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## Financial Management in Guyangan Village within the Indonesian National Financial System

Anggi Septianto

Student of Accounting Study Program, Faculty of Economics and Business Universitas Terbuka, Indonesia

\* Corresponding Author. E-mail: 044684133@ecampus.ut.ac.id

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### Abstract

Law No. 22 of 1999 and Law No. 25 of 1999, which were later replaced by Law No. 32 of 2004 and Law No. 33 of 2004, changed the relationship between the central government and regional authorities. These laws became the legal basis for the decentralization process in Indonesia by granting significant authority to regional governments (regencies or cities). Since the enactment of these laws, the Indonesian government has undergone significant changes, transitioning from a centralized government to a decentralized one. The implementation of autonomy spans from provinces, regencies/cities to villages. The purpose of this study is to understand how financial management at the village level operates within Indonesia's national financial system.

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### INTRODUCTION

Law No. 22 of 1999 and Law No. 25 of 1999, as well as their revisions with Law No. 32 of 2004 and Law No. 33 of 2004, altered the relationship between the central government and regional authorities. These laws serve as the legal foundation for the decentralization process in Indonesia, granting significant roles to regional governments (regencies or cities). Since the enactment of these laws, Indonesia's government has experienced a significant transformation from a centralized system to a decentralized one. The autonomy benefits are felt at the provincial, regency/city, and village levels (Andini et al., 2022).

In line with the implementation of regional autonomy, reforms were also carried out in the field of finance. April 5, 2003, marked an important milestone in the history of financial management in Indonesia. On this date, the Indonesian government declared a specific law, Law No. 17 of 2003 on Financial Management. This law replaced the regulations established during the Dutch East Indies government. Subsequently, the government issued Regulation No. 37 of 2007 on Guidelines for Village Financial Management. This Ministry of Home Affairs regulation aimed to create a conducive environment for village financial management and minimize misinterpretations in its application. In this way, villages can achieve effective and efficient financial goals. Additionally, good village governance is expected to be achieved based on three main pillars: transparency, accountability, and participation. Therefore, the process and

mechanism for setting the Village APBD (Regional Budget) according to the Ministry of Home Affairs Regulation will explain who is responsible, to whom, and how. Thus, general guidelines for reporting and accountability procedures at the village level must be established (Farida et al., 2021).

Guyangan Village, located in Wonogiri Regency, Central Java, is the focus of this study as the author is originally from this village. The financial management in this village can be considered quite good, with the establishment of village apparatus to manage the finances. Consequently, the village apparatus has been equipped with the necessary knowledge of financial management in accordance with regulations.

To provide guidance to village-level apparatus in the preparation of the Village RPJM (Medium-Term Development Plan) and Village RKP (Annual Development Plan), regulations need to be established. The provisions regarding planning aspects are oriented in such a way that the entire process of preparing the Village APBD can, as much as possible, represent the decision-making basis for determining policy directions collectively.

## **METHODOLOGY**

### **A. Research Subjects**

The subject of this research is Guyangan Village in Wonogiri Regency, Central Java, and data is obtained through literature study as well as interviews/discussions with one of the village apparatus members at that time.

### **B. Data Analysis Technique/Methodology**

This research uses a qualitative approach with a literature study and analyzes the management process that occurs in the field. In general, literature is used to identify the results of previous studies, including various findings that have or have not been discovered in the context of a particular phenomenon or situation being investigated. From a temporal perspective, the existing literature can be reviewed before, during, and after the research. In this case, the literature used consists of books and several journals on village funds that were published in previous research studies. The village apparatus, who were responsible for the local village finances at that time, also participated in this research.

## **RESULTS AND DISCUSSION**

### **Results**

In general, Minister of Home Affairs Regulation No. 66 of 2007 on Village Development Planning states that the Village Medium-Term Development Plan (RPJM-Desa) is prepared for a period of 5 (five) years, covering the village development orientation, policies, village-level financial regulations, general policies, programs, and regional work units (SKPD), through SKPD and regional priority programs, along with work plans.

The implementation of village autonomy requires financial management reforms at the village level. One of the significant updates is related to budgeting (budget reform). Budget reform includes the categorization, determination, application, and accountability of budgets. A key view of budget reform is the shift from a conventional approach to budgeting, which focuses on expenditure, to an approach that is capacity-driven (Lumingkewas et al., 2021).

Traditional budgeting is dominated by budget preparation based on budget categories and incrementalism, which means that the budget is drawn up based on the achievements of the previous year's budget. This approach often leads to negative impacts, such as a lack of fundamental changes in the new budget. It frequently conflicts with the actual needs and interests of the community. Based on this, village PBA (Village Budgeting Accountability) is still burdened with constraints, instructions, limitations, and orientations that comply with the interests of higher authorities (Musyafa, A., 2020).

Meanwhile, the operational budget is essentially a system for formulating and managing village-level budgets to achieve results or operational efficiency. The performance must reflect the effectiveness and efficiency of public services, meaning it must be directed at the public interest.

The process of preparing and implementing the Village APBD (Regional Budget) should focus on supporting the implementation of the village's priority programs and activities while adhering to the general principles of the Village APBD. According to Article 8 of the Ministry of Home Affairs Regulation No. 37 of 2007, the implementation of village revenue management should consider the following:

- A. All village revenues must be deposited into the village cash account.
- B. For villages without banking services in their areas, the management of revenues is transferred to the regional government.
- C. Programs and activities within the village that contribute to revenue must be recorded in the Village APBD.
- D. Every village revenue must be proven with sufficient and valid evidence.
- E. The village head must improve the collection of village revenue within their authority and responsibility.
- F. The village government is prohibited from collecting income other than that outlined by village regulations.
- G. Excessive village revenue must be returned by attributing it to the village's income and returning it in the same fiscal year.
- H. The return of village income from previous years due to unforeseen expenses.
- I. All statements above must be supported by sufficient and valid evidence.

Furthermore, Article 9 of Ministry of Home Affairs Regulation No. 37 of 2007 states that the implementation of village expenditures in the APBDesa must consider:

- a) Every expenditure that affects the APBDesa must be supported by legal and complete facts.

- b) These facts must be validated by the Village Secretary as evidence that supports the expenditure.
- c) Village cash expenditures affecting the APBDesa budget cannot be executed before the village regulation on the APBDesa is officially enacted as a village regulation.
- d) Village cash expenditures, as stated in point c, are not included for mandatory village expenditures and must be formalized in a village head regulation.
- e) The village treasurer must collect taxes and other levies and remit all collected revenue and taxes to the village cash account (Onsardi et al., 2019).

The APBDesa can be amended in cases such as:

- a) Situations requiring a change in expenditure types.
- b) Situations where surplus calculation from previous years (SILPA) must be used in the current year.
- c) Emergency situations or extraordinary circumstances.

Income management must be carried out by the village treasurer, with the assistance of: general cash books, sub-cash books, income records, and daily sub-cash books. The village treasurer must be accountable for income by reporting it to the village head no later than the 10th of the following month. The attached report of income accountability includes:

- (1) general cash book;
- (2) additional cash book detailing the items received;
- (3) other valid certifications.

## Discussion

The management of expenses must be carried out by the village treasurer. The documents for managing expenditures must comply with the village regulations related to the Village Budget (APBDesa) or the regulations concerning changes to the APBDesa through the submission of a Payment Request Letter (SPP). The SPP must be reported to the village head through the Technical Compliance Officer for Village Financial Management (PTPKD). The village treasurer is required to be accountable for the use of the funds under their responsibility by informing the village head about the payment entries no later than the 10th of the following month. The documents used by the village treasurer to manage expenditures include: (a) the general cash book; (b) the supplementary cash book that details expenditures; (c) the household expenditure cash book. On the other hand, the expenditure responsibility information must be accompanied by: (a) the general cash book; (b) the supplementary cash book that details the expenditures with legal evidence of the expenditures; (c) evidence of VAT or income tax payments to the treasurer.

The village financial management is formalized by a single treasurer. The village treasurer, who is responsible for managing the village finances, is the only person in charge, which means there is no division of duties between the revenue treasurer and the expenditure treasurer. According to Article 58 of Law No. 1 of 2004 on State Wealth, it is stipulated that in order to enhance operational capacity, transparency, and accountability in financial management, the head of state as the head of government

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should regulate and implement an internal management system in government areas as a whole. Furthermore, Article 2, Section 1 of Government Regulation No. 60 of 2008 on Internal Control Systems stipulates that ministers or heads of organizations, governors, and regents or mayors must manage government activity management.

In managing activities, five key methods must be applied, which are: division of duties, authorization systems, independent management, physical security, selection, and documentation. The principle of division of duties means that one person should not perform a series of tasks from start to finish. This series of duties must be divided and carried out by different individuals. By dividing the duties, an internal control system is created within the organization. If the series of duties is duplicated, the risk of fraud is very high.

Article 16, Sections 1 through 4 of Ministry of Home Affairs Regulation No. 37 of 2007 regulates the determination of responsibility for implementing the Village APBD. The village secretary prepares the draft village regulation regarding the village's responsibility to implement the APBD and the draft village head's decision on the village head's responsibilities, then submits it to the village head for discussion with the Village Consultative Organization (BPD). Based on the approval of the village head and BPD, the draft regulation on the village's responsibility to implement the APBD can be changed into a village regulation. The submission deadline for the request is one (1) month from the end of the fiscal year. Furthermore, Article 17 of Ministry of Home Affairs Regulation No. 37 of 2007 stipulates that the village regulation on the responsibility for implementing the Village APBD and the village head's decision on the village head's responsibilities, as mentioned in Article 16, Section (3), must be submitted to the regent, governor/mayor through the district head. The deadline for submitting the request is no later than 7 days from the date specified by the village authorities. Financial accountability reports at the village level include reports on revenue and expenditure accountability, such as the general receipt and expenditure cash books, the sub-collection cash books, and other legitimate receipts and expenditures, submitting evidence of VAT/PPH payments to the state treasury.

In addition, Articles 30 and 31, Sections 1 and 2 of Law No. 17 of 2003 regulate that the President, Governor, Regent, or Mayor must submit a legal draft regarding the responsibility for implementing the State Budget (APBN) or Regional Budget (APBD) to the DPR or DPRD, in the form of financial information that has been reviewed by the BPK no later than 6 (six) months after the conclusion of the fiscal year. The financial information aims to: report the achievement of the APBN or APBD, the balance sheet, cash flow, and financial statements attached to the financial reports of state or regional government agencies and other organizations.

The purpose of financial information is to provide relevant data about the financial position and all activities conducted by the entity during the reporting period. Financial information is primarily used to reconcile revenue, expenditures, transfers, and contributions with the established calculations, assess the financial situation,

evaluate the performance and capacity of the reporting entity, and help ensure compliance with legal regulations (Government Regulation No. 24, 2005, on government accounting standards). The management of village budget allocation is an integral part of village financial management. The village fund allocation formula is as follows: (a) The principle of fairness means that the village fund allocation must be the same for every village, known as the minimum village fund allocation (ADDM); (b) The principle of equity means that the amount of village funds allocated is based on weighted village values (BDx), calculated with specific formulas and variables (e.g., poverty, ability to pay, education, health, etc.), referred to as the proportional village fund allocation (ADDP). The percentage comparison between fairness and equity is 60% for the ADDM and 40% for the ADDP. The allocation of funds at the village level in the APBD of the regency/city is budgeted by the village government. The village government opens an account at a bank designated by the village head. The village head submits a request for village fund allocation to the Regent, head of the village government service, or district secretary, after verification by the supporting team from the regency representative. The district government office at the Regional Secretariat will submit the documents and their supporting paperwork to the head of the finance division of the regional secretariat or the head of the regional financial management agency (BPKD) or the head of the regional financial department. The head of the regional financial department or BPKD will transfer the village fund allocation directly from the regional treasury to the village account. The mechanism for disbursing the ADD in the village APBD is carried out in stages or according to the capacity and conditions of the regency/city. The implementation of the ADD program, financed by the APBD, is fully carried out by the village implementation team according to the regent/mayor's decision. The use of the ADD is 30% for apparatus-related costs and operational expenses of village government, and 70% for community empowerment costs. Community empowerment expenditures are used for:

- Costs related to small-scale public facility improvements,
- Investment in community businesses through the Village-Owned Enterprises (BUMDes),
- Costs related to food security,
- Environmental and housing improvements,
- Appropriate technology integration,
- Health and education improvements,
- Socio-cultural development, and others.

Article 99 of Government Regulation 72/2005 stipulates that the government and provincial governments must strengthen the management of village apparatus and community organizations. District/city authorities must develop and monitor the implementation of village-level authority and community organization activities. Guidance and supervision from the district/city government include: (a) Consultation on the implementation of ADD; (b) Providing consultation, training, and financial management at the village level, including planning and preparing the Village APBD, implementation, and accountability of the Village APBD; (c) Guiding and supervising village financial management and the use of village assets; (d) Providing advice in the

implementation of village financial management. So far, the direction and supervision from the Branch Director include: (a) Creating favorable conditions for village financial management; (b) Creating favorable conditions for the management of village finances and the use of village assets; (c) Facilitating the implementation of ADD; (d) Facilitating the implementation of village-level finance, including planning and preparing the Village APBD, implementation, and accountability of the Village APBD.

## CONCLUSIONS

From the context and theory above, the following conclusions can be drawn:

1. During the reform era, the accountability model evolved from vertical accountability to horizontal accountability. Budgeting also shifted from a conventional system using a little-by-little approach to gradually becoming a capacity-based budgeting system.
2. The scope of village financial management includes village assets directly managed by the village government, particularly the Village Budget (APBDesa). In managing village finances, it is essential to adhere to and comply with the general principles of village financial management, namely managing village finances in an orderly, systematic, transparent, accountable, and inclusive manner. Principles of fairness, morality, and the welfare of the village community should also be observed.
3. Village financial management is implemented according to an integrated system set in the Village APBD, which is established annually based on village regulations.
4. Furthermore, the Ministry of Home Affairs Regulations No. 37 of 2007 on Village Financial Management and Regulation No. 35 of 2007 on General Principles of Reporting and Accountability of Village Government Administration, as well as Ministry of Home Affairs Regulation No. 66 of 2007 on Regional Financial Programming, have not fully aligned with the stipulations of Law No. 17 of 2003 on State Finance, Law No. 1 of 2004 on State Wealth, Law No. 1.15 of 2004 on Monitoring of State Financial Management and Accountability, and Law No. 1.25 of 2004 on National Development Planning System.

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