography, and market structure (Dupas & Robinson, 2013; Suri & Jack, 2016). Audit-led improvements in delivery systems can reduce some of these disparities—by assuring recipients that digital or bank channels are secure and reliable—but only if audits also attend to usability, cost barriers, and last-mile agent networks that affect uptake. Moreover, procurement and programmatic audits that strengthen market confidence can encourage private providers (agents, banks, fintechs) to expand services to underserved areas, further widening inclusion (Cull et al., 2018).

Methodological diversity and evidence gaps limit strong causal claims about the magnitude of audit effects on classic inclusion metrics (e.g., active account use, credit access, and financial resilience). Many governance studies focus on corruption

and electoral consequences, while inclusion research emphasizes household uptake and usage—rarely are these outcomes jointly measured within the same evaluation. Only a handful of studies explicitly trace the full causal chain from audit intervention through program delivery improvements to measurable inclusion outcomes (Muralidharan et al., 2016). This fragmentation calls for integrated, mixed-method, and longitudinal designs that combine administrative program data, household transaction records, and qualitative process tracing.

Policy implications are clear. To maximize inclusion benefits, audits should be designed with explicit attention to payment-channel integrity and beneficiary experience: validate digital ID and authentication systems, reconcile payment ledgers with bank/mobile operator records, and publish actionable audit findings that enable corrective measures. Strengthening institutional enforcement, supporting civil-society and media uptake of audit results, and coordinating audits with digital payment rollout strategies will amplify impacts. For researchers, priority areas include building program-level evaluations that jointly measure governance and inclusion outcomes, experimenting with audit disclosure designs, and investigating how audits interact with private-sector incentives to expand access at the last mile.

5. Conclusion

This review finds that public auditing can serve as a catalyst for financial inclusion by improving the integrity, efficiency, and credibility of government programs that use formal financial channels. By reducing leakage, validating beneficiary records, and ensuring reliable service delivery, audits strengthen public

trust in payment systems—an essential precondition for account adoption and sustained use. While the direct causal chain from audits to inclusion is rarely measured in a single study, the evidence base strongly supports the role of audits as an enabling governance mechanism.

The effectiveness of audits, however, depends on institutional capacity, enforcement mechanisms, and the transparency of results. Public disclosure, active oversight by civil society, and coordinated reforms that link auditing with digital payment expansion are critical to translating governance gains into measurable inclusion outcomes. Without these complementary elements, audit findings may improve compliance on paper but fail to close access gaps or address usage barriers, particularly for marginalized groups.

Policy implications point to embedding financial inclusion objectives into audit design, strengthening follow-up enforcement, and integrating audits into broader service-delivery reforms. Future research should adopt integrated evaluation frameworks that capture both governance and financial inclusion outcomes, enabling a more precise understanding of the pathways through which public auditing shapes inclusive economic development.

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