

Conference Paper

Good Village Governance: Internal Control Model of Village Funds Management

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Abstract

This study aims to identify the activities and construct an internal control model of village funds management based on the Regulation of Ministry of Home Affairs No. 20 of 2018. The internal control model can be used to actualize good village governance. This study attempts to conduct in-depth interview to village officials and observation in Jambu District, Semarang. Based on the results of this study, the village funds management defines the activities as follows: (a) preparing the budget plan based on the programs set in Village Government Budget (APBDes) proposed as development, government, empowerment, and social activities; (b) carrying out the activities; (c) accountability; and (d) evaluation. Further, the fundamental components of internal control are control environment as the integrity and village officials' ethics, the leadership of village chief, and the accountability. When village officials possess a strong integrity and ethics, frauds can be minimized. In the other hand, the financial statement is accountable. Besides, the democratic leadership of village chief can increase the accountability and communication so that the policy can be implemented properly as the objectives proposed. Furthermore, it is important to explore the role of society in internal control system of village funds management.

Keywords: internal control, village funds management, good village governance

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1. Introduction

Governance theories have to do with the various perspectives of governance and how they evolve. The most relevant of the governance theories governance is the good governance theory. The good governance theory is associated with governing methods and structures in developing countries and it is particularly relevant to governance in Indonesia because Indonesia is a developing country. Good governance theory develops from a set of principles or policies first introduced by the World Bank in relating with and in assisting developing or third world countries. The World Bank usually requires good governance practice, among others, as a condition from the developing

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countries. Good governance is about how the public sector in third world countries can be developed. Good governance is about how the public sector in third world countries can be developed. It has been realized that a modern form of government is not just only about efficiency, that governing is also about accountability between the state and its citizens (Bjork and Johansson, 2001) [1].

Therefore, good governance theory is aimed at achieving efficiency in public service delivery, encouraging competition, privatization, civil service reforms, decentralization, out-sourcing of services to key private suppliers among others. Furthermore, it will be duly emphasized that good governance theory is geared towards enhancing ways and means by which state bureaucracies carry-out state activities and utilise state resources so as to protect individual and personal liberties. Good governance is believed to be the key issue for providing quality services through ensuring quality management. It is believed that good governance is not only the appropriate mechanism for achieving superior quality but it is certainly a necessary one. Governance sets the parameters of management. A mismanaged enterprise cannot flourish.

The village was given a great opportunity, along with the authority, to take care of its own governance system and the implementation of development to improve the welfare and quality of life. In addition, the village is expected to independently manage the financial and resources. The greater the role received by the village, of course, the greater responsibility must be fulfilled. The village government, therefore, should be able to apply the principles of transparency and accountability within the governance. The entire activities undertaken by the village must be accountable to the community in accordance with the applied provisions. The implementation of the Village Act was strengthened by the regulations governing the fund [2] and financial management [3] of the village. The village funds derived from the State Budget (APBN) of Rp1-1.4 billion/village attracts the attention of academicians and practitioners.

Village funds have been effectively transferred to the Regional General Treasury Account (RKUD) through the Regional Revenue and Expenditure Budget (APBD) since 2015. From RKUD, then, it is transferred to the Village Cash Account (RKD). The amount of village funds obtained by the village is in accordance with the population, the number of impoverished people, and the village area. The fund is gradually disbursed in (a) 2015 carried out in three phases: 40% in April, 40% in August, and 20% in October; and (b) in 2016 carried out in two phases: 60% in March and 40% in August. There are four priority use of village funds, namely (1) the implementation of rural development as the fulfillment of basic needs, infrastructure, local economic development potential, and utilization of

natural resources and sustainable environment; (2) community empowerment; (3) the implementation of village government; and (4) community development [2].

In 2015, Central Java acquired 2.228.889.296 trillion, while in 2016 acquired 5.002.426.341 for 7.809 villages. Semarang regency is one of the regencies which acquired funds for 208 villages in 19 districts. The number of funds allocated for villages will continuously increase, however the human resources capacity in managing the village financial remain deficient. Inten and Liliana (2017) expose findings that in general, the implementation of village funds has been pertinent with the basic principle of financing, however, the most critical issue is related to the availability of proficient human resources in dealing with financial report and accountability. Accordingly, during village development, disintegration occurs. Johan et al (2017) [4] report that the implementation of Village Act has an implication on the increasing of the budget. Yet, the dysfunctional behavior is indeed inevitable.

Research results discovered by Warikiba et al (2014) [5] confirm internal management serves as one mechanism within the certain organization to overcome agency issues related to the financial report, budgeting, audit committee, and external audit. In addition, the results also affirm the significant correlation of between controlling activity and financial management. Effective financial management control system of village funds is supported by clear role division, supervision, and commitment of the village government apparatus. Therefore, it requires the implementation of internal control model of village funds to generate a satisfactory governance which comprises of transparency and accountability.

Susilowati, N., Herdiani, A., and Widhiastuti, R (2018) [6] forms of participation and involvement of local community in monitoring the use of village funds are as follows, first engage directly in every program in the village. For example the construction of roads, gutters, dams, health services and others. Second, village chief as a coordinator of the program and involve the local community to help in the implementation of the program. Third, local community directly asks the Village chief as a program coordinator if they do not understand the stuff within the program. Fourth, the community can also ask directly to the Village chief with regard to the number of funds used in a program, so that village budget absorption remains high. Fifth, conveying an opinion to the Village chief regarding the evaluation of program implementation and sustainability. Sixth, reminding the village chief and the officials to always be honest and trustworthy in implementing each program. Seventh, village Community Empowerment Council as a representative of the local community could provide real suggestions to the Village chief regarding

the entire programs which are agreed upon Village Budget. Eight, good communication between Village chief with the officials and local community and the district head.

This present study intends to identify activity and the determination of internal control model of village funds in accordance with Minister of Home Affairs Regulation No. 20 of 2018 [7]. Internal control model of village funds aims at generating good village governance. In this study, COSO (Committee of Sponsoring Organization) internal control theory which consists of five components namely control environment, risk assessment, information and communication, monitoring, and control activity was employed. Internal control components according to COSO are the control environment is a top management responsibility in clearly stating integrity values and unethical activities and action which are intolerable, risk assessment promotes corporation to identify and analyze factors contributing to the business risk and determining the possible approaches to manage the existing risk, control activities. To prevent a fraud, management is required to designate a policy and procedure to identify certain risk which will be encountered by the corporation, information and communication. The internal control system must be communicated and informed to the entire employees of the corporation beginning from the ordinates to the subordinates, and monitoring. The internal control system must be supervised regularly. When significant imbalances occur, it requires making a direct report to the board of management or to the board of commissioners.

2. Methods

This research is a qualitative research employing in-depth interview and observation to obtain the data. The informant of this study is the apparatus village (village chief, village treasurer, and secretary of the village) in all of the villages within the Jambu District, Semarang regency. The number of villages in Jambu Districts is 9 villages. They are Gemawang Village, Kelurahan Village, Bedono Village, Kebondalem Village, Sidodi Village, Rejosari Village, Brongsol Village, Genting Village, and Jambu Village. The sampling technique used was purposive sampling. In this research, the interview was conducted with 6 village chief, 9 village treasurers, and 7 village secretaries. For the purposes of data validity, triangulation of data to village chiefs, village treasurers, and village secretaries was carried out. The interview guidance used is the result of the development of COSO's internal control theory of control environment, risk assessment, control activities, information and communication, and monitoring adapted to the financial management context of village funds.

The village apparatus here consists of the village chief, who is in charge of preparing financial reports and village communities. The village head will explain how the process of submitting, allocating and absorbing village funds. The officer who composes the accountability report provides information on the preparation of the accountability report and describes the important role of their companion in preparing the accountability report for all activities. The accountability report will be the basis for the next RAB in the following activities. This research was also carried out with an in-depth interview process (indepth interview) to explore and collect data from the researchers as participants. Furthermore, based on the collected data, it is compiled according to the theme, where the sorting of data becomes sub-sub-themes according to the theme of this research. At this stage the researcher will try to understand contemplating the content of mind by doing remembering, perceiving, and desering activities that lead to the research theme.

The interview technique provides an opportunity to explore the details of village fund allocation from allocation, absorption, and accountability and reporting and evaluation of village funds. In particular, interviews find the nature of the benefits generated, and the various stakeholder groups associated with these benefits. The initial interview was carried out privately in November 2017 at the Village Head's office. The interview process was conducted in a semi-structured manner, each lasting for 1 to 1.5 hours. The discussion was conducted with a comprehensive schedule of questions regarding the process of absorption of village funds, reporting, accountability, and the mentoring process, whether the mentoring process helped the process of preparing the report.

The process of organizing and organization of case study interviews is carried out with certain time sharing strategies with village chief, report-making officials, and the general public. General election is used for the purpose of triangulation techniques. Triangulation techniques usually refer to the process of utilizing various perceptions to clarify meaning, verify the possibility of repetition from an observation or interpretation, but must be based on the principle that there are no observations or interpretations that can be repeated 100%. This triangulation technique is carried out to see how the absorption and development process is carried out, and whether the community is involved in the process of overseeing the existing development process. Although development projects carried out with community contracting systems should be able to monitor so that the development process can run on time and run effectively. This challenge will be a process of implementing development that can work well, because village funds are generally used for the development process and community empowerment. The development process that is in accordance with the existing schedule and procedures will be a process of success from the village and village chief.

3. Discussion

3.1. Village Funds Management Activity Identification

In accordance with the implementation rule of Law No. 6 of 2014 which has existed hitherto, namely Government Rule No. 43 of 2014 regarding Rural Areas and Government Rule No. 60 of 2014 regarding Village funds, since 2015 rural areas obtain funding resources called Village funds. The amount of village funds depends on the number of population, the potential resources, and the death rate within the area. Meanwhile in 2018, village funds were prioritized for local community empowerment and development society. Each village is expected to spend the village funds given appropriately and in accordance with the regulation to ensure local community welfare and development society.

Activities related to financial management of village funds are called administration. Administration activities are activities undertaken throughout the fiscal year. This activity is based on the duties and responsibilities of the treasurer of the village with the village chief as supervision. Persistence and accuracy of treasurer become the absolute requirement in the administration. The village chief as a supervisor and person in charge for the activities plays a role in village financial control as well as the village funds management. Four major priority of village fund management, namely the village fund management for rural development, empowerment of rural communities, village governance and social development should be carried out by the village. Based on the results of interviews and observations, it obtained the following results.

1. All activities carried out using village funds have been budgeted in the Village Revenue and Expenditure Budget (APBDes);
2. Activities that use partners or third parties have fulfilled the correct mechanism;
3. All Budget Plans (RABs) have been prepared in accordance with applicable guidelines and approved by the District heads;
4. Every implementation of the activity is monitored by the Village chief and Community to avoid fraud;
5. The village facilitator carries out community assistance and empowerment to accomplish the desired objectives;
6. The village treasurer inputs every activity in the Village Financial Information System (Siskeudes);

7. Transaction receipt is inputted in Siskeudes precisely and thoroughly;
8. If there is a problem in understanding the transaction, the village treasurer conducts consultation to the village counselor to find any possible solution immediately;
9. Village treasurers make regular tax payments;
10. Every cash outlay is always monitored by the Village Chief;
11. The focus of the use of village funds in 2018 is for the development of Village-Owned Enterprises (BUMDes) and the initiation of tourist villages;
12. Every village revenue, such as profit sharing from Mini Market Village and Village Bank is included in Village Cash;
13. All activities run well;
14. Activity reports are prepared in accordance with the prevailing provisions, thus it does not inhibit the disbursement of funds the upcoming phase.

The implementation of accountability for the use of village funds is that the physical team makes the accountability report (LPJ) then submitted to the village secretary. The report process begins with the collection of proof of transactions and is recorded in the general cash book. Furthermore, a responsibility report is made which is then submitted to the sub-district. The form of the report is in the form of a report sheet containing the completed activities, proof of transactions and documentation of activities. After checking, it was submitted to the Village Development Office, District and Regional Secretary (Sekda). The form of the accountability report is in the form of a binding sheet and a book containing the details of the activity along with the documentation. The accountability of village funds is reported to 3 parties, namely sub-districts, district and district offices (sekda). Evidence of accountability that needs to be conveyed, among others, evidence of activity transactions, general cash books, documentation of activities and results of the musdus / musdes. Proof of accountability containing evidence of transactions, documentation of activities. Implementation of accountability for the use of village funds at the end of the year with maximum reporting at the end of January of the following year.

The research in line with Azfar, et al. (2004) [8] the local community participated in project identification, received feedback after project identification, involved this project implementation, and involved this project monitoring. Robinson (2007) [9] and Muriu1, Abraham Rugo (2014) [10] the local community participation can improve public

services that will influence accountability and reduce corruption. This means public control (citizen control), delegated control, and partnership occurs. For instance, the implementation of existing road construction in a sub-village is in accordance with work programs in the Village Budget. Budget accountability report is compiled in accordance with applicable provisions.

3.2. Internal Control Model of Village Fund Management

COSO internal control definition explains that Internal control processes, affected by entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories; effectiveness and efficiency of operation; reliability of financial reporting; and compliance with Applicable laws and regulations". According to the Village Act, Village funds is defined as the entire rights and responsibilities of the village which is measured by money. In addition, it also refers to money and goods which is related to the rights and responsibilities enforcement. Such rights and responsibilities enforcement give rise to revenue, expenditure, and funding which requires being managed within the village funds management. Village funds management cycles consist of planning, enforcement, administering, reporting, and accountability reporting, within one budgeting year period, beginning from 1st January to 31st December [11]. Village funds are ideally managed in accordance with the appropriate governance practices. The values of Village Funds Management as stipulated in Ministry of Home Affairs Regulation No. 113 of 2014 and No. 20 of 2018 include transparency, accountability, participative, budgeting administration order and discipline.

The authority of Village Funds Management is accommodated by the Village Chief. However, during the enforcement, the authority is partially transferred to the village agencies. As a result, the enforcement of funds management in the village is collectively performed by the Village Chief and Technical Enforcement of Village Funds Management (PTPKD). Within the enforcement of village funds management, there are several general principles which are required to be obeyed which include revenues and expenditures. The aforementioned principles ideally process the entire revenues and expenditures of the village through Village Cash Account. Then, the disbursement of funds in Village Cash Account is signed by the Village Chief and Village Treasury.

The district head, village chief, village treasurer, village secretary, and village assistant work jointly in every activity planned and implemented by the village. From five internal control components developed by COSO, the most fundamental is the control

environment in the form of integrity and ethical value of village apparatus, the leadership style of the village chief, and the responsibility of the village apparatus. If the village apparatus possess good integrity and ethics, it will minimize the occurrence of fraud. Thus, every expenditure made by the village treasurer is always proper. In addition, the receipt of transaction input activities in *Siskeudes* run well and correctly, subsequently, the resulting financial statements can be accounted for. In addition, the democratic leadership style of the village chief can improve the responsibilities and communication run smoothly which promotes the smoothness and efficiency of every policy in accordance with the intended purpose.

Every problem occurs in determining and executing activities is always carried out identification and risk analysis, thus it minimizes the high risk of the activity, for instance, such as determining partners for paving roads. The village chief and the village apparatus and community representatives should be selective in determining partners in order to accomplish the target and avoid deviation. The village treasurer always asks for the village chief's consideration regarding the use of village funds for each activity. Thus, it always obtains an authorization from the village chief. The use of village funds is publicized through Baliho posted in front of the Village Hall and delivered in each village meeting. This is allowing the local community to know and assist the entire village activities. The model of internal control of village funds management is presented in the following Figure.

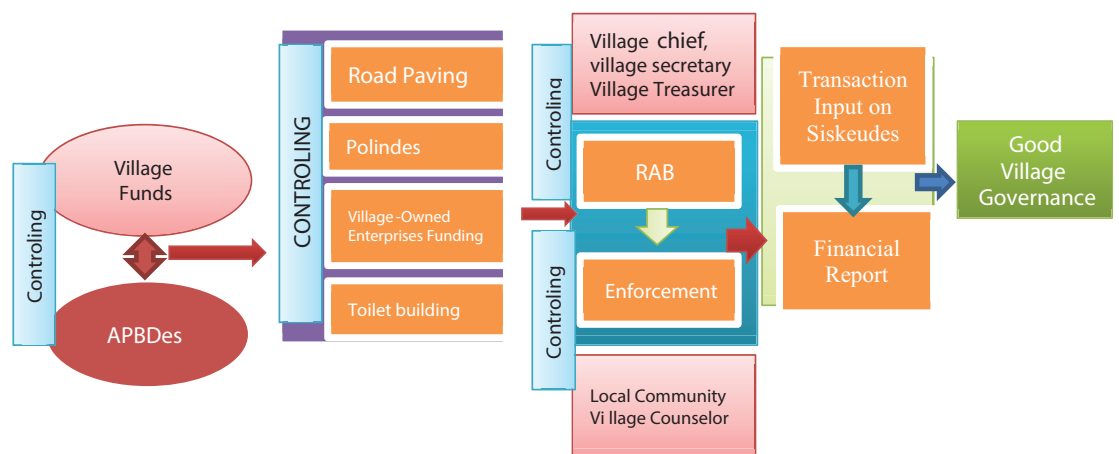


Figure 1: The model of internal control of village funds management (Sources: Authors, 2018).

Based on Figure 1, it can be explained that the internal control model of village financial management starts from the preparation of the APBDes. In its arrangement, it must consider the priorities of village development such as road paving, polindes, funding of village owned enterprise, toilet building and so on. Development that prioritizes puts forward the principle of prioritizing village interests that are more urgent,

more needed and directly related to the interests of most of the village community. The preparation and management of village funds involved village chief, village treasurers, and local communities and village counselors representing local sub-districts. Control carried out includes preparation of RAB up to the implementation. Furthermore, all transactions are input into the village financial system so as to produce transparent and accountable financial reports. The model of internal control of village financial management is expected to support the implementation of good village governance.

This research in line with Inten, Meutia, & Liliana (2017) [12] the implementation of accounting standards can have a positive impact on the entity if it is conducted correctly. Santoso and Pambelum (2008) [13] confirm the application of public sector accounting and oversight of the quality of financial reports of government agencies affect the performance accountability of government agencies. The problem that arises in the use of village funds deal with the disorganization of village authorities and society in monitoring the use of funds of the village, thus it promotes low accountability. Accountability is the realization of the obligation to account for the management and control of resources and the implementation of the policy entrusted in the context of achieving the objectives that have been established so as to realize good village governance. Warikiba et al. (2014) [5] prove the existence of a significant positive relationship between the activity of control and financial management. The effective financial control system is supported by a clear separation of roles, supervision, and commitment from management on internal control implementation.

4. Conclusion

Good village governance as an issue of development is being widely used for improvements in socio-economic outcomes and for aid effectiveness and considered as the effective tool for overcoming multidimensional challenges existed in both developed as well as developing village of the world and it has generated increasing attention and debate both at the national and international level over the past two decades. The concept of good village governance conveys the qualitative dimension of governance that indicates effective, efficient, participative, or democratic form of government which is responsible for transparent and accountable management of human, natural, economic and financial resources for equitable and sustainable development. Village funds management includes planning activities (RAB preparation), implementation, evaluation, and reporting. Every implementation of activities using village funds is supervised by the Village Chief. The basic internal control component is the control environment in

the form of integrity and ethical value of the village apparatus, the leadership style of the village chief, and the responsibility of the village apparatus. If the village apparatus possess good integrity and ethics it will avoid the occurrence of fraud. And thus, the resulting financial statements can be accounted for. In addition, the democratic leadership style of the village chief can improve the responsibilities and communication run smoothly which promotes the smoothness and efficiency of every policy in accordance with the intended purpose. For further research, it is suggested to examine the role of society or local community in the internal control of village funds management.

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