CHAPTER I

INTRODUCTION

A. Background

The village is the smallest form of government which is in the governance structure of the Republic of Indonesia. Villages are known to have rules in the form of norms and customs that regulate the village system and regulations when it is regulated in writing in the law. Law Number 6 of 2014 concerning Villages regulates governance and village regulations. In this law what is meant by a village is a legal community unit that has a regional boundary that is authorized to regulate and manage government affairs, the interests of the local community based on community initiatives, the rights of origin, and/or traditional rights that are recognized and respected in the system of state government Unity of the Republic of Indonesia. The village used to be only regulated based on custom in the local area, now has authority to run a decentralized system in Indonesia. So that all activities carried out by the village government have been systematically arranged. This was intended so that the welfare of the Indonesian people would be more equitable and comprehensive.

Law No. 6 of 2014 concerning Villages can be used as a major element of the efforts made by the Indonesian government in expanding decentralization to the smallest elements of government. This effort is a form of continuity of the decentralization process that began more than fifteen years ago (Antlöv et al., 2016). Law No. 6 of 2014 also explains about village
finance. village finances referred to here are all Village rights and obligations that can be assessed with money and everything in the form of money and goods related to the implementation of Village rights and obligations. The rights and obligations referred to are generating income, expenditure, financing and village financial management.

The existence of village arrangements is expected to have a positive impact on wider scope in improving development, resilience and national economy. The Nawacita principle held by the government become a reference that national development starts from government the smallest is the village, in accordance with the Medium Term Development Plan National (RPJMN) 2015-2019. National development is no longer fully oriented from the city but the village that is the front guard in the success of the government program (Rahayu, 2017)

The village has the authority to manage and regulate its own affairs related to the administration of its government and to carry out village development through community development and empowerment that derives from the village's local authority and the authority assigned by the regional government and the central government. The fulfillment of village development in accordance with the needs of the community is supported by the provision of adequate village finance. Village finance comes from the village's original income and from some funding from the State Budget (APBN) and Regional Budget (APBD) and other income. In accordance with Law No. 6 In 2014 there were direct funds transferred by the central
government using APBN to all villages in Indonesia as Village Fund Allocation (ADD), where in 2015 the direct transfer funds were implemented with a considerable amount.

The Central Government has allocated village fund allocations that are quite large for every village in Indonesia. The Minister of Finance of the Republic of Indonesia, Mrs. Sri Mulyani in November 2017 stated in the introduction to the smart book village funds that from 2015 to 2017 the average allocation of village funds each year has increased. In 2015, village funds were budgeted at Rp.20.7 trillion, with the average of each village getting an allocation of Rp. 280 million. In 2016, village funds increased to Rp. 46.98 trillion with an average of each village of Rp. 628 million. And in 2017 it again increased to Rp. 60 trillion with an average of each village of Rp. 800 million. The evaluation conducted by the Ministry of Finance on village fund management can be said to be good. Because many villages can improve existing facilities and infrastructure and make village-owned enterprises (BUMDes) as a form of effort to improve the economy of the community.

However, it should not be forgotten also some facts in the field which state that there are still irregularities in the use of village funds. Reported in the online news that Tama S Langkun, researcher of Indonesia Corruption Watch (ICW) explained that in the period 2010-2015 there were 133 cases of corruption that occurred in the village. 186 of them were declared as suspects and the most were village heads. It can be said that the commitment of the
village head himself is still lacking because he is still committing fraud against the funds used for the welfare of the community. Even though the village head has the obligation to carry out his administration. This is in line with the Nawacita program promoted by the President of the Republic of Indonesia, which states that it will carry out Indonesia's development starting from the periphery, namely through progress and strengthening of regions or villages. The achievement of village development which is the main objective of village funds is largely determined by the performance of financial management by the village apparatus. Al-Qur’an Surah an Nisa verse 58:

Meaning: Verily Allah tells you to convey the message to those who have the right to receive it, and (command you) if you set a law among men so that you will justly establish. Verily Allah gives the best teaching to you. Verily Allah is the Hearing, the Seeing.

Verse 58 of the Chapter of Nisa explains that every human being is obliged to convey the mandate given to him to those who have the right to receive it truthfully. The village government is the party mandated by the community to run the village government both in terms of administration and village development through village financial management. This is also in line with the stewardship theory, where the village government as a stewards carries out the mandate of the community as the principal to carry out its duties in the government and has an obligation to report the work of its duties to the principal.

Recording and reporting that does not meet the standards and is inconsistent with the village apparatus shows poor financial management
performance, this problem can lead to difficulties in evaluating the use of village funds. Some problems related to village fund management include delays in submitting financial reports, incompatibility of accountability reports, being late in preparing budgets and not optimally absorbing budgets (Mada et al., 2017). Therefore, the importance of transparent, accountable and participatory principles is carried out in an orderly and disciplined manner in the management of village finance in accordance with the Minister of Home Affairs Regulation (Permendagri) Number 113 of 2014 concerning Village Financial Management to address the above problems.

Given that the performance of village financial management is important in national development efforts through village development and empowerment of rural communities, there are several previous studies on factors that influence the performance of village financial management. Mada et al. (2017) the results of his research show that the competence of village fund managers, village government organizational commitment, and community participation have a positive effect on the accountability of village fund management in Gorontalo District. Research from Sugiarti and Yudianto (2017) resulted that the competence of human resources, utilization of information technology, and budget participation had a significant positive effect on the accountability of village fund management. Jalil (2017) the results of his research conducted in three villages in Magelang Regency showed the influence of human resources, information, and community participation in village financial management. In the 21st century this has
become a digital era, where technology is indirectly required to be controlled by parties who want progress. Progress and strengthening of the region or village as a step to realize the government's Nawacita program if it is to be achieved maximally, it must utilize existing technology. The technology is used can be used as a means of information to the public on programs or results of performance that has been achieved. So that technically it is expected that there will be no more whose name is left important information for each program and policy of the village government. This is evidenced by the application of the village financial system created by the Financial and Development Supervisory Agency (BPKP) as a form of escort of the Nawacita program to lead to Indonesia's progress.

The community as principal in a village government has the right to know the performance of village financial management starting from planning, implementation, to the results or financial reports. This was attempted with the implementation of village program planning including the village financial budget in which it was formulated jointly by the Village Consultative Body (BPD) as a political actor from the community for the village government, village apparatus as management in the village government, and representatives from the community in a village meeting in accordance with Law No.6 of 2014 Article 54. Village meetings are one form of transparency from the village government that is carried out to reduce the occurrence of fraud in the use of village finance. Therefore, the BPD has an important role in managing village finance.
In addition to supervision carried out by the BPD, the role of village facilitators in village governance, especially in financial management, is very much needed to see the capacity of village officials who are still weak (Prasetyo and Muis, 2015). Village facilitators become facilitators for the government and village communities in the effectiveness of implementing government, development, empowerment and community in order to achieve the welfare of rural communities. However, in the study of the Corruption Eradication Commission (KPK) regarding the risks of village assistance, it was explained that with the knowledge and experience of village facilitators, it could be used to manipulate the village apparatus (Prasetyo and Muis, 2015).
Table 1.1 Village Fund year of 2017

Based on Table 1.1 village funds disbursed in the 2017 fiscal year by the central government amounted to Rp. 60 Trillion to all villages in Indonesia. A number of regencies in the Province of D.I Yogyakarta received a large injection of funds from the center as village funds, one of which was
Bantul Regency which received village funds of 9.98 trillion in Fiscal Year of 2017.

Village fund allocation Bantul regency received 81 billion rupiah for the transfer of village funds in 2018. this number increased from the previous year which reached 77 billion rupiah. a sufficiently large amount is prone to the occurrence of fraudulent transfers of village funds. hence the Bantul regency government routinely provides assistance and training in village fund management and the development of BUMDes.

The potential for village financial empowerment in Bantul Regency has been very developed and developing. In 2016 the district of Bantul already has at least 25 bumdes which are active and continue to grow to date. Besides that Bantul district also has integrated BUMDes with the intention of enlarging and improving financial management between villages so that the creation of an inter-village economy in Bantul Regency is synergistic. This potential must be balanced with the capacity of the village apparatus to manage village finance, compliance with the village's regulations governing village financial management, supervision of the village councilitative body also has an important role in managing village finances. In the 21st century the use of information technology is also very necessary to support the running of good village financial management, the commitment of village officials is also an important point that must be highlighted in relation to village financial management, and village facilitators and community participation are also very important supporting points for the creation good
village financial management, transparency and accountability. By this potential aspect from Bantul Regency, I was interested in writing research related the topic and this research was a replication from the previous reserach that done by Fahlevi and Munti (2017) that the title is *Determinasi Kinerja Pengelolaan Keuangan Desa: Studi pada Kecamatan Gandapura Kabupaten Bireuen Aceh*. The different this research and the previous research is in the scope of object of research and for data testing and methods of hypothesis testing, so my research title is **Determinants Of Village Financial Management Performance (Study In Bantul Regency, Yogyakarta Province)**.

**B. Limitation of Research Problems**

Limitation of the problems in this study is important to use so that the research objectives can be achieved. The limitations of the problem in this study include the following:

1. Respondents in this study were village heads, village secretaries, all heads of affairs, and all section heads in each village.

2. The independent variables of this study include the capacity of village officials, compliance with regulations, the quality of supervision of village consultative bodies, utilization of information technology, commitment of village officials, Village facilitators, and society participation.

3. The dependent variable in this study is the performance of village financial management.
C. Research Questions

Village laws are made as a government effort to improve rural development and empowerment of rural communities. Transfer direct fund from the central government to the village with a large enough nominal is one of the central government's strategies in meeting the financial needs of the village. This, requires the parties involved in village financial management to formulate and run village financial management properly. Therefore, it should be noted what factors influence the performance of village financial management, so that the formulation of the problem of this research is as follows:

1. Is the capacity of village officials has a positive effect on performance village financial management?

2. Does regulatory compliance has a positive effect on the performance of village financial management?

3. Is the quality of supervision by the village consultative body has a positive influence on the performance of village financial management?

4. Is the utilization of information technology has a positive influence on the performance of village financial management?

5. Does the commitment of the village apparatus has a positive effect on the performance of village financial management?
6. Do village facilitators have a positive effect on the performance of village financial management?

7. Does community participation have a positive influence on financial performance Village Financial Management Performance?

D. Research Objectives

Based on the background and Research questions above, it can be mentioned the purpose of the research are:

1. To get empirical evidence of the influence of village apparatus capacity on village financial management performance.
2. To obtain empirical evidence of the influence of regulatory compliance on the performance of village financial management.
3. To obtain empirical evidence of the influence of the quality of supervision of village consultative bodies on the performance of village financial management.
4. To obtain empirical evidence of the influence of the use of information technology on the performance of village financial management.
5. To obtain empirical evidence of the influence of village officials’ commitment to the performance of village financial management.
6. To obtain empirical evidence of the influence of village facilitators on the performance of village financial management.
7. To obtain empirical evidence of the effect of the society participation to the performance of village financial management.

E. Research Benefits

The benefits that will be obtained in this study include two things:

1. Theoretical Benefit

This research is expected to contribute to further researchers and add insight and information related to public sector accounting science, public sector financial accounting, public sector management, and village financial management / management.

2. Practical Benefits

a. Benefits for Village Government

This research expected can provide benefits to the village government in the form of providing information about:

- Improve the performance of the village government so that it can be accounted for properly.
- Increasing human resources that carry out financial management to be more qualified.
- Increase the use of information technology to be used as a means of delivering effective information to the public.
- Improve the village financial management system to be better.
• It is used as an evaluation material so that village governance becomes more systematic so as to support the village's progress.

b. Benefits for University

• Helping the development of science in accounting science.

• If research is published in journals and published regularly and academically can help in terms of accreditation of study programs and colleges.

c. Benefits for Community

• Increase the level of public trust in the government.

• Increase knowledge and insight into government performance.

• Provide information on the government's performance in managing village finances.