

VILLAGE FUND ACCOUNTABILITY AND FINANCIAL REPORTING QUALITY A CONCEPTUAL FRAMEWORK

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Abstract

Purpose: This conceptual article explains the relationship between village fund accountability and reporting quality in the Indonesian context. **Approach:** It integrates the theoretical arguments and prior studies cited in the manuscript through a structured narrative review. **Conceptual synthesis:** The framework identifies apparatus competence, internal control, digital reporting routines, and supervisory feedback as the principal explanatory channels. The strength and direction of these relationships depend on leadership commitment, local administrative capacity, system usability, and citizen oversight. **Conclusion:** The proposed framework clarifies causal pathways, identifies practical decision points, and provides testable propositions for future empirical research. No primary survey, interview, experiment, or regression result is claimed in this article.

Keywords: Village Fund, Apparatus Competence, Internal Control, Financial Reporting Quality, Accountability, Public Sector Accounting

Introduction

Law No. 6 of 2014 on Villages marked a fundamental change in the position of villages in Indonesia's system of government (Government of the Republic of Indonesia, 2014). The law recognizes villages as self-governing communities with the authority to manage their own affairs and provides for significant fiscal transfers from the central government through the Village Fund. Since its introduction in 2015, the Village Fund has grown to become one of the largest intergovernmental transfer programs in the country, supplemented by allocations from regencies and cities. These resources have enabled villages to finance infrastructure, basic services and community empowerment programs, but they have also placed heavy demands on village governments to plan, implement, administer, report and account for public funds.

The regulatory framework for village financial management is set out in the Minister of Home Affairs Regulation No. 20 of 2018, which requires village governments to follow principles of transparency, accountability and participation and to prepare periodic reports on the realization of the village budget (Ministry of Home Affairs of the Republic of Indonesia, 2018). To support this process, the government and the Financial and Development Supervisory Agency (BPKP) developed the village financial system application (Siskeudes), which is used in most villages to record transactions and generate reports. Despite these

efforts, audit and monitoring reports continue to identify problems such as late reporting, inadequate supporting documents, errors in classification and, in some cases, misuse of funds.

Studies of village governance have highlighted both the promise and the challenges of the Village Law. Antlöv et al. (2016) note that the law created new opportunities for community participation but also new risks of elite capture and administrative burden. Lewis (2015) argues that the design of village transfers created incentives and capacity problems that affect the quality of spending and accountability. A recurring theme is that many village officials have limited education and training in accounting and financial management, and that internal control systems in villages are often weak or applied only formally.

Accountability requires that those who manage public resources explain and justify their conduct to a forum that can pass judgment and impose consequences (Bovens, 2007). Financial reports are one of the main instruments through which village governments render account to the village consultative body, the community and higher levels of government. The quality of these reports, meaning their relevance, reliability, comparability and understandability (IASB, 2018), therefore determines whether accountability can function effectively.

This study examines two factors that are frequently cited as determinants of the quality of village financial reports: the competence of village officials and the internal control system. It also examines whether the use of Siskeudes mediates the influence of these factors. The study contributes to the literature by combining agency, stewardship and institutional perspectives and by testing the role of the village financial information system as a mechanism linking human and control capacity to reporting quality.

Literature Review and Hypothesis Development

Theoretical perspectives on accountability

Agency theory describes a relationship in which a principal delegates authority to an agent, who may not always act in the principal's interest because of divergent goals and information asymmetry (Jensen & Meckling, 1976). In the village context, the community and higher levels of government act as principals, while the village head and officials act as agents. Financial reporting and internal controls are mechanisms that reduce information asymmetry and constrain opportunistic behavior. Stewardship theory offers a different view, arguing that managers may be motivated to act in the interest of the organization and its stakeholders when they identify with its goals (Davis et al., 1997). From this perspective,

competent village officials who identify with the welfare of the community will strive to produce high-quality reports.

Institutional theory adds that organizations adopt formal structures and procedures to gain legitimacy, sometimes without integrating them into actual practice (Meyer & Rowan, 1977). DiMaggio and Powell (1983) describe coercive, mimetic and normative pressures that lead organizations to become similar. Village governments face strong coercive pressures from regulations and audits to adopt standard reporting formats and systems, but the extent to which these become effective practices depends on internal capacity. This perspective suggests that the mere existence of controls or systems does not guarantee high-quality reporting.

Financial reporting quality

The conceptual framework for financial reporting identifies relevance and faithful representation as fundamental qualitative characteristics, supported by comparability, verifiability, timeliness and understandability (IASB, 2018). In the Indonesian public sector, similar characteristics are set out in the government accounting standards under Government Regulation No. 71 of 2010 (Government of the Republic of Indonesia, 2010). For village governments, high-quality financial reports are complete, accurate, timely, and prepared in accordance with regulatory formats, allowing users to assess how village funds have been used.

Apparatus competence

Competence refers to the underlying characteristics of an individual, including knowledge, skills and attitudes, that are causally related to effective or superior performance (Spencer & Spencer, 1993). In village financial management, competence includes understanding of regulations, accounting and budgeting knowledge, skills in using Siskeudes, and a commitment to accuracy and integrity. From a stewardship perspective, competent officials are better able to carry out their responsibilities, and from an agency perspective, competence reduces unintentional errors that weaken the reliability of reports.

H1: Apparatus competence has a positive effect on the quality of village financial reporting.

Internal control system

Internal control is a process designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance (COSO, 2013).

The COSO framework includes five components: control environment, risk assessment, control activities, information and communication, and monitoring activities. In the Indonesian public sector, Government Regulation No. 60 of 2008 on the Government Internal Control System adopts a similar structure (Government of the Republic of Indonesia, 2008). In villages, internal controls include segregation of duties between the village head, secretary, treasurer and implementers, authorization of expenditures, documentation requirements and periodic verification. Effective internal control reduces errors and irregularities, thereby improving the reliability of financial reports.

H2: The internal control system has a positive effect on the quality of village financial reporting.

Use of the village financial information system

Information systems support the recording, processing and reporting of financial transactions. When used appropriately, Siskeudes standardizes procedures, reduces calculation errors and speeds up report preparation. However, the effective use of the system depends on the competence of the users and on the control environment in which it is used. Competent officials are more likely to use the system correctly and fully, while a strong control environment ensures that data entered into the system are authorized and supported by documents. Siskeudes use can therefore be viewed as a mechanism through which competence and internal control affect reporting quality.

H3: Apparatus competence has a positive effect on the use of Siskeudes.

H4: The internal control system has a positive effect on the use of Siskeudes.

H5: The use of Siskeudes has a positive effect on the quality of village financial reporting.

H6: The use of Siskeudes mediates the effect of apparatus competence on the quality of village financial reporting.

H7: The use of Siskeudes mediates the effect of the internal control system on the quality of village financial reporting.

Table 1. Research hypotheses and theoretical basis

Hypothesis	Relationship	Main theoretical basis
H1	Competence → Reporting quality	Stewardship theory; Spencer and Spencer (1993)
H2	Internal control → Reporting	Agency theory; COSO (2013)

	quality	
H3, H4	Competence, Internal control → Siskeudes use	Institutional theory
H5	Siskeudes use → Reporting quality	Information systems perspective
H6, H7	Mediation via Siskeudes use	Integrated model

Research gap and conceptual framework

Studies of village financial management frequently examine competence and internal control as parallel predictors of reporting quality, but they rarely explain the mechanism through which these factors operate. Since Siskeudes has become the main tool for recording and reporting village transactions, it is plausible that competence and control influence reporting quality partly through the way the system is used. The conceptual framework of this study therefore positions Siskeudes use as a mediating variable. It also integrates three theoretical lenses: agency theory explains why control is needed (Jensen & Meckling, 1976), stewardship theory explains why competent and committed officials produce better reports (Davis et al., 1997), and institutional theory explains why formal adoption of systems and controls does not always improve practice (Meyer & Rowan, 1977; DiMaggio & Powell, 1983).

Conceptual Review Method

This article uses a structured narrative review to integrate the literature already identified in the manuscript. Sources are interpreted according to their contribution to the relationship between village fund accountability and reporting quality, the mechanisms they propose, and the conditions under which those mechanisms may strengthen, weaken, or change direction. The review does not present itself as a systematic review or meta-analysis, and it does not generate new numerical estimates. Instead, it organizes established concepts into an explicit framework that can guide later empirical testing.

Conceptual Synthesis

The synthesis indicates that village fund accountability and reporting quality should not be treated as a single direct relationship. The first layer consists of apparatus competence, internal control, digital reporting routines, and supervisory feedback. These channels explain how an institutional, technological, managerial, or behavioral change is translated into an economic or organizational outcome. They also show why apparently similar actors may respond differently to the same intervention.

The second layer consists of boundary conditions: leadership commitment, local administrative capacity, system usability, and citizen oversight. These conditions shape

exposure, capability, incentives, and the capacity to respond. Accordingly, the conceptual model predicts conditional rather than universal effects. Future research should measure the mediating mechanisms separately and test interactions with the identified boundary conditions instead of relying only on a single aggregate association.

Conceptual Propositions

Proposition 1. The relationship between village fund accountability and reporting quality operates through the combined influence of apparatus competence, internal control, digital reporting routines, and supervisory feedback.

Proposition 2. The magnitude and direction of the relationship vary according to leadership commitment, local administrative capacity, system usability, and citizen oversight.

Proposition 3. Outcomes are more sustainable when organizational capability, stakeholder trust, and governance safeguards develop together rather than independently.

Practical and Research Implications

For practitioners and policymakers, the framework suggests that interventions concerning village fund accountability and reporting quality should be designed as coordinated packages. Technology or formal policy alone is unlikely to produce consistent results without capability development, credible communication, monitoring, and accessible support. For researchers, the framework provides a transparent basis for selecting constructs, specifying mediators and moderators, and comparing different Indonesian regions or organizational settings.

Conclusion

This article reframes village fund accountability and reporting quality as a conditional process rather than a simple one-directional effect. The conceptual contribution is the integration of apparatus competence, internal control, digital reporting routines, and supervisory feedback with the boundary conditions of leadership commitment, local administrative capacity, system usability, and citizen oversight. The framework offers testable propositions while avoiding unsupported empirical claims. Future studies can evaluate the propositions using verified survey, administrative, qualitative, or longitudinal evidence.

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