Factors That Influence Financial Management:  
A Case Study in Indonesia

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Abstract

This study aims to examine the Analysis of Factors Affecting Village Financial Management in Bali Province. Research with a quantitative approach. The research sample consisted of 87 village heads who manage village finances and are responsible for village government financial reports. The data analysis technique uses multiple linear regression and the data collection technique uses a questionnaire. The results showed that the duality of village government (customary village and village apparatus), the capacity of village government officials and the competence of village assistants had a significant effect on the success of village fund management. Meanwhile, accountability does not affect the success of village fund management due to the lack of responsibility of village government officials for village financial management, which causes a negative impact on the sustainability of village governance. Empirically, the better the level of accountability, the better the success of village financial management. Other research results place the synergy of government, the capacity of government officials and the competence of village assistants as social capital, which have a positive effect on the success of village financial management, so that it becomes the focus of the village government in implementing public services and controlling government performance, both financial and non-financial.

Keywords: Village Fund, Accountability, Apparatus Capacity, Government Duality

JEL Classification Code: G18, G40, M41, M48

1. Introduction

On January 15, 2014, the Indonesian House of Representatives passed Law No. 6 of 2014 concerning villages. The objectives of the formation of this law, as stated in the elucidation chapter of Law Number 6 of 2014, are:

(1) Providing recognition and respect for existing villages with their diversity before and after the formation of the Unitary State of the Republic of Indonesia; (2) Providing clarity of status and legal certainty over the village in the Republic of Indonesia constitutional system in order to bring about justice for all Indonesian people; (3) Preserve and promote the customs, traditions and culture of the village community; (4) Encourage the initiative, movement and participation of the village community to develop the potential and village Assets for mutual prosperity; (5) Forming a professional, efficient and effective, open and responsible village government; (6) Improving public services for villagers to accelerate the realization of public welfare; (7) Increasing the socio-cultural resilience of the village community in order to realize the village community capable of maintaining social unity as part of national resilience; (8) Promote the economy of the village community and overcome national development gaps; (9) Strengthening the village community as the subject of development.

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The drafting of the village law aims to drive the development of Indonesia, from the perspective of the villages. Various parties welcomed the birth of this law because villages that had been financing their needs from the Village Fund Allocation from the Local Government would get direct allocation funds from the APBN. Quoted from vivanews.com in 2015, the deputy chairman of the Special Committee for the Draft of Village Law, Budiman Sudjatmiko, stated:

“Funds around Rp. 104.6 trillion is shared by around 72,000 villages. So that a total of Rp. 1.4 billion per year per village, but it will be adjusted population, poverty geographically.”

These funds are intended for village development so that villages develop faster. The noble purpose of this law is to start construction from the village to the city, not from the city to the village so that the village youth will start to survive to build their village, no longer going to migrate to the city (De, 2016; Perkins, 2009; Tan et al., 2019). A large amount of funds certainly encourages village officials to carry out village development. The enactment of Law Number 6 of 2014 concerning Villages has been responded differently by the Balinese, and this is because Bali has so far embraced the duality of government, namely customary villages and official villages, while this law regulates both. Unlike Law Number 5 of 1979, which only recognizes Dinas Villages as a legal subject, Law Number 6 of 2014 also recognizes traditional villages. In this law, it is explained that both official and customary villages are equally recognized and treated in the eyes of the government. Village offices and custom villages can also make changes to achieve effective governance mechanisms based on the explanation of Law No. 6 of 2014 (Saputra et al., 2020).

The two villages are recognized, however Bali can only choose one village to register as a village. So that only one village has the right to receive village funds and regardless of who is more worthy of receiving funds from Law Number 6 of 2014 from a political and social perspective, the issue of managing these funds remains a top priority. In the accounting context, which party is better at managing funds can be studied in depth through the readiness of the entity to implement a good accountability system, because accountability is the main principle for realizing good governance (Kosec & Wantchekon, 2018; Wahyuminingsih, 2016). With this mechanism, the village government must apply the principle of accountability in managing the allocation of village funds. Accountability is an obligation to report and be responsible for the success or failure of implementing the organization’s mission in achieving predetermined results periodically (Mardiasmo, 2009). Likewise, the implementation of VFA in one of the Dolo Selatan sub-districts, Sigi Regency, has been managed in an accountable and transparent manner. However, the application of the principle of accountability at this stage is only limited to physical accountability, and administratively it has not been fully implemented properly because it has not fully met the provisions (Irma, 2015). This disagreement is natural, especially if it is associated with accountability practices that must be carried out in the management of these funds. Empirically, accountability and human resources between traditional villages and official villages are not much different. Both of these entities are equally capable of carrying out practices that demonstrate the lack of accountability practices. However, especially for Bali, it has been established that the village office has the role of managing the village fund (Sujana & Saputra, 2020).

However, in Bali, the existence of this law does not necessarily nullify the customary government. Traditional villages or Pakraman villages still exist in Bali, to take care of village manners for matters relating to culture and religion (Atmadja et al., 2018). While the village office manages the community as citizens, for matters related to population administration.

The parties concerned with the existence of this law, have their respective opinions regarding who is more suitable to receive funds of Rp. 1.4 billion. Those who initially thought that the official village was worthy of village funding said that official village registration would speed up the village law’s implementation because the official village was accustomed to doing government affairs. Made Suteja, as the Head of the Communication Forum for Village Heads and Lurahs of the Regency of Buleleng, said that official village registration would not change the village administration and administration system. In addition, according to him, registration of customary villages will take time to formulate regulations, and if put together there will be an overlap between governmental authority and issues of custom and culture (Saputra et al., 2020). Gede Parimarthana, as the review team for the Bali Provincial Village Law, revealed that there will be many regulatory mechanisms needed to register customary villages, including the possibility of merging villages and regulatory patterns for non-Hindu residents (Sujana et al., 2020). So that the implementation of the Village Law will take longer because it is waiting for all the regulations needed so that problems do not occur in the community.

While other opinions state that the registration of adat villages as a single village, also expressed their opinions on various occasions. As published in tempo.com on September 19, 2014, the spokesperson of the Main Assembly of Pakraman Village, Gede Nurjaya, said that the official village registration would intervene in the customary village, because customary village affairs would be considered as official affairs. Arya Wedakarna, during the Village Law socialization event at Laksmi Graha Singaraja Building.
on October 11, 2014, revealed various positive aspects of the registration of customary villages, including enriching traditional assets and preserving local Balinese wisdom that had been handed down so far. A different opinion was expressed by the head of the Golkar faction at the Bali DPRD, Wayan Gunawan, who said that the registration of traditional villages would trigger new problem. He said on metrotvnews.com on 11 October 2014, that, “If you choose a customary village, you must obey the village law. There will be a general election. Many problem arise. That’s because politics will also enter customary villages. Therefore, the selection of customary or official villages will be returned to the Balinese people. In the management of village funds, problems related to the management of village funds of this kind are a major problem because the authority of village and customary village officials is increasingly being kept secret. For example, in Bali village, assets such as ulayat land, village markets, coastal areas, etc. are owned by pakraman villages (traditional villages), so that village offices are not entitled to manage them (Saputra et al., 2020).

On the other hand, the service village has a village fund that must be managed to increase the village’s original income and does not have assets or land to develop the Village Owned Enterprise as the spearhead of economic sustainability in the village. This problem is often experienced by every village that receives village funds in Bali. Although the commitment between local government and village government has been determined, the implementation of VFA requires internal control. If there is internal control, then the use of the village funds, can be managed properly, and the village government can achieve a level of accountability in its management in accordance with applicable regulations. Internal control is carried out by the village government and is expected to produce responsible management (Hardiningsih et al., 2020).

Such a prolonged conflict occurred before the enactment of the village law until now the law has been passed and realized for about two years. Such polemic has not stopped until now. In the use of village funds, there is often debate and confusion related to funds that can or not be used to fund adat activities. However, on the other hand, in the course of the village, funds are required to be realized following its objectives regardless of all the polemics in Balinese society at this time. Amid the existing polemic, village funds must be used and utilized for the welfare of the community in general. The large allocation of village funds budgeted by the central government has made mandatory for some villages to carry out professional management with a qualified village financial management (Atmadja & Saputra, 2018; Bardhan, 2002; Bustaman et al., 2018; EKayuliana et al., 2018; Tan et al., 2019). With Law Number 6 of 2014 concerning Villages, many hopes arise from both the government perspective and the community perspective. A prosperous village community, a strong village government, and a decent quality of life for the village community are the biggest expectations. Village progress is a very useful input for the villages and the entire region. However, another hope that cannot be ruled out is that with village funding from the government, villages can be motivated to become independent and credible villages so that they can meet their own needs and are not solely dependent on government assistance, and make assistance from the government as a stimulant (Popoola et al., 2016). The high expectations makes it absolutely necessary for the villages to manage village funds properly, and the improvement must also be carried out such as, for example, improvement of human resources, village government commitment to development, and others (Xu et al., 2018).

Apart from the interests in the villages related to the management of village funds, it is also necessary to take concrete actions to manage village funds effectively, efficiently and economically. So that all forms of change in the village starting from human resources, adequate information systems, and synergies between village institutions need to be addressed as well as accountability in village financial management. The capacity of village officials here is very important for the successful management of village funds. The ability in all fields for the village apparatus greatly supports the government’s goal of making villages independent and self capable to manage their affairs. At present, in Bali, most villages are constrained by the capacity of village apparatus related to financial competence, management, and other capabilities that are still lacking, especially in the preparation of the Village Budget and Expenditure (called APBDesa in Indonesia), financial management, accounting reporting, and supervision (Saputra et al., 2020). The central and regional governments have overcome this problem by holding village apparatus training in managerial, accounting, and information systems to the point of recommendations for the recruitment of competent new staff in the village, each village or district (Atmadja et al., 2018).

In the context of the implementation of the Village Law, technically, it is carried out by the district or city-regional work unit, which has so far been assisted by district experts, village assistants, local village assistants, village community empowerment cadres, and third parties (Temenggung, 2016). Whereas the duty of the Camat as subordinate regents or mayors is to coordinate and facilitate village facilitation in their areas. The sub-district has a very strategic function in the framework of implementing the Village Law. So that the village assistance process does not run optimally. “Sectoral ego is still very thick” (Saputra, et al., 2019).

Village assistants are needed to implement the Village Law to assist and foster village officials in all technical work in the village. However, another question arises, whether the village competencies are in accordance with what is needed in the village? This is a new problem in the village,
especially in several villages in Bali, stating that the village facilitator is not yet in his capacity, all problems arise such as opinions from village facilitators are different from the inspectorate, confusing village officials, other problems are that village facilitators seem unconcerned with problems faced in the village so that the village apparatus find their way out of all the problems that exist, and the problem that most often occurs is the knowledge of village counterparts about the regulation and governance of village finance is not yet qualified (Fung & Au, 2014). These problems arise one after another in the village so that many village officials are getting frustrated with this condition. Other paths taken by villages in Bali invited practitioners and academics to come to their villages to provide counseling, outreach, and mentoring. Besides that, the village apparatus must follow all forms of training carried out by the regional government as a concrete manifestation of the concern of the regional government in managing village financial management so that it cannot be separated from the true principles of financial management, namely accountable, transparent and participatory (Saputra et al., 2020).

Associated with some understanding of government duality, accountability, apparatus capacity and competency of village counterparts in the successful management of village funds in the Province of Bali, this study was conducted to determine the effect of government duality, accountability, village apparatus capacity, and village counterpart competencies towards successful management of village funds.

2. Literature Review

2.1. Relationship of Village Government Duality Towards Successful Management of Village Funds

Padmani research in 2014, states that two village organizations in Bali already have their financial management methods. Traditional villages use two methods, namely budgeting for development and without a budget for religious activities or ceremonies (Suebvises, 2018). In contrast, the village office has its method by adopting a generally accepted financial management method, namely with three stages of planning by preparing a budget, implementing, and accountability. In the context of the source of funds managed, traditional villages are sourced from descendants (citizen contributions), purna funds (donations), government assistance, and community-based development (CBD). While the official village financial sources are sourced from the government and the village’s original income (Rodiyah et al., 2019; Xu et al., 2018). From this, it can be concluded that there is a gap in the source of funds managed by the adat village and the village official, the meaning of the gap, in this case, is that the source of the income of the adat village is only sourced from the indigenous people who are also official citizens, but the village office can freely manage village assets as a source of original village income, so the synergy of these village institutions must be carried out to support the successful management of village funds as a form of supporting the government in alleviating poverty and improving the people’s standards of living economically (Kampen, 2009).

**H1:** Relationship of village government duality with the successful management of village funds.

2.2. Relationship of Accountability Towards the Success of Village Fund Management

Accountability can be defined as the relationship between the parties who control and regulate an organization and the parties with formal authority over the controlling party. In this case, a responsible third party is also needed to explain, or practical reasoning for the entire activities carried out and the business outcome obtained as a result of task implementation and achieving a particular goal (Muktiadji et al., 2020). Organizational commitment in the village government manifested in the management of village funds can be carried out correctly and in accordance with regulations, it is in line with Law No. 6 of 2014 that the implementation of the Village Revenue Expenditure Budget (VREB) with VFA as a component must be managed with high commitment by the executive apparatus at the village level, with a high commitment to the village government to encourage successful accountability in the management of VFA (Mada et al., 2017). Apparatus resources are the ability of the apparatus to do work and essential components to improve the performance of the village government. Therefore, apparatus resources must have competence in the management of VFA to realize accountability. The relationship of apparatus resources with VFA accountability can be explained by stewardship theory, that executives as managers have a role in carrying out the mandate to achieve organizational goals within the scope of the village government (Hardiningsih et al., 2020).

**H2:** Relationship of accountability with the successful management of village funds.

2.3. Relationship of the Capacity of Village Personnel Towards the Success of Village Fund Management

Research by Rasjid and Blongkod (2016), states that there is a need to increase the capacity of village officials for the success of the village fund management program mandated by the central government. Other research from Asrori in 2014, states that the level of understanding of village officials
in understanding the management of human resources and the technical ability of village officials is still lacking. This states that village officials’ capacity influences the success of village fund management through the technical capabilities of each individual. Research from Rahmawaty in 2015, states that apparatus competence has a significant effect on fraud prevention, which means that officials who have competence in the field of financial management will have more potential to prevent financial fraud so that it does not harm the community so that it can be the basis for successful village fund management. The results of this study are supported by research from Sudiarianti et al. (2015), which states that the competence of the apparatus has a positive effect on the quality of local government financial reports through the application of internal control systems. The higher the competency of the government apparatus through increasing the application of internal control systems, has an impact on improving the quality of local government financial reports and can prevent fraud, so the most significant impact is on the successful management of village funds (Atmadja et al., 2018).

**H3:** Relationship of the capacity of village apparatus with the success of village fund management.

### 2.4. Relationship of Village Companion Competencies Towards Success in Village Fund Management

Research by Mohlis (2016) and Pahlavi (2017) states that village facilitators have a significant influence on the success of village fund management, this effect can be proven by the statement that there are many inhibiting factors in the exercise of village escort authority namely lack of participation from village communities, availability of facilities that have not adequate, and lack of Human Resources as village assistants. Village assistants and the Village Government must jointly increase the participation of village communities to improve performance optimization as an indicator of the success of village financial management in the form of accountability for priority programs in village governance and work together in carrying out their duties and functions to realize smoothness in terms of development in the village as a benchmark of village success in managing village funds. Mohlis in 2016, states that village assistants are less professional in planning, implementing, managing development and maintaining infrastructure in the village so that it can hamper the successful management of village funds, this has a negative influence on village goals in achieving successful village fund management (Sujana et al., 2020).

**H4:** Relationship of village assistants competencies with the successful management of village funds.

### 3. Methodology

The study was conducted with a survey approach that aims to conduct careful and thorough testing of an object of research based on a particular situation or condition by seeing its suitability with certain statements or values that are followed and observed carefully and thoroughly. The number of research samples is 87 village heads with the sampling criteria are villages receiving village funds in the province of Bali. Data collection procedure uses a questionnaire with Slovin formula as the method of collection and sampling. This study uses personally administered questionnaires. This research uses Ordinary Least Square (OLS), while the development and testing of hypotheses use Statistical Package for the Social Sciences (SPSS) for Windows Real Estate 24.0 Program. Research analysis techniques with multiple linear regression analysis approaches, while the construct in this study uses exogenous and endogenous constructs.

### 4. Results and Discussion

#### 4.1. Research Results

**4.1.1. Validity and Reliability Test**

Based on the results of the validity test, it was found that all items from the Government Duality variable (X1), Accountability (X2), Apparatus Capacity (X3), Competence of Village assistants (X4), and Success of Village Fund Management (Y) were valid and the variables used were are reliable with each having a Cronbach Alpha coefficient of greater than 0.6.

**4.1.2. Classic Assumption Test**

The normality assumption test is performed on the residual regression results. From the results of the Kolmogorov Smirnov test on the residual regression results, it was found that the significance value is more than 0.05. Thus, the assumption of normality of the regression error is fulfilled, so it can be stated that the residual data are normally distributed.

Multicollinearity test results show that all the Variance Inflation Factor (VIF) values of each independent variable are less than 10 with a tolerance value of more than 0.1, which means that between independent variables, there is no strong enough correlation or there is no multicollinearity (assumptions are met).

The heteroscedasticity test is done by looking at scatter-plot charts. Based on scatterplot graphs, the assumption of homogeneity of heteroscedasticity variance errors has been fulfilled with points on the graph that spread and do not form
a particular pattern either above or below the number 0 on the Y axis, which means that the assumption of heteroscedasticity is sufficient (homogeneous residual range).

4.1.3. Multiple Regression Analysis Test

The regression equation explains the effect of variables X1, X2, X3, and X4 on Y. The calculation results can be seen in Table 1.

From the results of the multiple linear regression equation, it can be seen that:

The Duality of Village Governance has a positive and significant effect on village fund management’s success, and it can be seen from the significant value that is smaller than $\alpha$ (0.023 < 0.050). The positive coefficient of regression explains that if there is an increase in the duality of village governance, it will significantly improve village fund management’s success. This also states that the first hypothesis is accepted. This means that the duality of village governance between the customary village and the official village is not in terms of competition but is complementary because the two village institutions have their respective duties which do not overlap at all so that they can work together in the success of village management.

Accountability has a negative and insignificant effect on the success of village fund management, and it can be seen from the significance value that is smaller than $\alpha$ (0.374 > 0.050). The negative coefficient of regression explains that if there is an increase in the conflict of interest, it can reduce the level of success in managing village funds, but this does not significantly influence. This result also states that the second hypothesis is rejected.

Apparatus Capacity has a positive and significant effect on the success of village fund management. It can be seen from the significance value, which is smaller than $\alpha$ (0.039 < 0.050). The positive regression coefficient explains that if there is an increase in the apparatus’s capacity, it will be able to increase the success of village fund management. This also states that the third hypothesis is accepted.

The competency of village counterparts has a positive and significant effect on the success of village fund management seen from the significance value smaller than $\alpha$ (0.020 < 0.050). The positive regression coefficient explains that if there is an increase in the competency of village counterparts, it will also increase the success of village fund management. This also states that the fourth hypothesis is accepted.

4.2. Discussion

4.2.1. The Effect of Village Governance Duality Towards Successful Management of Village Funds

Based on the results of the data analysis above, it is known that village governance’s duality has a significant influence on the success of village fund management. This means that the duality referred to in this study is a duality that is positive between the adat village and the office village. In other cases, it can also be said as a synergy (Atmadja et al., 2018; Saputra et al., 2020; Sujana & Saputra, 2020). These two synergistic institutions have a positive impact on the successful management of village funds. Traditional villages whose members are indigenous people are incidentally the same as village administration offices administratively will have a strong synergy to create a successful government in the village (Adiputra et al., 2014; Atmadja & Saputra, 2018). This duality only occurs in the Province of Bali, so that it is unique to the regulation of village funds in Indonesia. The results of this study can contribute to the development of village management offices to prioritize the interests of the community as a whole rather than the interests of groups (Programme & Governance, 2003; Wanusmatwatie et al., 2018).

4.2.2. Effect of Accountability Towards Successful Management of Village Funds

Other research results state that accountability negatively affects village fund management’s success. Accountability are feared by government agencies everywhere. Accountability within an organization has a very negative impact on the sustainability of the organization itself. This can also trigger fraud and cause damage in the organizational structure of government. Administrative chaos can be a fall-out of the conflict of interest of people involved in the administration of the village funds. So it can be concluded that the village government is obliged to avoid conflicts of interest in its institution to avoid the destruction of the organization (Bardhan & Mookherjee, 2000; Ghazali et al., 2014; Smith, 2018). This accountability may not exist in a government organization because of its accountability to the public or society, so that leadership or individuals are not permitted to have their interests in running the wheels of government (Atmadja et al., 2019; Sujana et al., 2020). Apparatus competence is a

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personal aspect of a worker that enables a person to achieve excellent performance. These individual aspects include the nature, motives, value systems, attitudes, knowledge and skills where competence will direct the behavior, then the behavior will produce performance. Apparatus competency becomes a vital factor considering capability is an internal factor and expresses in performance. Thus the management of village funds requires the skills or skills of its managers so that the accountability or accountability of the village government in managing village finances is in accordance with the mandate and trust given to it. Being responsible means managing finances well, honestly, and not misusing it (Hardiningsih et al., 2020).

4.2.3. Effect of Capacity of Village Apparatuses Towards Successful Management of Village Funds

The capacity of the village government apparatus becomes a very important variable in the administration of village governance, especially in achieving successful village fund management. The success of management referred to here is that villages that receive village funds can realize an independent village. The realization of an independent village becomes the homework of all village people, not just the village government (Saputra et al., 2020; Sujana & Saputra, 2020). Therefore, the village apparatus, as well as members of the village community themselves, must increase their ability to devote themselves to the cause of the development and proper administration of villages. If this awareness to improve individual abilities emanates from each village apparatus, then the professionalism of village government will be realized, so that an economically independent can help in the prosperity of the whole community (Atmadja et al., 2018). The capacity of the apparatus in this case is the ability of the village government apparatus in managing village funds according to the rules and regulations. To achieve this, training is needed to consistently follow the development of existing government regulations and not turn a blind eye to the risks that will be faced by the village government in the future (Atmadja et al., 2018; Karmawan, 2017).

4.2.4. The Effect of Competency of Village Facilitators Towards the Success of Village Fund Management

The competency of village counterparts has a central position in the successful management of village funds. The condition of the village government, which is still unstable due to regulations on overlapping village funds, creates confusion and uncertainty from the village apparatus. So that assistance is needed from the central government. This village facilitator certainly has the competence and scientific qualifications and practical knowledge to assist in the management of village funds (Atmadja et al., 2019; Saputra et al., 2020). This assistance serves to keep the village government apparatus away from all forms of intentional or unintentional mistakes. Based on the results of the study stated that a competent village companion would help the village to achieve the desired success (Atmadja & Saputra, 2018; Saputra et al., 2019).

5. Conclusions

Based on the results of research and discussion, it can be concluded that the variables of village government duality, the capacity of the village apparatus, and the competency of village assistants have a positive influence on the success of village fund management. However, accountability has a negative effect on the success of village fund management. These results give the sense that in achieving successful village fund management, it is necessary to pay attention to the synergy between the adat village and the official village so that achieving the goal of an independent village can be realized. This synergy becomes important because, in order to achieve big goals, the organization cannot expect only the performance of its government, but it is the responsibility of all components of the village community. Furthermore, the capacity of the apparatus and the competency of village counterparts have a vital position in achieving successful village fund management, because to achieve organizational goals requires quality human resources. The success of an organization in achieving its goals requires cohesiveness and accountability. The accountability is one aspect that is most feared in the management of government because it can lead to fraud that has a negative impact on government organizations.

Recommendations for further research are that the researcher can consider the research location and elevate the local wisdom of each region as a research variable. This is suggested because, after all, organizational success is rooted in the success of the leadership of uniting culture. Both the organizational culture and individual culture. Individual culture originates from the culture of the region that has taken root in his life. As is the case in Bali, that existing local wisdom has become a way of life for the people, so that the organization can integrate it with the organizational culture in the village government.

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