



THE FUTURE OPPORTUNITIES AND CHALLENGES OF BUSINESS IN DIGITAL ERA 4.0

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Satria Bangsawan, Mahrinasari MS, Ernie Hendrawaty,
Rindu Gamayuni, Nairobi, Hendrati Dwi Mulyaningsih,
Ani Wahyu Rachmawati and Santi Rahmawati



A study of village fund management to achieve good governance

Faila Suffah, Rindu Rika Gamayuni & Fajar Gustiawaty Dewi
Universitas Lampung, Lampung, Indonesia

ABSTRACT: This study aims to provide a conceptual study of village fund management issues to create good governance, to examine factors influencing such management, and to present a discussion of its relevance to accounting, policy-making, and theories for future research. This is a conceptual paper that discusses issues concerning village fund management in Indonesia. Previous theoretical studies have shown that effective village fund management can be influenced by community participation, the competence of village officials, and internal control by the village government. From theoretical discussions and previous research, a tentative conclusion was obtained that factors of community participation, village official's competence, and internal control by the village government influenced the effective management of village funds.

1 INTRODUCTION

The concept of challenging good governance in development strategies is being discussed in the world (Meisel & Ould, 2008). Characterized by the emergence of criticism of the performance of governments in the world, such as in Germany, France, UK and US from various perspectives including inefficient, ineffective, overprice, highly bureaucratic, overly burdened with unnecessary regulations, and unresponsive to public needs, undemocratic, and failing to provide services with appropriate quantity and quality of services received by taxpayer community (Jones & Kettl, 2003). As in the case with governance in the United Arab Emirates, it shows relatively weak and less transparent governance discussing the need for good institutional governance by developing good systems in ministries, authorities, and federal institutions (Alkaraan, 2018). The Pakistani government also needs to develop policies and adopts mechanisms to build good governance in the public sector (Hassan & Lee, 2015).

The government of Indonesia grants authority to villages to manage their governance independently to advance the economy of rural communities, overcome national development gaps, and strengthen rural communities as the subject of development (Law No. 6 of 2014). To achieve equitable development and economic improvement in all regions of Indonesia, the government realizes it through village funds specifically allocated in the APBN. The allocation of village funds has continued to increase in the past 4 years but has not been able to reduce poverty (www.kemenkeu.go.id), namely Rp. 60 trillion in 2017 and 2018, and Rp. 70 trillion in 2019 and is expected to increase by Rp. 2 trillion in 2020. These funds require good management and good governance; It could be achieved by reducing the misuse of village funds and creating efficient and effective management. Based on Law No. 6 of 2014, village funds are managed in an orderly manner; obedient to the provisions of the laws and regulations; efficient, economic, effective, transparent and responsible with due regard for a sense of justice and propriety; and prioritized the interests of the local community. However, the fact is the responsibility received by the village has not been balanced with the village's ability and adequate human resources, both in terms of quantity and quality. Therefore, it is important to understand the indicators influencing the management of good village funds, the implementation of the good management towards the funds, and the factors affecting it; thus, the villages can attain good governance.

2 RESEARCH ISSUE

This is a conceptual paper examining the issue of managing village funds to achieve good governance in Indonesia. This study aims to provide a conceptual study of issues towards village funds management to create good governance, the factors that influence such management, and discussion of their relevance to accounting and policy-making as well as their implication for future research.

3 THEORETICAL FRAMEWORK

Government efforts in realizing independent village fund management in Indonesia are indicated by the issuance of Law Number 6 of 2014 concerning Villages, Government Regulation of the Republic of Indonesia Number 8 of 2016 regarding village funds from the state budget and revenue, and Government Regulations Republic of Indonesia Number 47 of 2015 related regulations for implementing Law Number 6 of 2014 concerning Villages.

In agency theory, it is assumed that his/her interests motivate each individual; thus, it leads to a conflict of interest between two parties, in this case, government, and community (Umar et al., 2018). The agency relationship in this paper is between the people and the executive government. It is not uncommon for the government to misuse people's trust for the interests that deviate from public interests. Therefore, the village government should take responsibility for the village funds management in the form of financial reports as a form of transparency and accountability to its community. To minimize this conflict, it requires participation and supervision from the public; hence, village funds are used for their welfare. Besides, to achieve good governance, the competence of village officials and internal control also need to be considered. Thus, the management of village funds based on applicable regulations and good governance can be achieved.

Good governance according to the United Nations Development Program (UNDP, 1997) includes namely (1) participation: community involvement in decision making, (2) rules of law: fair and indiscriminate law, (3) transparency: freedom of information, (4) responsiveness: fast and responsive to serve stakeholders, (5) consensus orientation: orientation of wider community interests, (6) equity; equal opportunity to obtain welfare and justice, (7) efficiency and effectiveness: management of resources efficiently and effectively, (8) accountability: accountability to the public, (9) strategic vision: a long-term vision of an organization. According to Mardiasmo (2009), of the 9 characteristics, three characteristics of the implementation of good governance can be applied in public sector accounting, such as transparency, accountability, and value for money (economy, efficiency, and effectiveness). To achieve transparency and accountability, good financial management and reporting systems should be implemented to produce relevant and easily understood information to stakeholders (Lubis et al., 2016).

4 DISCUSSION

Several factors are considered to greatly affect the management of village funds in obtaining good governance, including participation, competence, and internal control. Research conducted by Speer (2012) revealed that participatory governance increases government responsiveness in improving its services to the public. In this case, participation means that all people have a voice in decision making, either directly or through intermediary institutions (Khanda-kar, 2018). Communities that participate in the management of village funds will provide control. Thus, the funds are used for the village benefits, which can also support the transparency principle of the government to provide better information to the community. Therefore, community participation creates good, effective, and efficient village fund management.

Boutler et al. (1999) state that competence is a characteristic that underlies a person to be able to show good performance in the field of work, roles, or situations. There are four

dimensions to assess one's competence, namely, knowledge, skills, expertise, and behavior (Pickett, 2010). Furthermore, Khandakar (2018) posits that good government governance depends on intelligent people who are ethical and trained to carry out public administration. Besides, human resources skills and the ability to lead are among the most important competencies for the implementation of a good financial system (Afiah et al., 2014). The results of research support this by Umar et al. (2018) and Afiah et al. (2014), which show that human resource competencies have a positive influence on village fund management. This means that competent human resources will be able to carry out their duties properly and responsibly in this case managing village funds, and can understand and comply with applicable regulations regarding village fund management both at regional and central levels. To improve competence, Gamayuni (2018) states that there should be plenty of training, seminars, workshops, especially on government accounting standards and the government's internal control system, regional financial information systems, fraud detection, risk analysis, and valuation control techniques. So, these training can help the authorities to increase their competence in creating good village fund management.

Proper internal control will result in better village fund management (Umar et al., 2018). In line with Afiah (2014), good internal control can ensure whether organizational goals can run effectively and efficiently, and can achieve good government governance as well. Thus, a need for control in managing village funds is necessary due to the lack of available resources and community control (Sirojuzilam et al., 2016). While several factors are supporting the implementation of good governance, some others can inhibit it, such as low level of education, lack of training and skills for village officials, low understanding of the village apparatus regarding village's accounting system or application, and the lack of internal control over the management of the funds.

5 CONCLUSION

Several factors are assumed to influence the management of village funds to attain good governance, including participation, competence, and internal control.

To begin with, community participation in the budgeting process is fundamental to achieve good public sector governance (Alkaraan, 2018). The community will provide control, so village funds are used appropriately for the interests and potential of the village. The funds can also support the principle of transparency of the village government to provide better information to the community. Thus, it is necessary to create good management of village funds. The next factor is competence. According to Cheng et al., (2002), competencies are people who know (educated, skilled, and experienced) and conduct ethical behavior at work. Thus, competent human resources will be able to carry out their duties properly and responsibly in this case managing village funds, and they also can understand and comply with applicable regulations regarding village fund management both at the regional and central levels. Furthermore, internal control is a process influenced by the entity's board of directors, management, and other personnel. It is designed to provide adequate confidence about the achievement of objectives related to operations, reporting, and compliance (COSO, 2013). The control in managing village funds will help the government manage them according to the community's needs by complying with applicable laws and regulations.

Participatory governance increases government responsiveness in improving public services, which in turn can contribute to improving society's welfare (Speer, 2012). If each community participates in the budgeting process, the needs of the priority village communities can be identified and collected. Thus, the village development is more targeted and appropriate in meeting the needs of its community and resulting in transparent and accountable village fund management. According to Cheng et al., (2002), competencies include knowledge gained from education, skills, and training, meaning that the knowledge and skills of village officials will play an important role in managing village funds. Therefore, the government is advised to enhance the competence of village officials through improving education, training, and skills closely related to village fund management and ethical standards. Moreover, the internal

control system is carried out continuously by village officials to provide trust that the objectives of effective and efficient village fund management can be attained. Thus, it will result in a reliable financial report, guaranteed asset security, and compliance with the law.

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