

## FLEXIBILITY OF BUDGET ACCOUNTABILITY USING FLOW MODIFICATION IN THE DESIGN OF VILLAGE FINANCIAL ACCOUNTING

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### ABSTRACT

*This study aims to find out the implementation of government regulations contained in Law No. 6 of 2014 on the village and the Regulation of the Minister of Home Affairs of the Republic of Indonesia Number 113 of 2014 on guidelines for the management of village finances. The research was conducted in 10 villages in Lhokseumawe Municipality and North Aceh Regency. Research method was conducted by comparing between the financial format provided by the government and the realization of financial accounting implementation in the villages. The research findings indicate that many village officials cannot record and report the use of village budget because of the complexity of the procedure and the limited understanding on the forms provided. To overcome these problems, it is necessary to be modifying the flowchart of financial accounting by way of revising little village book format. The aim is to make the village officials able to prepare the financial accountability properly. The flow modification in the design of village financial accounting should meet the principles of flexibility without abandoning the existing government accounting standards. The design includes village bankbooks, general book, direct expenditure book, and indirect expenditure book, Village Budget (APBDes) and Budget Realization Report (LRA). This design is believed to be able to provide a solution to the problem of financial management accountability in the village. These findings are an excellent lesson on the village financial management in Aceh Province, Indonesia.*

## 1. INTRODUCTION

### Background

Law of the Republic of Indonesia Number 6 of 2014 on Village stated that Village is the unity of legal community that has jurisdiction and authority to manage the its governmental affairs based on the community initiatives that are recognized and respected in the government system of the Republic of Indonesia. Each village has a Village Head who holds authority in managing the village administration. In carrying out his functions, the Village Head can authorize parts of his authority to the Village Officials. In addition, the Village Head can also make policies independently in managing the potential and the development of his village without being regulated by any other parties.

Since the enactment of the Law of the Republic of Indonesia No. 6 of 2014, the funding at the village level is getting increased now. The State has provided special attention to finance rural development with the source of funds from central government. Based on the Government Regulation of the Republic of Indonesia Number 60 of 2014, village fund is taken from the State Budget (APBN), transferred to the Regency and next allocated for Village Budget (APBDes). Although the acceptance of fund is not the same from one village to another, the village will certainly be flooded by funds.

The spirit of reform in government bureaucracy can be reflected in the application of the principles of transparency and accountability in all financial management. One of them is the establishment of an internal

control system on the Village Fund Allocation (ADD). Government is obliged to monitor the financial activities from the upper level (center) to the lower level (village) to ensure that the allocation of funds is in accordance with the objectives targeted. Internal control system can shape one's control consciousness and make it as the basis of all elements of internal control with discipline and financial governance (Boynton and Kell, 1992).

Government officials at the village level are also required to create an atmosphere of control activities to achieve the expected goals through village financial accounting management. With reference to the Government Regulation No. 60 of 2008 concerning the structure of government control will establish monitoring functions, procedures, environment, and control activities over the receipt and expenditure of funds. The establishment of internal control system should be focused on wise control, including ethics, morals, integrity, honesty, discipline, competence, commitment and other software. The enforcement of internal control system is a form of soft control of the implementation of activities as once expressed by Boynton and Kell (1992).

In the country's financial system, every receipt and use shall be accounted for. Article 77 of Law of the Republic of Indonesia Number 6 of 2014 on the Village, paragraph (1) states that village wealth and finance must be managed well under the principles of common interests, functional, legal certainty, transparency, efficiency, effectiveness, accountability and certainty of economic value.

Any village financial information shall also be reported correctly and accessible to the public. The public is entitled to obtain information whenever needed (Law of the Republic of Indonesia Number 14 of 2008).

Furthermore, the Regulation of the Ministry of Village, Lagging Regions Development, and Transmigration Number 5 of 2015 on the determination of priorities for the use of village funds of 2015, Articles 3 and 4 describes the principle of the use of village funds. The use of village funds is prioritized to finance development spending and empowerment of village communities. The use of village funds is contained in the village spending priorities approved in the village meetings.

To realize the pillars of good governance should start from the village level. Therefore, data and financial information should be presented accurately, correctly, and timely. If the accounting data is invalid, it is feared that many Village Heads will stumble in corruption case. Seeing the number of Heads of Local Government who are entangled in corruption cases, there is possibility that the area of corruption will move into the village. If the village officials are not ready, the occurrence of fraud and misappropriation is inevitable. The scale will increase and uncontrollable if there is no budget control. The Village Heads and the officials need to learn accounting. The understanding of accounting is indispensable to the process of budget accountability. By mastering accounting skills will help the village officials free from the issues of law violations (Bachruddin Nasori, 2014).

Legally, the government is obliged to manage the budget from the center to the village administration. The government supervision and anticipation have been demonstrated by the issuance of the Regulation of Ministry of Home Affairs of the Republic of Indonesia Number 113 of 2014 on guidelines for the management of village finances. Financial formats have been designed to be applied in the village financial management. But the phenomenon in the field is different. The findings of initial survey indicate that many village officials still do not know any about the budget management techniques and orderly financial administration. Many villages are late in accepting the transfer of funds because the village officials cannot qualify the proposed Village Budget.

The village officials cannot compile financial accountability report on the use of previous year's budget. The condition is increasingly worsened by the finding that the village officials do not have expertise in the village financial administration. The existence of a large budget allocation for each village throughout Indonesia is believed to be highly vulnerable to crimes committed by those who are not responsible.

Poor record-keeping and financial reporting can weaken the performance of the village administration. It is predicted that such conditions are experienced by village officials throughout Indonesia, no exception in the Province of Aceh. Aceh Province has specificity in governance, including in the provision of financial portion (Law No. 11 of 2006). Broadly speaking, this province has

more funding sources than any other provinces. Therefore, the villages in Aceh Province have significant potential of development funding sources.

One of the funding sources is from the Village Fund Allocation (Aceh local language *Alokasi Dana Gampoang /ADG*). Regulation (*Qanun*) of North Aceh Regency No. 4 of 2009 specifies that the source of income of the village (*gampong*) is derived not only from the transfer of government funds, but also from potential sources of village assets by promoting mobility capability of the village officials to explore the potential of village assets. To find a source of income and village funding must be followed by the readiness of village officials in the management of village finances. Village Funds Allocation (ADD) program is the ideal concept of government to implement participatory development of rural communities that promote the principles of accountability, transparency and public participation. The positive response of society is indispensable for the sustainability of rural development (Subroto, 2009).

In fact, there are still many problems occurring in the village financial management. Almost all of the village officials could not hold orderly financial administration. This weakness gives rise to fraudulent practices both intentional and unintentional. Weak control systems allow the occurrence of any actions that could harm the state.

The village officials have major problems in financial reporting and financial accountability. The design of bookkeeping format that has been made by the government is not fully understood.

Practicality of the form design, in fact, could not be run properly, although the village officials really need the technical solutions on the procedures for the management of village finances. The village financial accounting cycle needs to be modified slightly to simplify the financial accounting functions. One of the most fundamental things is that anyone still wants easy and practical accounting fulfillment steps. However, the ease does not mean to step over the existing rules.

Efforts to prevent fraud and improve capability are indispensable. Budgetary control procedures should be kept running. The problem is: does the design of the government's financial format meet the elements of practicality so that the officials are encouraged to manage the village books? This study examines the government regulation on financial management and supervises directly as well as affects the village financial management. This study aims to produce a new formulation related to the enforcement of simple village financial accounting and the modifications of budget accountability floschart without abandoning the applicable principles and Government Accounting Standards (SAP).

## **2. THEORETICAL FRAMEWORK**

### **The Authority of Village Financial Management**

Village Budget is often in deficit rather than in surplus due to unmeasured expenditure. The deficit in budget value is caused by four main factors. First: village has a small village budget and its source of revenue is also highly

dependent on a very small support. Second: the prosperity of rural communities is low. Third: lack of village operating funds in running the service. Fourth: Many development programs come into the village, but they are managed only by the department (Hudayana and FPPD, 2005).

According to the Regulation of Ministry of Home Affairs No. 113 of 2014, on the village financial management, states that the authority holder of village financial management is the Village Head, while the technical implementation of the village financial management (PTPKD) is handled by village officials such as village secretary, section heads, and treasurer. Village secretary is the one appointed as the coordinator of the technical implementation of village financial management. The formation of technical implementation of village financial management (PTPKD) is established by the Decree of Village Head. The village Head, as the authority holder of village financial management, is authorized to set policies of the village budget implementation, to set technical implementation of the village financial management, to appoint the collector of village revenue, and to approve the expenditure set in the village budget. In implementing his functions, the Village Head is assisted by village secretary, section heads, and village treasurer.

Village treasurer is an element of the village secretarial staffs who is appointed from the department of administration and finance of the village. The position of treasurer is held by a staff of financial affairs. Basically, all revenue and

expenditure must sign in the village budget and is recorded via village cash accounts. Treasurer is in charge of receiving, storing, depositing / paying, administering, and accounting for the revenue and expenditure of the village in the effort of implementing the village budget. Unfortunately, this understanding is poorly understood by most village officials.

It is recognized that the ability of village officials is still relatively low. Various weaknesses would surely affect the performance and realization of Village Budget (APBDes). Record-keeping and financial reporting are often presented incorrectly and late. Augustine (2013) explains that the lateness in the submission of village accountability report is due to the weak village resources, insufficient staff and lack of supporting facilities, whereas the village officials, especially the Village Head, has wider authority in managing the village. The Village Head, as the head of village administration has an authority to manage the village finance. This figure may represent the village government in the ownership of separated village assets.

According to Taufeni Taufik (2009), the authority of Village Head includes: 1) Establishing policies regarding the implementation of village budget; 2) Establishing policies regarding the management of village property; 3) Assigning the village treasurer, with the decree of village head; 4) Assigning collector who conducts the village income reception; 5) Assigning officer who manages the village property. The Village head, in managing the village finances, is assisted by the technical implementer of village finances

management (PTPKD) consisting of Village Secretary and Village Officials.

Law of the Republic of Indonesia Number 6 of 2014 explained that all rights and obligations of the Village can be assessed. The rights and obligations include in raising revenue, expenditures, financing, and management of village finance. The village revenues are derived from:

- a. Village own source of revenues consist of business results, assets, self-help and participation, mutual aid, and others;
- b. Allocation of State Budget;
- c. Part of the local tax and retributions of Regency / City;
- d. Allocation of village fund that becomes part of the balance funds received by Regency / City;
- e. Financial assistance from the Provincial Budget and Regency / Municipality Budget;
- f. Non-binding grants and donations from third parties.

All revenues mentioned above should be accounted for. In Article 16, paragraph 1 to 4 of Regulation of Ministry of Home Affairs No. 113 of 2014 regulates the establishment of village budget accountability. Village Secretary is preparing the draft of village regulations on the accountability of village budget implementation and the draft of Village Head decisions to be discussed with the Village Consultative Body (BPD). Based on the approval of the Village Head and Village Consultative Body (BPD), the draft of regulations on accountability of village budget management can be set into village regulations. The timeframe for submission

is at least 1 (one) month after the fiscal year ends. The village financial accountability report consists of the revenue and expenditure accountability reports.

### **Village Budget**

Revenue is a source of funds that goes into the account of the village. In Indonesia, the village sources of revenue can be derived from the village own source of revenue (PAD), such as the business results, assets, self-help and participation that can be measured by money, and other village own sources of revenue, such as village levies. Revenues from transfers include village funds, aid from Regency Budget (APBD Kabupaten), aid from Provincial Budget (APBD Provinsi), Village Funds Allocation (ADD), and sharing of regional tax / levies and others. The village's sources of revenue are set in village regulations. The village government is not allowed to charge levies for the village revenue other than those specified in the village regulation.

In addition to revenues, the village can also use the funds as the village expenditure. Spending is expenditures of funds used for the benefit of the village. In an emergency, the village government can make spending outside what are listed in the village budget, ie from unexpected expenditure post. The state of emergency and extraordinary conditions is set by the Head of Regency/City Mayor before. Basically, the classifications of village expenditure include expenditure for governance, implementation of development, social development, community empowerment, and unexpected expenditures.

Broadly speaking, the expenditures can be grouped into three village expenditures:

3. Employee

Expenditure for fixed salaries and allowances of Village Head, village officials, and village legislative paid monthly.

4. Goods and services

Expenditure for the purchase / procurement of goods whose benefit value less than one year, for example the purchase of stationery, consumption for meeting, rental equipment, business trip, wages, incentives for hamlet head, and so forth.

5. Capital

Expenditure for purchase / procurement of goods or construction whose benefit value is more than one year.

The expenditure which is greater than revenue can results in village budget deficit. Conversely, the revenue which is greater than expenditure can lead to the village budget surplus. Actual deficit condition can be helped with the financing post. Financing is all receipts that need to be repaid or expenditure that will be received back either in the current year or the next fiscal year, for example, the reception of non-binding grants and donations from third parties, and other legitimate village's own resource of revenue. In plain, financing consists of two parts:

1. The acceptance of financing

- The remaining balance budget (SILPA) of the previous year sourced from exceedances of revenues receipt from spending, retrenchment of spending

and the remaining funds of continued activities.

- Liquidation of reserve fund
- Proceeds of the sale of village wealth

2. Expenditure of financing

- Establishment of reserve fund
- Inclusion of village capital

Revenue, expenditure, and financing require perfect recording and reporting, in which stage by stage should be conducted by the village treasurer under the control of the Village Head.

In Aceh Province alone, the characteristics of village administration are slightly different from other village administrations in different provinces. Since the issuance of Law No. 11 of 2006 concerning Aceh Government, the role of various terms of village administration in Aceh are increasingly emphasized. The term of *Gampong* in Aceh is more popular than Village. *Gampong* (or village) currently has *Keuchik* (Village Head), *tuha peut* (Village Legislative), *tuha lapan*, *imeum meunasah* and *mukim* (hamlet head) that help maintain rural development. Nevertheless the problem of handling the village administration in Aceh is not significantly different from the problems of villages in other provinces.

Many village officials in Aceh do not understand their own position, functions, duties and responsibilities. Recording and reporting of village assets are not handled properly. Their understanding on village financial statements is still very low. Weak capability and performance of the officials will influence the effectiveness of the work performed. The

village administration cannot be performed optimally due to the limited knowledge.

On the other hand, the use and evaluation of Village Budget have not reached transparent and accountable management. The reports of the realization of revenues, expenditures, and financing have not been done properly. To meet the great needs / spending, the officials have not been able to find alternative sources of income as they are not accustomed to do the village assets inventory. The condition is significantly contrary to the mandate and expectations set forth in the Law of the Republic of Indonesia No. 6 of 2014 and the Regulation of the Minister of Home Affairs No. 113 of 2014 on Guidelines for Village Financial Management.

Aside from government transfer (balance fund), the village can also optimize sources of revenue from the potential of village assets. To build a village requires substantial funding. In addition to the revenue, there are several other sources of revenue that need attention. According to the Regulation of North Aceh Regency No. 4 of 2009, the revenues are; village's own sources of revenue, sharing from taxes and levies of the regency, the Village Fund Allocation (ADD), financial aid from the regency / province, financial aid for village development (BKPG), and non-binding grants. The village secretary acts as the executive coordinator of the village financial management and be responsible to the Village Head.

### **Village Administration and Financial Accountability**

With the legalization of village budget

means that the village budget can be used. In proposing funding should be accompanied by documents of Budget Plan. The Budget Plan is verified by the village secretary and approved by the Village Head. The payment request letter (SPP) should be addressed to the Village Head. The payment request letter may not be submitted before the goods and services are received. The payment request letter is submitted in conjunction with the statement of expenditure responsibilities, and the attachments of transaction evidence.

Village Secretary is obliged to examine the completeness, to test the correctness, to test the availability of funding, and to refuse the request. Based on the results of verification of the payment request letter, the Village Head approves the payment request and the treasurer can make payments and record it as an expense. Then, the treasurer shall collect taxes. Administration is done by the treasurer. Treasurer records the village revenues and expenditures and prepares accountability reports submitted each month to the Village Head. The recording includes the general cash book, tax subsidiary cash book, and bank book.

The Village Head is obliged to present village budget realization report to the Regency Head / City Mayor at the beginning of the first semester and the year end semester report not later than the end of January the next year. The village budget realization report was previously set with the village regulation. In submitting the report should be accompanied by village wealth report, and the report of government

and local government programs that get into the village.

The Village Head, in implementing the financial administration of the village, should assign village treasurer. The assignment of village treasurer is done before the start of the fiscal year based on the decision of the Village Head. The revenue administration must be carried out by the village treasurer using: general cash book, object specification subsidiary cash book, and daily subsidiary cash book. Village treasurer shall account for the receipt of money that becomes his responsibility through the reception accountability reports to the Village Head not later than the 10th of the following month. The reception accountability report shall be accompanied by: (1) the general book; (2) object specification subsidiary cash books; (3) other legal receipts. To produce quality financial information, the treasurer can use an accrual basis. This is in line with government directives contained in the Regulation of Minister of Home Affairs Number 64 of 2013 on the application of accrual-based Government Accounting Standards on local governments.

According to Dwi Ratmono and Mahfud Sholihin (2015), the regional financial administration should be on an accrual basis. This method can recognize the transactions and other events at the time of transactions and the events happen regardless of cash or cash equivalents received or paid. In the regional financial accounting systems, this accrual-based method is very helpful in managing regional / village finances to produce valid, honest and trustworthy financial information.

Document of expenditure administration must be adjusted to village regulations regarding village budget or village regulations regarding the changes of village budget through the submission of payment request letter (SPP). The submission of payment request letter should be recognized by the Village Head through the technical implementation of village financial management (PTPKD). Several villages have understood the financial mechanism, even the public are directly involved in controlling the Village Budget.

Local government (regency / municipality) allocates Village Fund Allocation (ADD) in the Regional Budget every fiscal year. The whole village revenue is received and channeled through the village's cash account and the use is set in the Village Budget. Thus, Village budget is crucial for the legality of village funding. The liquidity of funds in the village's cash account is signed by the Village Head and village treasurer. At least 70% of the funds are used to finance the implementation of village administration, the implementation of village development (capital expenditure), rural community development, and rural community empowerment. Furthermore, at most 30% of the total Village Budget is used for the fixed income and the allowances of Village Head and officials, village governmental operations, allowances and operational activities of Village Consultative Body (BPD), and incentives for head of neighborhood (RT / RW).

Discussing about budget issues as if there were no end. Therefore, it is worth exploring some trigger points of the budget problem.

Results of the research conducted by Agustinus (2013) show that local government officials have lack of capacity to deal with funds and poor budget management as shown on the four functions of management in which planning, execution, reporting and monitoring of funds education are not conducted properly. The regulation has established legal force on funds management. The local government has the authority to take the policy in order to avoid the uncertainty.

Many other countries, such as Ethiopia, provide autonomous right to organize administration and make policies based on regions / ethnic groups, but there are still ambiguity and uncertainty. This is due to the different regulations so that the management of financial resources to be inadequate (Ayele, Fessha, and Yonatan, 2012). Aceh is certainly different from the federal territories in Ethiopia. Economic stability of regions in Indonesia is much more established than that in Ethiopia. Supposedly, with the birth of regional autonomy, the financial management is more independent.

### **3. RESEARCH METHOD**

This research was conducted in Lhokseumawe Municipality and North Aceh Regency. As many as 10 villages were selected as the study sample. The 10 villages are Jambo Timu, Tumpok Teungoh, Meunasah Mee, Meunasah Blang Crum, Lhok Mon Puteh, Mesjid Peunteut, and Rayeuk Kareung of Lhokseumawe Municipality, and then Keude Simpang Keramat, Uteun Geulinggang and Cibrek Baroh of North Aceh Regency.

This study uses survey research method. The researchers directly visited the 10 villages to visualize their village financial management. Data collection was conducted through observation, interviews with the Village Heads, secretaries, and village treasurers. The researchers also visited the regency government officials, who have higher position and in charge of financial management to obtain financial data / information. In addition, the researchers also conducted literature review to see the government regulations and policies regarding the village financial management. The researchers also reviewed the results of previous researchers related to this study.

The researchers conducted a comparative research between policies and regulations adjusted to the needs and conditions of the actual users to discover the advantages and limitations of the format in order to obtain the real description of the problem. Through in-depth study is obtained solutions in the form of new accounting models. The design of accounting procedure includes the bank book, general cash book, government expenditure book, capital expenditure book, interim account balances of income and expenditure, and Village Budget Realization Report (LRA APBDes).

### **4. DATA ANALYSIS AND DISCUSSION** **Inventory of Village Financial Problems**

Although Aceh Province has its own legislation, namely Law No. 11 of 2006 on the Governance of Aceh, but the bookkeeping format of the village financial accounting is still

using the format specified by the government. The term of village commonly used in Aceh is *gampong*. Village problems are basically the same in all provinces. These problems can actually be reduced along with the presence of the Law of the Republic of Indonesia Number 6 on the Village Administration. To find out the results of the implementation of Law No. 6 of 2014, field investigations have been conducted to look at the realities of the implementation of village financial management. Basically, the problems of the ten villages that become the object of this research are the lack of access and poor quality of human resources in managing the financial administration of the village.

There is a distortion of problem between expectations and reality. On one side, village administration is required to serve the people optimally and excellently, but on the other side, the capability of the village officials in providing qualified service is still limited. The village officials appointed as the civil servants are not capable of providing meaningful contribution when the village is required to immediately improve itself and make achievement. Some villages do not have the efficiency and effectiveness in utilizing the village budget. Disinformation and non-synergistic cooperation among the officials are also part of the big problem.

The financial problem of the village is getting heavier due to the inability of the village officials in preparing bookkeeping and financial reporting. Village treasurer has not yet mastered the procedures for recording and reporting of accounting. One of them

is due to the lack of understanding in filling the account code, mutations of revenues and expenditures, as well as the classification of village expenditure. Moreover in the case of the village's own source of revenue (PAG), in which most village officials know the village's own source of revenue (PAG) only from the government. In fact, the village also has other sources of revenue apart from the balance funds. In general, the value of the village wealth is unknown due to the lack of recording / reporting of the village assets.

Bookkeeping format, recommended by the government as stated in the copy of the Regulation of the Minister of Home Affairs of the Republic of Indonesia Number 113 of 2014 on guidelines for the financial management of the village, does not have any significant impact. The design of this bookkeeping format does not seem easy for the village officials to understand. To get out of trouble, there appeared diverse solutions. Village officials tend to create a form of their own to overcome the financial problems of their village. The design of the form is mostly not the same as the government format. Until now there have been villages that still keep record their finances manually, and sometimes they even hire other villagers to take care of the financial recording.

The format of government finances has provided different interpretations. In general cash book (BKU), apart from column of revenues and expenditures, there is also a column of cumulative amount of expenditure and a column of balance. The columns are considered redundant and can be confusing for

users. Village officials get difficulty in filling the column of cumulative amount of expenditure because in the next column they must fill the balance. Likewise, in filling account code consisting 6 columns / digits, the treasurer can only fill four digits. He often makes a mistake in filling these columns.

It is also the same as the format of subsidiary cash book that seems very complicated. For the village officials, the columns designed are considered very burdensome, rigid and impractical. Viewed from the standard format of the subsidiary cash book, the village revenue sources come from the village treasurer and self-help of the people, while the expenditures are used for the purposes of spending on goods and services and capital expenditures. Actually, the column of revenue is already represented in the general cash book. The treasurer can use the general cash book. Next, there should be other specific model of subsidiary book for the expenses column. To facilitate the users, there should be designed direct expenditure and indirect expenditure books. These books are the subsidiary book of general cash book without re-recording on the activities subsidiary cash book. By creating these two books of expenditures, village officials are increasingly directed because the transactions have been classified specifically.

Based on the results of observations and interviews, the village officials want a simple book-keeping. Village officials want the explanation on the process / stages of recording starting from the introduction of evidence of transactions, the introduction of account codes

to the procedures for filling the village budget and budget realization report. The form design must also provide accessible links that facilitate users in entering the transaction.

Almost all of the ten villages studied expect for a simple and integrated financial form. The technique for filling the form should be simple, attractive, but still put forward the government accounting standards as expected by the government. The villages surveyed expect for the attention and guidance from the relevant parties. To organize and control the village funds, the presence of facilitators is highly required. The villages should be able to compile the village budget and budget realization report as the manifestation of the financial accountability to stakeholders.

From the research results, the village financial problems can be inventoried as follows:

- a. Poor understanding of the government policy / regulation.
- b. Almost all villages cannot organize bookkeeping process (accounting) well.
- c. Village officials do not have the standard operating procedure of revenue and expenditure
- d. Village officials do not have practical and simple village financial form that is easy to use.
- e. Procedure for the disbursement of funds from the government is very complicated and there is a lack of financial strengthening / coaching from government.
- f. The level of supervision and control of the village funds is so low that the village funds

- allocation is at high risk of fraud.
- g. The village officials are unable to compile financial reporting such as village budget and budget realization reports which are able to meet the principles of accountability, transparency and public participation.
  - h. Not having village office and sufficient office inventory that lead to the non-optimal village financial administration.
  - i. The village officials do not have full time to manage the village financial administration due to their other work routines.

Basically, the capability of village financial management can be improved. Of the ten villages observed, there is a village that has a better level of accountability of financial management. It is Rayeuk Kareung Village, Blang Mangat Sub-district, Lhokseumawe Municipality. The procedure for filling the general cash book is considered correct. Administration and financial reporting in Rayeuk Kareung Village has been examined by the team of Government Inspectorate of Lhokseumawe Municipality. Although there are still some obstacles, the village is declared the best village in the management of village finances.

Distribution of village fund allocation should be supported by the strength and readiness of the village officials. Village companion program that results in high cost can be reduced by the readiness of the village officials. The readiness of the village officials in organizing the village book keeping is very helpful in maintaining efficient use of state money, such as by maximizing the empowerment of the village

secretary. The village secretary, in general, is a civil servant who gets a steady income. The section heads including the village treasurer are under his coordination.

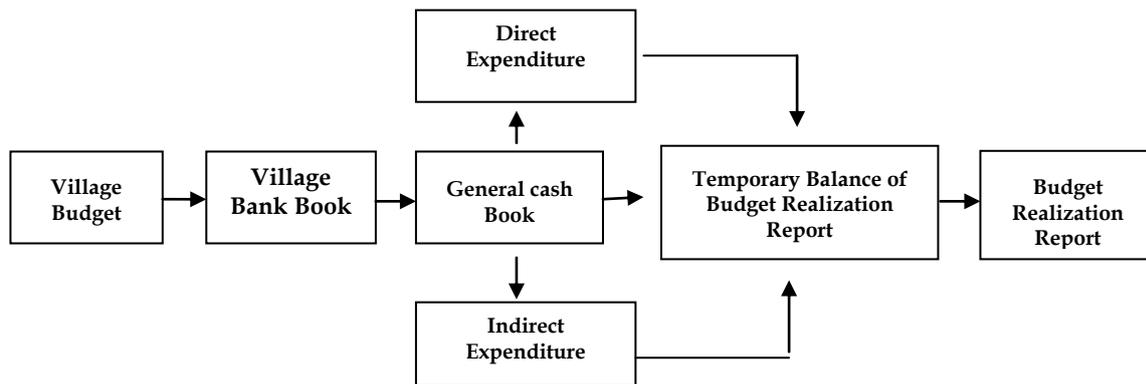
### **Flow Modification and Simple Design of Village Bookkeeping**

Conceptually, accounting cycle is designed in detail for an established business entity. It is quite common for large companies to have management information systems and accounting information systems. In accounting information systems, recording and reporting of financial activities are depicted in an integrated flowchart. How about in small-scale business entities? Should the flowchart of finance be modified completely in accounting procedures? On certain environment and conditions, this flowchart can be modified. Actually, accounting is not rigid in describing financial transactions. In accordance with the characteristics of the village financial administration, with low transaction frequency, the modification of budget accountability flowchart is possible to do. Modifications might include the simplification of forms and financial reporting cycle.

Based on the results of the inventory of village bookkeeping problems, village officials' complaints, and the review of bookkeeping format set by the government, it is necessary to redesign the village's financial books. It is expected to provide a solution to the village financial problems. Before designing the format, firstly, it is necessary to understand the flowchart and reporting cycle.

Simple circulation of recording and reporting will increase the interest of treasurer do the bookkeeping and financial reporting well. This is in accordance with the characteristics of the ability of village officials.

to be able to record every transaction into the village bank book. From the existing format, it is necessary to revise few columns in the village bank book to make it simpler but still comply with the necessary accounting standards.



**Scheme 1: Design of Budget Accountability Flowchart**

Data Flowchart Diagram (DFD) shows the simple process of village financial management that should be started from the preparation of Village Budge. Village Budget plan is the ‘soul’ of the village administration. The preparation of village budget contains estimates of revenue, use of expenditure, and financing. This form can be prepared in early year and once a year. To view the increase / decrease of village budget, the total estimates of this year will be displayed in the village budget next year. The appearance of village budget column of the previous year can guide the users in setting the village budget of current year.

The treasurer is the first man who manages the village bank books. Transaction of revenues and expenditures, the imposition of fees / taxes as well as the interest income is recorded in the village bank book. The treasurer regularly receives the print out of bank checking account

The next phase is the recording in the general cash book. This book records the village’s revenues and expenditures. Cash receipts can be sourced from government (revenue) which is transferred into the village bank account. The revenue can also be sourced from the public or other contributions from third parties. If the funds are received by the treasurer, the recording is done first in the general cash book. Furthermore, the treasurer can save some funds in the village account. On this migration, the treasurer then re-records it into the village bank book.

Withdrawing funds from banks will go into the general book. The withdrawal makes the treasurer hold funds (cash in hand) of balance listed in the general book. Since the cash withdrawal is used to finance village expenditure, any expenditure from general

book should also be recorded in the direct expenditure book and indirect expenditure book. The two expenditure books serve to clarify specifications and the number of units spent, including Value Added Tax and Income tax.

If the above process has been running, village officials can draw up the Budget Realization Report (LRA). The design of Budget Realization Report form is associated with Village Budget. Estimates of budget realization can be seen in the village bank book, general cash book, and subsidiary book. Each transaction of revenues, expenditures, and financing must be accumulated for a year to be able to determine the surplus or deficit. Therefore, it is necessary to design a subsidiary account balance before drawing up the Budget Realization Report.

By following the flow of recording on the above scheme, every transaction both revenue and expenditure shall establish a clear control procedure. The design of the bank book, general book, and expenditure books is considered more modest than the previous village book format. Such method further clarifies flow of recording of source and the use of village funds. The balances of each book must be reported into the Budget Realization Report (LRA).

## 5. CONCLUSION

Many village officials could not hold recording, reporting, and financial accountability due to the complexity of the procedure and the limited understanding of government regulations. Village officials want

a more flexible process / stages of accounting records starting from the introduction of transaction evidences, the introduction of account codes to the technique in filling Village Budget and Budget Realization Report. It is therefore necessary to design a simple village financial accounting application that can help overcome the problems of recording, reporting, and village budget accountability. To be able to generate the implementation and financial accounting reporting, the ability of village officials should be improved. Village officials should be able to compile and report the financial activities properly. The results of financial flowchart modifications are expected to provide an easy step to meet the expectations mentioned above.

There are important things that should be considered to control the Village Budget. Villages in Aceh still have a strong interactive social life. The mottos such as one view and brotherly relations and a sense of common interests are the major factor. If it is associated with village funds, such condition could have positive implications on control activities. The people care and remind each other in case of mistakes. But it should be understood that not all people have the capacity to understand and control the budget. Therefore, rural communities need to be educated concerning the measures to reduce the risk of fraud. Basically, preventing is better than curing the problem of fraud. The findings of research conducted by Fuadi (2008: 15) suggest that preventive supervision functions as an initial control of budget implementation. Realization of budget

will be more focused on achieving targets, and the risks of irregularities are minimized as the implementation of the budget has been established in strict accounting procedures.

### Limitation

This study has not discussed in terms of balance sheet accounts. Ideally, the flowchart modification of Village Budget and Budget Realization Report can be aligned with the balance sheet of the village. This research has not been able to assess the effectiveness of the design of village financial accounting format outside the 10 villages that have been used as the research object.

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