

## THE EFFECT OF VILLAGE FUND PLANNING, IMPLEMENTATION, AND REPORTING ON GOOD GOVERNANCE WITH FINANCIAL PERFORMANCE AS A MODERATING VARIABLE

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### Abstract

This study investigates the effect of village fund planning, implementation, and reporting on good governance, with financial performance as a moderating variable in 20 villages across five sub-districts of South Central Timor Regency, East Nusa Tenggara Province, Indonesia. Using an explanatory quantitative approach, data were collected from 100 respondents comprising village heads, secretaries, finance officers, Village Consultative Body (BPD) members, and community representatives. Structural Equation Modeling Partial Least Squares (SEM-PLS) with SmartPLS was employed for analysis. The results indicate that village fund implementation has a significant positive effect on good governance ( $\beta = 0.207$ ,  $p = 0.043$ ), while village fund planning ( $\beta = 0.115$ ,  $p = 0.294$ ) and reporting ( $\beta = 0.207$ ,  $p = 0.092$ ) do not. Financial performance significantly moderates the relationship between implementation and good governance ( $\beta = 0.220$ ,  $p = 0.024$ ), but does not moderate the planning–good governance or reporting–good governance relationships. These findings highlight that the quality of program execution and sound financial management are the primary determinants of good governance in village fund administration, with implications for capacity-building and accountability frameworks in rural public administration.

*Keywords: Accountability, Financial Performance, Good Governance, SEM-PLS, Village Fund*

### INTRODUCTION

National development in Indonesia is a systematic, planned, and sustainable process aimed at promoting equitable welfare across all regions. Beyond economic growth, it encompasses poverty reduction, improved quality of life, and strengthened institutional governance (Todaro & Smith, 2020). In developing nations, rural development occupies a strategic role because the majority of the poor reside in villages and depend primarily on agriculture and local resource-based economic activities (Todaro & Smith, 2020). Indonesian rural development serves as a critical instrument for closing regional disparities and improving community welfare (Sutiyo & Maharjan, 2017; Putra, 2022).

The enactment of Law Number 6 of 2014 on Villages signaled a new wave of decentralization, granting villages broader authority over governance, resource management, and independent financial administration (Vel & Bedner, 2015; Antlöv, 2019). Under this framework, the government allocates Village Funds (Dana Desa) sourced from the State Budget (APBN) to accelerate village development, reduce poverty, and stimulate local economic growth (Lewis, 2015; Permatasari et al., 2021).

Village fund management encompasses three normative stages: planning, implementation, and reporting (Ministry of Home Affairs, 2018). Planning involves participatory needs assessment through village deliberations (musyawarah desa), which ideally align resource allocation with community priorities. Implementation covers the actual realization of approved programs, while reporting constitutes the accountability mechanism through which village governments communicate financial outcomes to regional authorities and citizens (Dauhi & Tohopi, 2025).

Despite the scale of village fund transfers, empirical evidence suggests that management remains predominantly compliance-based, focusing on administrative completeness rather than performance outcomes (Yunita & Christianingrum, 2018). Community participation in oversight is limited, and internal control systems remain weak (Dauhi & Tohopi, 2025; Junaidi & Adnan, 2023). These systemic deficiencies directly undermine the realization of good governance principles transparency, accountability, participation, and coordination that are

central to effective village administration (UNDP, 1997; Mardiasmo, 2021). Empirical data from South Central Timor Regency (Kabupaten Timor Tengah Selatan/TTS) illustrate this challenge. Budget absorption rates fluctuated between 91.26% and 94.21% over the 2020–2024 period (Table 1), reflecting persistent administrative delays, regulatory adjustment difficulties, and limited village apparatus capacity.

**Table 1. Village Fund Budget, Realization, and Supplementary Allocation in South Central Timor Regency (2020–2024)**

Year	Budget Ceiling (IDR)	Realization (IDR)	Supplementary (IDR)	Total (IDR)	Absorption (%)
2020	289,840,128,000	274,557,646,015	3,890,592,000	293,730,720,000	93.47
2021	289,840,128,000	275,796,565,525	7,780,133,000	297,730,720,000	92.63
2022	278,443,438,000	268,875,217,468	9,676,249,000	288,109,689,000	93.32
2023	250,740,120,000	239,349,279,536	10,437,960,000	254,056,338,000	94.21
2024	251,681,524,000	229,687,237,866	7,370,316,000	251,681,524,000	91.26

Source: Office of Community and Village Empowerment (Dinas PMD), South Central Timor Regency, 2026

Existing research on village fund governance reveals notable gaps. Most prior studies examine village fund management holistically without distinguishing the separate contributions of planning, implementation, and reporting stages (Junaidi & Adnan, 2023). Furthermore, the moderating role of financial performance on these relationships remains underexplored (Dauhi & Tohopi, 2025). This study addresses both gaps by separately examining the three stages and introducing financial performance as a moderating variable, thereby providing more granular insights for policy and practice.

Against this backdrop, this study examines: (1) the effect of village fund planning on good governance; (2) the effect of implementation on good governance; (3) the effect of reporting on good governance; (4) the moderating role of financial performance on the planning good governance relationship; (5) the moderating role of financial performance on the implementation good governance relationship; and (6) the moderating role of financial performance on the reporting good governance relationship.

## LITERATURE REVIEW

### A. Agency Theory and Good Governance

Agency theory posits that a principal–agent relationship arises when one party (the principal) delegates decision-making authority to another (the agent). In the public administration context, citizens constitute the principal and village government officials serve as agents entrusted with managing public resources effectively, efficiently, and accountably (Jensen & Meckling, 1976; Gailmard, 2014). This relationship is prone to information asymmetry where the agent possesses more information than the principal and conflicts of interest when the agent does not act in alignment with public interests (Eisenhardt, 1989).

In village fund management, the village government has broader access to planning, implementation, and reporting information than the community (Jensen & Meckling, 1976). Accountability and transparency mechanisms are therefore essential instruments for reducing information asymmetry, minimizing agency costs, and building public trust (Nurfadila, 2024; Permatasari et al., 2024). Good governance operationalizes these agency-reducing mechanisms through its core principles of transparency, accountability, participation, and the rule of law (UNDP, 1997; Sedarmayanti, 2012).

### B. Village Fund Planning, Implementation, and Reporting

Village fund planning refers to the participatory process through which village governments formulate annual programs and budget allocations embodied in the Village Development Work Plan (RKPDs) and Village Revenue and Expenditure Budget (APBDes), as mandated by Ministerial Regulation (Permendagri) No. 20 of 2018. Effective planning integrates community needs, regulatory compliance, program suitability, equitable development, and broad participation (Mardiasmo, 2021).

Village fund implementation encompasses all activities related to the disbursement and utilization of village funds consistent with the approved APBDes. Key dimensions include adherence to usage priorities, disbursement mechanisms, principles of transparent and accountable management, program adaptation to field conditions, and community participation in project execution (Permendagri No. 20, 2018). Village fund reporting constitutes the final stage of the financial management cycle and serves as the primary accountability mechanism. Village heads are obligated to submit semester and annual realization reports to the regent/mayor, and to disseminate these reports to the public (Permendagri No. 20, 2018). Reporting quality is assessed through

dimensions of timeliness, accountability, governance compliance, comprehensibility, and information accuracy (Dauhi & Tohopi, 2025).

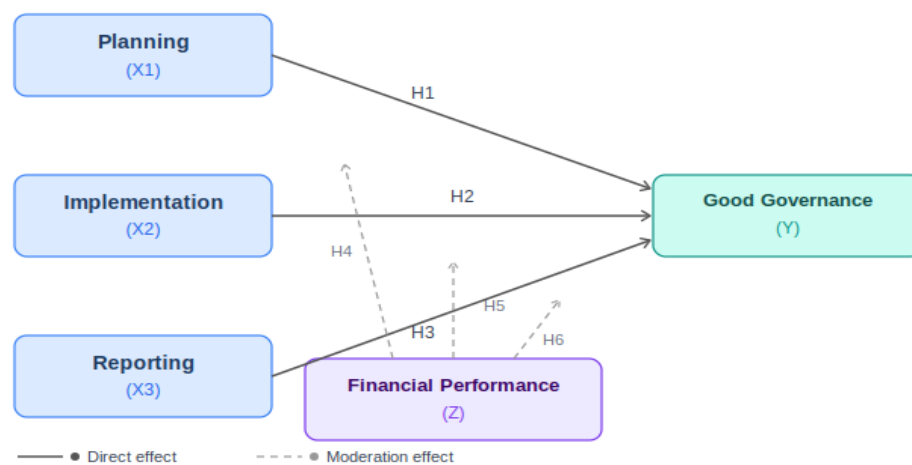
**C. Financial Performance as a Moderating Variable**

Village financial performance reflects the degree to which a village government manages its resources economically, efficiently, and effectively to achieve developmental objectives (Mahmudi, 2019; Mardiasmo, 2021). In the context of the value-for-money concept, high financial performance indicates that public resources are optimally deployed, which in turn enables more transparent, accountable, and responsive governance practices (Mardiasmo, 2021). This study treats financial performance as a contextual factor that may strengthen the relationship between village fund management stages and good governance outcomes, grounded in contingency theory (Davis et al., 1997).

**D. Conceptual Framework**

Based on agency theory, the community acts as the principal delegating authority to the village government as the agent to manage village funds transparently and accountably (Jensen & Meckling, 1976). This relationship requires sound management mechanisms to minimize information asymmetry and conflicts of interest.

This study examines three independent variables village fund planning ( $X_1$ ), implementation ( $X_2$ ), and reporting ( $X_3$ ) which are hypothesized to directly influence good governance in village fund management ( $Y$ ), measured through transparency, accountability, participation, effectiveness, efficiency, and regulatory compliance. Additionally, village financial performance ( $Z$ ) is introduced as a moderating variable, reflecting the village government's capacity to manage financial resources through indicators of expenditure efficiency, fiscal independence, budget surplus management, and budgetary discipline. Sound financial performance is expected to strengthen the influence of each management stage on good governance outcomes (Bakhtiar, 2021; Mahsun, 2019). Based on the theoretical foundations above, the conceptual framework of this study is presented in Figure 1.



**Figure 1. Conceptual Framework**

Figure 1 illustrates the conceptual framework of this study. Solid arrows (H1, H2, H3) represent the direct effects of village fund planning, implementation, and reporting on good governance. Dashed arrows (H4, H5, H6) represent the moderating paths of financial performance on each direct relationship, where financial performance is expected to strengthen or weaken the influence of each management stage on good governance outcomes.

**E. Research Hypotheses**

Building on the theoretical foundations above, the following six hypotheses are tested:

- H1: Village fund planning has a significant positive effect on good governance.
- H2: Village fund implementation has a significant positive effect on good governance.
- H3: Village fund reporting has a significant positive effect on good governance.
- H4: Financial performance moderates the relationship between village fund planning and good governance.

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- H5: Financial performance moderates the relationship between village fund implementation and good governance.
- H6: Financial performance moderates the relationship between village fund reporting and good governance.

**METHOD**

This study employs an explanatory quantitative research design to examine causal relationships among variables through hypothesis testing. The research population comprised 20 villages across five sub-districts of South Central Timor Regency, selected through purposive sampling based on active village fund management, data availability, and accessibility. A total of 100 respondents were recruited from each village, encompassing village heads, secretaries, finance officers, Village Consultative Body (BPD) members, and community representatives with experience in village fund administration (Table 2).

**Table 2. Research Respondents**

No.	Category	Number	Criteria
1	Village Head	20	Served for at least 3 years
2	Village Secretary	20	Served for at least 3 years
3	Finance Officer (Kaur Keuangan)	20	Served for at least 3 years
4	BPD Member	20	Involved in village deliberations and oversight
5	Community Representative	20	Educated or experienced in village fund management
Total		100	

Data were collected via structured questionnaires using a five-point Likert scale (1 = Strongly Disagree to 5 = Strongly Agree). The variable operationalization is summarized in Table 3.

**Table 3. Operationalization of Research Variables**

Variable	Definition	Indicators	Scale
Planning (X1)	Participatory process of program formulation and budget allocation through village deliberations resulting in RKPDes and APBDes	Program suitability, regulatory compliance, budget adoption, equitable development, community participation	Ordinal (Likert 1–5)
Implementation (X2)	Disbursement and utilization of village funds to finance governance, development, social, and empowerment activities	Usage priority, disbursement mechanism, management principles, program adjustment, community participation	Ordinal (Likert 1–5)
Reporting (X3)	Submission of APBDes realization reports by the village head as a form of financial accountability	Timeliness, accountability, governance, comprehensibility, accuracy	Ordinal (Likert 1–5)
Good Governance (Y)	Application of transparency, accountability, effectiveness, efficiency, and rule of law in village governance	Transparency, accountability, effectiveness, efficiency, regulatory compliance	Ordinal (Likert 1–5)

Financial Performance (Z)	Degree of success in managing village finances economically, efficiently, and effectively	Revenue growth, expenditure efficiency, fiscal independence, budget surplus (SILPA), budget discipline	Ordinal (Likert 1–5)
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Data analysis employed Structural Equation Modeling – Partial Least Squares (SEM-PLS) using SmartPLS software. The analysis proceeded in two stages: (1) outer model evaluation examining convergent validity (outer loadings > 0.70), discriminant validity (HTMT < 0.90), composite reliability (> 0.80), and Average Variance Extracted/AVE (> 0.50); and (2) inner model evaluation assessing model fit (SRMR < 0.08), R-squared (R<sup>2</sup>), and hypothesis testing via bootstrapping. The moderated structural equation is expressed as:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 (X_1 \times Z) + \beta_5 (X_2 \times Z) + \beta_6 (X_3 \times Z) + \epsilon$$

where Y = Good Governance, X<sub>1</sub> = Planning, X<sub>2</sub> = Implementation, X<sub>3</sub> = Reporting, Z = Financial Performance, and interaction terms represent the moderation effects. Hypothesis acceptance criteria: T-statistics > 1.96 and p-value < 0.05.

## RESULTS AND DISCUSSION

### A. Measurement Model (Outer Model) Evaluation

All indicators demonstrated outer loading values above the 0.70 threshold, confirming adequate convergent validity. Composite reliability values exceeded 0.80 for all constructs, and AVE values were all above 0.50, establishing sufficient discriminant validity. Cronbach's alpha values surpassed 0.60 across all constructs, confirming internal consistency reliability. HTMT ratios were below 0.90, further substantiating discriminant validity. These results indicate that the measurement model is both valid and reliable for structural analysis.

### B. Structural Model (Inner Model) Evaluation

The model fit indices satisfied the required thresholds: SRMR = 0.072 (< 0.08), confirming an acceptable overall model fit. The R<sup>2</sup> value for good governance was 0.612, indicating that the model explains approximately 61.2% of the variance in good governance classified as moderate-to-strong explanatory power (Chin, 1998). Table 4 presents the results of direct-effect hypothesis testing.

**Table 4. Direct Effects Hypothesis Testing Results (SEM-PLS Bootstrapping)**

Hypothesis	Path	Coefficient (β)	T-Statistics	P-Value	Decision
H1	Planning → Good Governance	0.115	1.050	0.294	Rejected
H2	Implementation → Good Governance	0.207	2.021	0.043	Accepted
H3	Reporting → Good Governance	0.207	1.684	0.092	Rejected

**Table 5. Moderation Effects Hypothesis Testing Results (SEM-PLS Bootstrapping)**

Hypothesis	Interaction Path	Coefficient (β)	T-Statistics	P-Value	Decision
H4	Planning × Financial Performance → GG	0.026	0.221	0.825	Rejected
H5	Implementation × Financial Performance → GG	0.220	2.256	0.024	Accepted
H6	Reporting × Financial Performance → GG	-0.217	1.750	0.080	Rejected

#### a) Effect of Planning on Good Governance (H1)

Village fund planning demonstrates a positive but statistically non-significant effect on good governance (β = 0.115, T = 1.050, p = 0.294), leading to the rejection of H1. Although the positive coefficient suggests that improvements in planning quality are associated with better governance outcomes, the effect is insufficiently strong to reach statistical significance. This finding is consistent with Junaidi & Adnan (2023), who found that

planning activities in Indonesian village contexts tend to be administratively oriented and compliance-driven rather than substantively participatory. From an agency theory perspective, effective planning should reduce information asymmetry between village governments and citizens by creating transparent, participatory processes. However, this study's findings suggest that musyawarah desa (village deliberations) may be functioning as procedural formalities rather than genuine mechanisms for community input (Dauhi & Tohopi, 2025). Additionally, limitations in village apparatus capacity, frequent policy changes, and the geographic diversity of South Central Timor Regency may contribute to the disconnect between planning quality and observable governance outcomes. These findings contrast with Maharani (2024), who identified significant planning–governance linkages in contexts with stronger community engagement and institutional capacity.

**b) Effect of Implementation on Good Governance (H2)**

Village fund implementation exerts a statistically significant positive effect on good governance ( $\beta = 0.207$ ,  $T = 2.021$ ,  $p = 0.043$ ), confirming H2. This result indicates that higher-quality program execution characterized by adherence to usage priorities, proper disbursement mechanisms, transparent management, and community participation meaningfully advances the application of good governance principles at the village level. The finding aligns with stewardship theory, wherein village officials acting as responsible stewards of public resources produce tangible developmental outcomes that are directly perceptible to communities (Davis et al., 1997).

Communities are more likely to perceive improvements in governance quality through concrete deliverables infrastructure development, public services, economic empowerment activities than through planning documents or financial reports (Junaidi & Adnan, 2023; Maharani, 2024; Dauhi & Tohopi, 2025). The fluctuating absorption rates observed in South Central Timor Regency (Table 1) underscore the centrality of implementation quality in determining whether village funds translate into governance improvements. This finding carries important implications: strengthening the implementation stage through capacity building, effective internal oversight, and active community participation appears to yield the greatest returns for good governance in this context.

**c) Effect of Reporting on Good Governance (H3)**

Village fund reporting shows a positive but non-significant effect on good governance ( $\beta = 0.207$ ,  $T = 1.684$ ,  $p = 0.092$ ), resulting in the rejection of H3. While the direction of the relationship is consistent with theoretical expectations reporting transparency should reduce information asymmetry and support accountability the magnitude is insufficient to produce significant governance improvements. This finding mirrors those of Junaidi & Fachri Adnan (2023) and Dauhi & Tohopi (2025), who similarly found that reporting practices in Indonesian villages tend to fulfill administrative obligations to higher-level government agencies rather than serving as genuine public accountability instruments.

Several factors likely explain this non-finding. First, limited public financial literacy restricts community ability to interpret and utilize reported information. Second, reports are often disseminated through formal channels that are inaccessible to most villagers. Third, low community participation in evaluating and monitoring reported outcomes weakens the accountability feedback loop (Ahmad & Susilawati, 2025; Ridwan, 2023). Improving the quality, accessibility, and digital dissemination of village fund reports coupled with community capacity-building in financial literacy would be necessary conditions for reporting to function as an effective governance driver.

**d) Moderating Effect of Financial Performance on Planning–Good Governance (H4)**

The interaction between planning and financial performance does not significantly moderate the planning–good governance relationship ( $\beta = 0.026$ ,  $T = 0.221$ ,  $p = 0.825$ ), leading to the rejection of H4. This result suggests that the planning–governance relationship remains consistent regardless of the level of village financial performance. Planning quality, when it reflects genuine participatory and transparent processes, contributes independently to good governance without being amplified or diminished by financial performance levels. This finding may reflect the procedurally embedded nature of village fund planning under Law No. 6/2014 and Permendagri No. 114/2014, which already integrate good governance principles participatory decision-making, transparency, and accountability into the mandatory planning process itself. Since these governance-enabling features are structurally built into planning procedures, financial performance provides no additional contextual leverage. Consistently with Basri et al. (2021) and Wibisono et al. (2025), governance quality in village planning

contexts is driven more by institutional quality commitment, regulatory compliance, and community engagement—than by financial performance indicators.

**e) Moderating Effect of Financial Performance on Implementation–Good Governance (H5)**

Financial performance significantly strengthens the relationship between village fund implementation and good governance ( $\beta = 0.220$ ,  $T = 2.256$ ,  $p = 0.024$ ), confirming H5. This finding demonstrates that in villages with stronger financial performance characterized by higher budget efficiency, fiscal independence, and disciplined expenditure management the positive effect of implementation quality on good governance is amplified. From a contingency theory perspective, financial performance constitutes a relevant situational factor that enables village governments to execute programs more transparently, allocate resources more effectively, and respond more responsively to community needs (Davis et al., 1997).

The value-for-money concept further elucidates this relationship: village governments that manage public resources economically, efficiently, and effectively are better positioned to demonstrate transparent and accountable program execution core elements of good governance (Mardiasmo, 2021). High financial performance strengthens the village's organizational capacity to provide public financial information transparently, deliver accountable budget justifications, and facilitate community participation in monitoring activities (Mahmudi, 2019). This result is corroborated by Basri et al. (2021) and Wibisono et al. (2025), who identify good financial management and good village governance as mutually reinforcing dimensions of effective village administration.

**f) Moderating Effect of Financial Performance on Reporting–Good Governance (H6)**

The moderation of financial performance on the reporting–good governance relationship is not statistically significant ( $\beta = -0.217$ ,  $T = 1.750$ ,  $p = 0.080$ ), resulting in the rejection of H6. The negative coefficient, though non-significant, suggests that financial performance does not strengthen and may marginally complicate the reporting–governance pathway. This may reflect the institutional theory perspective (Risi et al., 2023): reporting is primarily a mandatory administrative process governed by regulatory compliance requirements that apply equally to all villages regardless of financial performance levels. Since reporting obligations are standardized across villages by Government Regulation No. 60/2014 and Permendagri No. 20/2018, financial performance does not differentially enable or impede the governance effects of reporting quality. Other factors appear more consequential for reporting to function as an effective governance mechanism: competence of village apparatus, effectiveness of internal control systems, use of information technology, and active community participation in oversight (Permatasari et al., 2024; Polutu et al., 2021; Ridwan, 2023). Strengthening these non-financial determinants would be more impactful than financial performance improvements in enhancing the governance contribution of village fund reporting.

## CONCLUSION

This study examined the effects of village fund planning, implementation, and reporting on good governance, with financial performance as a moderating variable, across 20 villages in South Central Timor Regency, Indonesia. The results yield several important conclusions. First, only village fund implementation significantly influences good governance (H2 accepted), while planning and reporting produce positive but non-significant effects (H1 and H3 rejected). This suggests that communities most directly associate governance quality with tangible programmatic outcomes rather than with administrative planning or reporting documents. The translation of village funds into visible development results infrastructure, services, empowerment activities is the most proximate driver of good governance perceptions.

Second, financial performance significantly moderates only the implementation good governance relationship (H5 accepted), amplifying the governance benefits of effective program execution. Villages with stronger financial management capacity are better equipped to deliver programs transparently and accountably. Financial performance does not moderate the planning governance or reporting governance pathways (H4 and H6 rejected), indicating that these relationships are more dependent on institutional quality and regulatory compliance than on financial outcomes. These findings carry significant practical implications. Village governments in South Central Timor Regency should prioritize strengthening program implementation through capacity building, optimizing internal controls, and actively engaging communities in monitoring activities. Financial management capacity should be improved to amplify governance returns from implementation quality. Planning processes require deeper participatory reform moving beyond administrative formalities to substantive community deliberation while reporting systems need to become more accessible, digitally disseminated, and comprehensible

to general audiences. Regency-level authorities should provide sustained technical assistance and supervision, particularly in financial management, planning quality, and digital reporting systems. Future research should explore additional moderating and mediating variables such as community participation intensity, internal control system effectiveness, digital governance adoption, and human resource competence—and should extend analysis to broader geographic contexts or use mixed-methods approaches to uncover the institutional dynamics underlying the non-significant pathways identified in this study.

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