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Islamic Governance in Village Financial Management in Indonesia: Lessons from Lobuk Village of Madura Island

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ABSTRACT

This research aims to integrate an Islamic governance framework into Village Financial Management (VFM) that can be applied across village governments in Indonesia. Using an ethnomethodological approach, this study was conducted in the village government of Lobuk, located on Madura Island. Data were collected from observation and in-depth interviewees with village government apparatus between July 2023 and January 2024. The empirical findings are then compared with these Islamic principles and elements to develop a model of Islamic (good) governance for VFM. The findings revealed three core principles, seven Islamic elements, and one overarching goal of VFM, symbolically represented through a mosque structure, comprising a foundation, pillars, and a roof. The proposed Islamic governance model for VFM, offers a comprehensive and foundational solution to address the misuse of village financial resources in Indonesia.

Keywords:
Mardhatillah, Indonesia, Islamic governance, village financial management

Tata Kelola Islami dalam Pengelolaan Keuangan Desa di Indonesia: Pembelajaran dari Desa Lobuk, Pulau Madura

ABSTRAK

Penelitian ini bertujuan untuk mengintegrasikan kerangka tata kelola berbasis Islam ke dalam Pengelolaan Keuangan Desa (PKD) yang dapat diterapkan di seluruh pemerintahan desa di Indonesia. Dengan menggunakan pendekatan etnometodologi, studi ini dilakukan pada pemerintahan Desa Lobuk yang terletak di Pulau Madura. Data dikumpulkan melalui observasi dan wawancara mendalam dengan aparatur pemerintah desa antara Juli 2023 hingga Januari 2024. Temuan empiris kemudian dibandingkan dengan prinsip dan elemen Islam untuk mengembangkan model tata kelola Islam (good governance) dalam PKD. Hasil penelitian mengungkapkan tiga prinsip utama, tujuh elemen Islam, dan satu tujuan utama PKD yang secara simbolik direpresentasikan melalui struktur masjid, yang terdiri dari fondasi, tiang, dan atap. Model tata kelola Islam yang diusulkan untuk PKD ini menawarkan solusi yang komprehensif dan mendasar untuk mengatasi penyalahgunaan sumber daya keuangan desa di Indonesia.

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1. Introduction

The issuance of Law No. 6 of 2014 regarding Villages (famously known as Village Law) is monumental for constructing the village management system as the lowest government structure in the Indonesian state administration (Antlöv, Wetterberg, & Dharmawan, 2016). The Village Law brings optimism for reducing poverty and social inequality, as well as achieving the idealized goals of village welfare (Prasetya & Isharyanto, 2017).

One of the factors that drive the achievement of the noble goals of The Village Law is the financial management aspect. The Village Financial Management (VFM) is integral to the village development system. Based on the Minister of Home Affairs Regulation No. 20 of 2018 concerning Village Financial Management, Article 1, paragraph 6, VFM encompasses the entire activity, including planning, implementing, administering, reporting, and accountability of village finances.

Based on previous research, the implementation of The Village Law has not yet reached its ideal goal: strengthening village autonomy through good village governance and encouraging sustainable and equitable village development to realize the welfare of village communities. Some studies reveal the other side of the performance of village finance in the form of abuses such as budget misuse, embezzlement, fictitious activities or projects reports, and mark-ups (Alfaruqi & Kristianti, 2019; Utama & Wulandari, 2020). The practice of fraud in VFM is a public issue that impedes the achievement of the objectives of The Village Law.

The Annual Report of Indonesian Corruption Watch (ICW), an NGO focused on combating corruption in Indonesia, confirms a similar trend regarding the widespread misuse of village finances. Since the enactment of the Village Law, ICW reported that village budget corruption has tended to increase (Indonesia Corruption Watch, 2016, 2017, 2018, 2019, 2022; Indonesian Corruption Watch, 2020, 2021). More than 400 cases of village financial corruption were recorded between 2015 and 2020, resulting in state losses exceeding IDR 189 billion (approximately USD 12.6 million).

Moreover, efforts to overcome or prevent the occurrence of these various deviations are encouraged. Strengthening the internal control system, including the use of information system applications, is an effort to prevent the misuse of village finances (Eryana, 2018; Wilma & Hapsari, 2019). The enforcement of good governance values (such as accountability, transparency, and participation is also believed to encourage village governments to carry out a good VFM (Winarsi & Kristianti, 2018). Some other researchers attempt to link the importance of religious and cultural values to VFM practices (Latuconsina & Soleman, 2019; Nurjaman, 2018).

Yet, various waves of budget abuse in the village, including corruption, are a problem that needs to be addressed fundamentally and systematically. As the researcher's investigation has shown, limited studies have been found that incorporate Islamic-based fundamental values to reformulate VFM governance in Indonesia. Thus, this research aims to contribute ideas about the ongoing improvement based on Islamic religiosity values.

Based on an understanding of the idealistic value of Islam and socio-anthropology empirical values, this research will propose the Islamic (good) governance of VFM in Indonesia. Efforts to improve this foundation are carried out by including the importance of religiosity (in this case, Islam, as the majority religion adopted by the people of Indonesia). This endeavor to promote Islamic values is based on the belief that religious values provide a set of principles that can be applied to solve many social problems in the world, including corruption.

Furthermore, the Islamic governance of VFM could add new knowledge and be a policy recommendation tool for policymakers. This study continues the previous conceptual study conducted by Setiawan & Yusoff (2023, 2024). Setiawan & Yusoff (2023) identified that Islamic principles regarding VFM in Indonesia consist of three core values: Tawhid, *Adil* (Justice), and Shura (Deliberation). Additionally, Setiawan & Yusoff (2024) identified the elements of the central value principles of the Islamic governance of VFM. This research provides a comprehensive understanding of the actual practices in the field related to the application of (Islamic) governance values of VFM. Thus, this study explores a conception of Islamic Governance related to VFM in its factual form empirically in a certain space and time, to then produce a certain inductive model, as suggested by Denzin & Lincoln (2005) and Bendassolli (2013).

2. Theoretical Review

The concept of (Good) Governance in academic discourse was initially encouraged and directed at private entities/corporations. The spectrum of governance encompasses a wide range of areas, including economics, politics, administration, and social justice, with a particular focus on corporate governance (Halim & Osmani, 2023). The occurrence of the global financial crisis and the bankruptcy of large companies due to unethical financial practices in the mid-1990s and the 2000-2010 decade also provided a strong impetus for the mainstreaming of good governance values in companies (Brown & Caylor, 2006; Chapra & Ahmed, 2002).

In the next journey, the need to implement good governance will not only be directed at private companies but also public arena or public sector organizations, including state and local governments, hospitals, universities, legislators, and other public sector institutions (Batchelor, 2014; Kamal et al., 2015; Yunus, 2017). Public entities are generally oriented toward providing public goods and services, while private entities are oriented towards maximizing profits and meeting the interests of their owners or shareholders (Fakhrul, 2015). Considering that the objectives and structures of public sector entities are different from private sector entities, the governance values in public entities are also different from private entities. Islam (2012) emphasized that the government, as a public entity, is the most vital variable in providing excellent public services and achieving shared prosperity. Kim (2017)) concluded that state governments need to implement the fundamental values of governance in economic development and controlling corruption to increase public trust.

Indonesian state authorities have also encouraged private and public organizations to conduct their operations in accordance with the principles of good governance. In the context of public sector organizations, the central government also released guidelines for various kinds of public sector organizations in 2022 (*Komite Nasional Kebijakan Governansi*/ KNKG, 2022). However, there is no specific model for implementing good governance in a country or company due to the diverse environments and cultures (OECD Committee, 2004). Corporate and government governance is based on solid value principles, not rigid rules and regulations (Abu-Tapanjeh, 2009). At this point, assessing and evaluating the philosophical basis of values referencing the governance principle is substantial.

The Good Corporate Governance (GCG) guidelines issued by the OECD Committee (2004), which many countries refer to, strongly adopts Western values (Abu-Tapanjeh, 2009; Slahudin, 2008). The Anglo-Saxon corporate governance model is considered the most dominant theory, focusing primarily on the protection of shareholder interests alone (Claessens, 2006; Denis & McConnell). Lazonick & O'Sullivan (2000) even stated that the central ideology for corporate governance is maximizing shareholder value. In subsequent developments, stakeholder theory has also become a global reference for considering the interests of other stakeholders in the formulation of good governance (Donaldson, 2019) . However, in principle, good governance does not involve God and religion as essential references. Islam positions human responsibility (and human groups in organizations) to stockholders, stakeholders, and ultimately to Allah SWT (Hasan, 2009; Lewis, 2005). Islamic values ultimately place ultimate responsibility on God – the Supreme Authority, whose power and knowledge are absolute, followed by accountability to all stakeholders (Khavarinezhad, Biancone, & Jafari-Sadeghi, 2021; Slahudin, 2008). The Quran writes about this principle of responsibility in this verse: "While you are certainly observed by vigilant. Honorable angels, recording ˹everything˺. They know whatever you do" (Surah Al Infithar (82): 10-12) .

However, the discourse of good governance that has emerged in academic circles in the last few decades has been known in Islamic teachings. Based on the lengthy justification, Islam appears to have a different value of good governance. Islam provides a complete set of arrangements regarding multidimensional life guidelines, including the principles of good corporate (and government) governance (Batchelor, 2014; Chapra & Ahmed, 2002). As the basis of governance, the Tawhid principle emphasizes that everything created by Allah has a purpose. It is in line with the message in Quran Surah Ali Imran (3) verse 191: "Those who remember Allah while standing, sitting, or lying down, and reflect on the creation of the heavens and the earth (and say), "Our Lord, You have not created all this in vain. Glory be to You. Protect us from the punishment of the Fire.". Humans, as the best creatures created by Allah, have a dual function as servants of Allah (*abdullah*) and the Caliphs of Allah on earth (*khalifatullah fi al ardh*). Allah actively supervises and involves Himself in every human affair by placing God's mandate on humans as caliphs since He is All-Knowing of every matter.

In the concept of *Tawhid*, business organizations (and the state) are seen as a unified system. The parts of the system are interrelated, and they all have the same goal: to seek God's pleasure. Therefore, the formulation of Islamic Governance of VFM, which is this research's central topic, considers all former studies regarding Islamic (government) governance extracted primarily from the Quran and *Hadith*. The Islamic Governance principles and elements in public sector organizations are then contextualized to Islamic VFM governance in Indonesia. Specifically, this research employs the previous studies of Setiawan & Yusoff (2023, 2024) regarding Islamic principles and elements of VFM governance as an analytical lens to assess the empirical praxis of VFM at the village government level.

3. Research method

The search for empirical VFM's idealistic value from the conceptual Islamic VFM governance is the central point of this research. The findings from empirical evidence regarding the praxis of VFM are analyzed using the Islamic (good) governance conception lens. A comprehensive understanding of Islamic and sociological-anthropological values on the practical side will lead to the construction of a new VFM governance in Indonesia.

At a certain level, this study attempts to implement what Mulawarman & Kamayanti (2018) refer to as a diachronic-synchronic approach within the framework of the Islamic Accounting Anthropology methodology to construct existing social changes in accordance with Islamic values. According to El-Zein (1977), diachronic refers to Islamic values (contained in the Quran and Sunnah) regarding a social practice. In comparison, synchronic analysis shows a step in connecting elements from the ideal conception produced by the diachronic approach to the dimensions of different spatial and temporal contexts today (Ahmed & Tapper, 1989; Ahmed, 1986; Tapper, 1995). Thus, this research links Islam's transcendental dimension with the socio-anthropological empirical reality found on the research site. The diachronic-synchronic approach is employed to reconstruct today's social order of VFM, grounded in the principles of Islamic idealistic values.

This research employs ethnomethodology as its chosen research design to uncover the details of implementing VFM from an Islamic perspective on VFM governance. Ethnomethodology is a sociology method that Harold Garfinkel first introduced in a publication entitled 'Studies in Ethnomethodology' in 1967 (Ritzer & Goodman, 2010:395). Garfinkel (1967:1) stated that ethnomethodological researchers analyze everyday activities as organization members' methods for creating similar activities that are visibly rational and understandable. Ethnomethodology is well-suited for explaining how an organization functions as a cultural group, particularly in exploring the moral order or principles that guide daily activities within a community group or organization (Garfinkel, 1996). Therefore, ethnomethodology serves as a methodological basis for investigating VFM praxis in a village government, which is used as the locus of research.

Specifically, ethnomethodology is employed in this study to answer questions related to the village government's principles and elements in implementing a particular order, namely VFM. Thus, the research site or field is specific to contemporary society, namely a village government (and its surrounding circumstances), which is socially and culturally differentiated as an entity. Sequentially, the findings from empirical evidence regarding the practice of VFM are analyzed in conjunction with Islamic (good) governance of VFM. In the final step, the Islamic VFM at the village government level can be concluded as a new arrangement for VFM implementation. This

Islamic VFM governance is a reflective process whose roots remain embedded and explored (mainly) from Islamic principles and elements full of noble values. In the Islamic Accounting Anthropology methodology proposed by Mulawarman & Kamayanti (2018), the use of ethnomethodology in this study is an attempt to find value in the existing temporal (tempus) and locational (locus) aspects related to Islamic VFM governance that have been provided by Setiawan & Yusoff (2023, 2024) diachronically. The findings of practical VFM values at this research site then be re-synchronized to identify a model that aligns with the value of Islamic VFM governance. This research procedure is a process referred to as diachronic synchronic in the framework of Islamic Anthropology, as suggested by Ahmed & Tapper (1989, Ahmed (1986), El-Zein (1977), and Tapper (1995).

To explore VFM practice, a village government on Madura Island is chosen as a research site. Madura Island is an island in East Java Province that is almost 100 percent demographically Muslim (99.4% of the total 3.9 million population) (Badan Pusat Statistik, 2021). Sociologically, Madura's image brand also shows that the island inhabitants are religious, firmly hold Islamic principles, and are strongly attached to their cultural values (which are also derived mainly from Islamic values). For instance, in social stratification, the term "*kyae*," which refers to Muslim religious leaders, occupies the top layer (Wiyata, 2002:51). The *kyae* serves as a role model in spiritual matters, as well as in social and political aspects (Mukhlishi & Rasyid, 2018; Rochana, 2012) Hence, the researcher believes that the Islamic perspective should be the primary value that underlies all aspects of this research topic for the above reason.

This research site is located in Lobuk Village, Government of Sumenep Regency, Madura Island. The selection of a village as the research location is based on logical arguments. First, Lobuk Village has a good value for money (VFM), which several achievements have proven. Lobuk Village Government underwent rapid progress under the leadership of Mohammad Saleh from 2017 to the present. In 2021, Lobuk won the title of Best Village in Sumenep Regency for its various innovations and was a Big Four winner at the province-level village competition (Ali, 2021).

Second, based on the Developing Village Index (*IDM*), Lobuk Village is the only village in the Sumenep Regency to reach 'the Independent Village (the highest category) in 2021 (Imam, 2021). Additionally, from the initial observation and interviews with related parties, it is evident that the religious (Islamic) approach influences the village development process. Another consideration is the researcher's access to the research location. The availability of access and rapport (closeness) with the research informants is crucial in qualitative research (Creswell, 2007:123). Rapport is needed to explore a comprehensive understanding of VFM implementation.

As contextually relevant, these locus findings are not intended to generalize the conclusions from different time and space settings. However, based on an understanding of phenomena in the context of site locality (either good or bad side), the results can later be used as references in other villages about similar phenomena (could be) undoubtedly also found. In this case, field findings and insights into the praxis and all VFM issues are likely to be found in the governments of other villages. Those VFM practices, in terms of form, quantity, and packaging, may differ but are substantially similar .

Data and information-gathering activities, including observation and in-depth interviews were conducted during the data collecting period from July 2023 to January 2024. The researcher acts in a field-observer role that accompanies the VFM process (participative observer). The interview process was carried out formally and informally between VFM activities.

This study selected practitioner informants who had knowledge and direct experience with the VFM process in Lobuk Village as the research site. These informants are directly involved in every stage of the VFM to gain a comprehensive understanding of the tasks and authorities carried out at the village government level. The village government apparatus's process of VFM becomes the focus of primary empirical data gathering. These key practical informants, among others, occupy positions such as a) village head; b) village secretary; c) village treasurer; d) head of section; e) chairperson of BPD (*Badan Permusyawaratan Desa* or village consultative body) chair person.

Furthermore, data and information from several parties outside the Village Government were also gathered for the study. They include Islamic scholars (*ulama*) in the village, respected community leaders, community figures, and the Village Empowerment Office at the district or municipal level. These third parties are essential for this research because some village-level VFM activities also involve them. The knowledge, understanding, and experience of all practical informants are adequate and complementary in explaining the VFM practices carried out in Lobuk Village. The VFM process, ranging from the planning and budgeting stages to the implementing and reporting phase, is observed, understood, and carried out by these practical informants. Table 1 shows the list of selected practitioner informants.

Table 1. List of practitioner informants

Category	**Details of Informants**	**Label of Informants**
Lobuk Village Apparatus	Mohammad Saleh (Village Head of Lobuk).	P1
Lobuk Village Apparatus	Akh. Rifqi G.F (Village Secretary of Lobuk).	P2
Lobuk Village Apparatus	Iryon (Village Treasurer of Lobuk).	P3
Village Consultative Body	Sumanto *(Badan Permusyawaratan Desa/BPD* Chair Person)	P4
Lobuk Village Apparatus	Asimudin (Head of Public Service Section).	P5
Lobuk Village Apparatus	Rusdi (Head of People Prosperous Section).	P6
Islamic Scholar (*ulama*)	KH.Madani (Chairman of the Sunan Giri Islamic Education Foundation)	P7
Community leader	Patwari (village community figure).	P8
District Government Authority	Anwar S.Yusuf (Head of the Community and Village Empowerment Office)	P9

Following Garfinkel (1967), three stages of analysis were carried out in this study. The first is indexicality analysis. At this stage, the researcher seeks symbols or expressions related to the practice of VFM, which is then followed by searching or analyzing the meaning of these symbols. The second stage is reflexivity analysis. Reflexivity here refers to uncovering things that informants think may not be interesting to explain but must be transformed into aspects considered attractive to understand the informants' perspective (Garfinkel, 1967:7). The last stage is contextual action analysis. This stage raises the surface of action at a particular time and place, making it "visible" and understandable.

The complete analysis results at the practical level will lead to a comprehensive understanding of the socio-anthropological reality. This understanding will be synchronized with the ideal level produced in the diachronic dimension, employing Islamic perspective analysis, which is the so-called synchronic dimension (Mulawarman & Kamayanti, 2018). The findings from the empirical praxis concerning VFM are analyzed in conjunction with the Islamic governance provided in the previous conceptual study of Setiawan & Yusoff (2023, 2024). The results from the empirical findings then become reflections to obtain a "new" meaning or perspective about VFM. This final process is what the researcher refers to as the Islamic governance of VFM in Indonesia.

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4. Results and discussion

This section analyzes the implementation of VFM at the village government level based on Islamic governance principles. Lobuk Village was chosen as the research site/location.

Tawhid principle and three elements (_amanah/_trustworthiness, honesty & transparency)

The principle of Tawhid emphasizes the essential belief in the oneness and sovereignty of God as the beginning and end (*inna lillahi wa inna ilaihi rojiun*, indeed everything comes from God and will also end back to Him). The concept of Tawhid focuses all life values on the teachings of surrender and obedience to Allah SWT. The doctrine of Oneness of God is the basis for provisions regarding God-human relations (*hablum minallah*) and human relations (*hablum min an-nas*) and the entire development of Islamic civilization (Farooqui, 2011). The belief in Tawhid serves as the foundation for guiding all aspects of life, including education, politics, economics, and society (Saleh et al., 2012). In the principle of monotheism, Islam also emphasizes unity, with no separation between religious affairs (the eternal afterlife) and mortal worldly affairs (Kania, Romly, & Zarman, 2011).

The Indonesian nation declares itself as one that believes in God, placing belief in the one and only God as the first precept in the foundation of the state, Pancasila. This principle of God-consciousness will guide its citizens to always remember God in every activity, especially those entrusted with managing public affairs. However, the Village Law does not explicitly include this principle of Tawhid as an ultimate value that all officials must refer to when implementing.

Mohammad Saleh (P1) has served as the Village Head of Lobuk since 2017. He served this first period as an Inter-Time Substitute (*Pengganti Antar Waktu*) because the previous village head passed away. Furthermore, P1 was re-elected as Village Head for his second period, 2019-2027. P1 interprets his position as village head as a way of worshiping God (*ibadah*):

> In my view, the position of village head is a way of worshiping God for the benefit of other human beings. The foundation is *khoirunnas anfauhum linnas*, the best human being and most useful for others.

P1's statement is interesting to observe. First, he became the head of the village, a position he did not seek personally but rather one that was requested by the community. Second, at the request of this community, P1 then interpreted it as a way of social worship. P1 quotes a *Hadith* of the Prophet Muhammad (*PBUH*), which says: "The best human being is the most useful to others" (*Hadith* by Imam Ahmad).

Moreover, P1 described his educational background, which was marked by a strong religious influence. During his primary and secondary education, P1 became an Islamic student (*santri*) at *Pondok Pesantren* (Islamic Boarding School) of *Nurul Jadid* and *Annuqayah*. Additionally, his service path before becoming village head included a stint as a teacher at the *Sunan Giri* Islamic Junior High School, an Islamic educational institution. P1's story was confirmed by P7, Chairman of the *Sunan Giri Foundation*:

> The head of this village is really kind to the people. He studied at *Nurul Jadid and Annuqayah.* He communicates well because he has studied in several *pesantrens* and has been a teacher at this *madrasah* for quite a while.

Likewise, the Lobuk Village Secretary (P2) also has a similar view on the meaning of his position in the Village Government. P2, who has an educational background at the *Pesantren At-Taufiqiyah,* said:

> In my spiritual consciousness, worship is not only for obligatory worship, *sunnah*, and the like. When given the mandate as Village Secretary, I hope this becomes a way of devoting myself to the community, beneficial to all villagers.

The P3, a Village Treasurer, conveyed a similar perspective. In the context of VFM, the Village Treasurer occupies a vital position in the village budget. P3, who is also an alumnus of the *Pesantren At-Taufiqiyah*, answered that his task is a mandate from God.

The perspectives of the Lobuk Village leader (Village Head/P1) and two key supporting staff members (Village Secretary/P2 and Village Treasurer/P3) regarding the importance of a strong divine consciousness in carrying out mandates are the first and foremost principles in managing village finances. Further, P5 (Head of Public Service Section) strengthened this similar consciousness by saying:

> Under Mr Saleh's leadership, there are no unresolved problems because the village government is very concerned about this religious value.

The vital principle of Tawhid, as implemented by Lobuk Village stakeholders, is also reflected in various activities that place Allah as a place of worship and a source of help. The monthly meeting forum at the Village Hall is filled with recitations and group prayers, in addition to discussing the village activity agenda. The tradition of recitation (*yasinan*) at the *RT/RW*, sub-village, and across various professional backgrounds is also consistently carried out. Commemoration of major religious events is routinely carried out by the Village Government together with the residents of Lobuk. The researcher participated in several religious traditions organized by the Lobuk Village Government. Figure 1 shows several religious activities organized by the village government and Lobuk residents.

Tawhid comprises three key elements: *amanah* (trustworthiness), honesty, and accountability (Setiawan & Yusoff, 2024). The first Islamic element that manifests the Tawhid principle is *amanah* (trustworthiness). *Amanah* is closely related to loyalty, trying as much as possible to carry out the tasks and authority entrusted to him by God. P1 explained:

> With the mandate given to me as village head, we must maximize its usefulness. We are not to be kings or rulers but good leaders who live together with society.

The consciousness of the need to uphold God's mandate from the highest leader in the village is very substantial, for example. Every Monday morning, the village head holds a weekly meeting of village officials. In this staff meeting, the village head consistently reminds village officials to provide the best service, embodying the mandate given by God. The researcher who attended this staff meeting several times felt firsthand that the Village Head was concerned about this religious collective consciousness. P2 also places this position as a means of devotion to God and society. The village secretary's job in the VFM system is *PPKD (Pelaksana Pengelolaan Keuangan Desa*)[1]. P2 said:

> In my spiritual consciousness, worship is not only for obligatory worship, *sunnah*, and the like. In that case, everyone is pleased to do it by themselves on their own. However, when given the mandate as Village Secretary, I hope this will become a way of devoting myself to the community, benefiting all villagers. A worship or social, and *Insya Allah*, this will be a way for me to get closer to God.

P3, the Village Treasurer, also confirmed it. P3 emphasized that in his most profound consciousness, the mandate given to him as Village Treasurer is a form of trust from God. P3 stated:

> I believe this position is a mandate from God. My *kiai* (teacher) at the *pesantren* often teaches about *barokah* (blessing in) sustenance. This *barokah* depends on the source of funds we get. If the source is unclear and we give it to our children, it will be unclear later. *Alhamdulillah*, the lessons from the *Pesantren* are still in my heart.

The second element of the Tawhid principle is honesty. P1 always tries to be a role model for village officials, encouraging them to be honest about everything. P1 stresses that "God's blessing" (*barokah*) is the impact of honesty carried out by the village financial manager. However, P1 does not deny that upholding honesty in the VFM process is complicated:

> Upholding honesty is not easy. We are not managing village finances alone. There are district, provincial, and the central government. Each of these governments has its systems and habits. Sometimes, the situation forces us to do things we don't want. However, *Bismillah*, as long as my intention is for society's interest, there is a way.

The third element that supports the Tawhid principle in VFM governance is accountability. For implementing VFM in Lobuk, P1 described that all financial transaction evidence is fully prepared and reported periodically to the upper government level. In the context of accountability, the financial report prepared by the village government went through a series of verifications by the sub-district and district governments. Moreover, P1 explained that the District Inspectorate conducts a financial audit every year. As a result, there have been no findings on the financial reporting of the Lobuk Village Government.

Horizontally, financial accountability to the village community is also carried out through the Village Consultative Body (*BPD*). P4 confirmed that *BPD* supervises the VFM process

[1] Article 4 of the Minister of Home Affairs Regulation (*Permendagri*) No. 20 of 2018 describes that the *PPKD* coordinated by the Village Secretary consists of Section Heads (*Kepala Seksi*), Heads of Affairs (*Kepala Urusan*) and Village Treasurers (who are directly held by the Head of Financial Affairs). All of them are a supporting system to assist the Village Head, who by law is the VFM Authority Holder (*Pemegang Kekuasaan Pengelolaan Keuangan Desa/PKPKD*).

throughout the year. In addition to horizontal accountability to the government above and the village community, the Village Treasurer (P3) expresses another, more substantial accountability: vertical responsibility to God.

> For me, what is even more important is being responsible to Allah. The temptation to misuse the village budget is even greater, especially when facing problems related to urgent necessities and needing money.

Accountability to Allah SWT, as cited by P3, is relatively transcendent. The central point is that village financial managers are not "simply" accountable formally and procedurally to the government above them and to the surrounding community horizontally. Moreover, this profound sense of accountability to God will lead to holistic village financial accountability behavior.

Figure 1. Religious program organized by Lobuk Village Government[2]

Adil (justice) and two elements (transparency & clear, fair and “healthy” regulation)

The Principle of *Adil* (Justice) is not written explicitly in the Village Law, and its derivative regulation is a value to be referred to in the VFM implementation. P1 described that the justice principle of VFM in Lobuk is conducted to ensure the financial budget can be distributed and implemented fairly. One obstacle in applying the principle of justice is determining the priority scale of the budget. Every year, the Central Government releases laws and regulations that regulate priority-scale programs that villages must implement. In the view of village government officials,

[2]Image captions (clockwise starting from top left): Lecture and recitation together at the “*Petik Laut*“ event (thanksgiving for fishery products which is an annual cultural tradition), Together Prayer in the Lobuk Village office, Public Recitation commemorating Syaikh Lobuk (the first Islamic Scholar of Lobuk) died, Commemoration of the Birthday of the Prophet Muhammad (*PBUH*), Parade commemorating the Islamic New Year and thanksgiving for the independence of the Republic of Indonesia.

those who know better about their needs are the village communities. There is no need for the central government to rigidly set program priorities.

The first element of the *Adil* (Justice) Principle is Transparency. Transparency is evident in the Village Government's intention and endeavor to open itself up, providing access to information to all relevant parties. The Lobuk Government's transparency includes the public announcement of the *APBDesa*. Billboards containing information about *APBDesa* are strategically placed so that many people can read and access them. The *APBDesa* information is also posted on social media platforms, such as Facebook[3], Instagram[4], and the official website.[5] Additionally, the village government also installs information boards at every location of village infrastructure development, including roads, bridges, buildings, and other facilities.

The second element of the *Adil* (Justice) Principle is Clear, Fair & "Healthy" Regulation. It refers to laws and regulations regarding VFM, which are primarily directed by higher levels of government, namely the Central Government, Provincial Governments, and Regency Governments. The arrangements regarding VFM that the Village Government will implement need to fulfill the characteristics of 'clear,' 'fair,' and 'healthy.' 'Clarity' means that VFM arrangements must be explained in detail and understood by the actors well. 'Clarity' implies that the laws and regulations do not cause confusion and different interpretations when implemented. 'Fair' regulations' means that VFM arrangements must contain an element of justice for all parties concerned. The 'healthy' regulations are defined as laws and regulations that guide the implementation of VFM, aiming to prevent anxiety, worry, and other negative consequences, both personally and socially, for the actors in terms of their physical, emotional, and spiritual well-being.

In the context of implementing VFM in Lobuk Village, there are several laws and regulations that, according to Village Officials, do not meet the 'clear,' 'fair,' and 'healthy 'criteria. Firstly, regulations regarding the Village Head's operational costs. Generally known, the Village Head has to provide a significant amount of operational funds every month in connection with social events. If a resident dies, becomes ill, gives birth, or gets married, the Village Head is always invited or expected to attend. His presence at various social gatherings cannot just be assumed; he needs to offer some money as a sign of compassion.

In state financial management, each head of government is given a budget related to daily operations in the Central Government, Provincial Government, and Regency/City[6]. Ideally, the village budget should also cover the operational costs of the Village Head. However, starting from *APBDesa* for the 2023 fiscal year, the Central Government opened up space for financing the Village Head Operational Fund by the enactment of *Permendesa PDTT* Number 8 of 2022. Even

[3] https://www.facebook.com/pemdes.lobuk
[4] https://instagram.com/pemdes_lobuk
[5] https://lobuk.desa.sumenepkab.go.id
[6] For instance, in Regional Financial Management (Provincial and Regency/City Government), there is Government Regulation Number 109 of 2000 states that Governors and Regents/Mayors are given Operational Support Fees whose amounts are adjusted to their financial capabilities.

though the number is relatively small (maximum 3% of village fund)[7], P9 stated that regulation is part of the central government’s attention to accommodate the village government's daily operational needs.

Secondly, P2 added the issue of population data and related regulations. P2 explained that population data provided by official government agencies often does not reflect the factual conditions in the village. For example, data on poor residents. Some people are impoverished but are not included in the population database. Conversely, residents who are considered economically prosperous are often categorized as poor. The problem is that any financial assistance must be based on official population data released by the state.

Additionally, P8 raised the issue of laws and regulations related to village head elections. This regulation is not directly related to VFM but may cause widespread abuse of village finances. A substantial problem is the high political costs that the village head must incur to win this election. The political cost is mainly related to the influence of money on voters. However, money politics is explicitly prohibited in the legal regulations regarding village head elections. Unfortunately, strict law enforcement against all kinds of violations, including money politics, is remarkably lacking; one might even say it doesn't exist

Shura principles and two elements (Substantive participation & *amal jama’i*)

Shura (Deliberation) is a decision-making mechanism involving two or more people that indicates the institutional participation of the parties involved. Islam places great importance on Shura (deliberation) to encourage collective decision-making (Abu-Tapanjeh, 2009; Hasan, 2009; Khan, 2022). In the Shura mechanism, a joint learning process occurs through intensive interaction, creating a consensus (integration) that results in mutually agreed-upon co-evolution (Choudhury & Alam, 2013).

The principle of Shura (Deliberation) is not explicitly stated in the Village Law and related regulations as a value that must be referred to by village financial managers. However, all decision-making procedures related to VFM require deliberations[8] (compulsory) involving elements of the community. All kinds of deliberations for making decisions concerning the livelihoods of many people are always carried out by the Lobuk Village Government. Further, PI described that the Village Deliberation was based on the results of the Sub-Village Deliberation (*Musyawarah Dusun*). In addition to formal deliberation forums, the Village Government initiates monthly deliberation involving village officials, *BPD*, *Dusun* Heads, *RW* Heads, and *RT* Heads. This monthly deliberation (usually in the first week of every month) is conducted informally in a recitation (*yasinan*), which ends with a discussion of several current issues. The researcher also

[7] Suppose the average Village Fund received by each village is 1 billion rupiah per year. In that case, 3% of the Operational Fund is only Rp30 million (USD 200) per year, or 2.5 million (USD 16.67) monthly. In the P1 calculation, the average monthly operational or social cost the Village Head must incur is around Rp5-10 million.

[8] Following Village Law, there are several types of deliberations relating to the implementation of VFM at the village level, including: a) Village Deliberations); b) Village Development Planning Deliberation), c). Village Consultative Body Deliberation); d) Inter-Village Deliberation.

attended this monthly non-formal deliberation several times. The event starts around 7 pm and ends with the social gathering lottery (*arisan*). Figure 2 depicts the non-formal monthly meetings of Lobuk Village for October 2023.

There are two elements, substantive participation and *amal jama'i* (cooperativeness-togetherness works), which are derivations from the principle of Shura (Setiawan & Yusoff, 2024). The element of community participation in the implementation of VFM is explicitly stated in the Village Law. The problem is that several studies have found that not all villages implement this participation substantially. Community participation in VFM is implemented formally to fulfill statutory provisions (Abidin & Sutikno, 2018; Basuki, Setyowati, & Wahyunengseh, 2019). In implementing this participation value, P1 and P4 confirmed that the Lobuk Village Government had implemented it in a substantive manner.

Figure 2. Non-formal monthly deliberation of Lobuk Village

Community participation in the planning and budgeting process is then followed by the opportunity to participate in budget implementation. The *"Padat Karya Tunai Desa"* or *PKTD* (Village Cash for Intensive Work)[9] program, launched by the central government to prioritize village residents and other available resources, is being implemented in Lobuk Village.

The second element of the Shura principle is *amal jama'i* (collectiveness-togetherness work. The implementation of *amal jama'i* in Lobuk Village was recognized by P8 as having gone well under the leadership of Mr. Saleh. The collectiveness-togetherness (*gotong royong*) between villagers and their leaders (Village Head and Village Officials) can be seen in various village government activities which villagers fully support.

Based on the investigation results of VFM implementation in the Lobuk Village Government, this study proposes an Islamic governance approach to VFM in Indonesia. This study proposes a conceptual framework of the Islamic perspectives on VFM governance in Indonesia,

[9] As described *Permendesa PDTT* Number 8 of 2022, the *PKTD* (Village Cash for Intensive Work) program is an activity to empower rural communities by prioritizing the use of local resources, labor, and technology to provide additional wages/income, increase purchasing power, reduce poverty, and support reduction in stunting rates.

illustrated by the metaphor of mosques (*masjid*)[10.] Figure 3 shows the summary of the Islamic (Good) Governance of VFM in Indonesia.

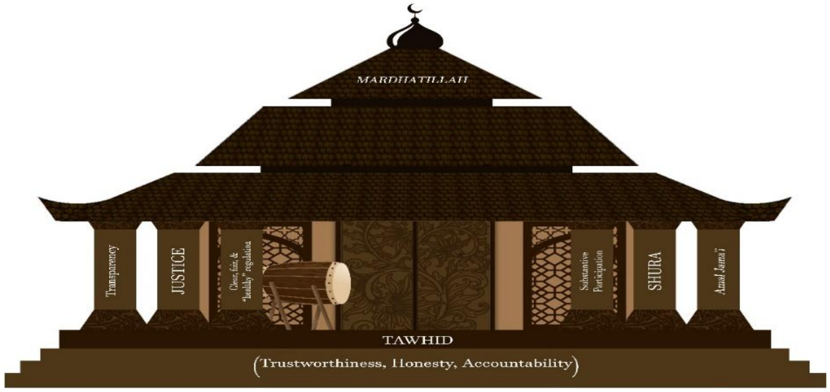

Figure 3 Conceptual framework of The Islamic governance of VFM

In the treasures of Islamic *da'wah,* the mosque occupies a central position. Not only is it a place of worship to Allah, but the mosque is the epicenter of Islamic preaching regarding social, economic, political, and humanitarian matters (Abazhah, 2017; M. M. Ali, 2020). Thus, the use of mosques to illustrate the proposal for Islamic governance of VFM is a form of endeavor to restore the spirit of building an Islamic society's civilization based on the spirituality of the mosque.

The mosque has three significant parts: foundation, pillars, and roof. Tawhid is the primary fundamental principle, akin to the essential nature of the foundation in a building. The Tawhid principle manifests in several characters. The first is trustworthiness. Humans who possess a Tawhid consciousness will implement VFM with trust, guided by essential religious values. The second element is honesty. The apparatus will exercise its authority in VFM by upholding honesty as much as possible. One term revealed by the Lobuk village apparatus may reinforce the notion that honesty is essential, namely 'blessing' (*barokah*). The third element is accountability. This accountability is not only related to statutory regulations (vertical accountability to the upper government and horizontal accountability to the community), but what is more substantial is accountability to Allah SWT.

The first pillar that refutes the VFM building is the Principle of *Adil* (Justice). The value of justice must be considered from the beginning of the VFM process, encompassing the stages of development planning and village budget allocation, as well as the reporting and accountability phase.

The Principle of *Adil* (Justice) manifests in two value elements: transparency and clear, fair & "healthy" regulations. Transparency means village financial managers are open to the community and all stakeholders. The second element of the *Adil* (Justice) pillar is clear, fair &

[10] This mosque image is inspired by the shape of traditional mosques scattered in villages, especially on the islands of Java and Madura. One unique characteristic is the presence of a *beduk*, a percussion instrument made from cow skin. The *beduk* is used to mark the entry of the five daily prayers.

"healthy" regulations. Based on field findings, many regulations don't meet clear, fair & "healthy" regulations. First, regulations regarding operational costs for the Village Head must be established to accommodate the social costs. Second, regulation regarding population data. Third, the central government regulates the annual prioritization of village funds.

Fourth, laws and regulations related to village head elections. The process of winning the people's votes has long been a concern for various parties as it is a high political cost in every direct election in Indonesia (Hakim & Muhyidin, 2022; Hayati & Noor, 2020). Unfortunately, money politics, also known as vote buying, is considered a normal part of democratic culture in Indonesia. There is a mechanism of clientelism and mutualistic symbiosis between candidates and voters (Agustino & Fitiriani, 2020). The enormous political costs incurred during the candidacy process are blamed for the widespread abuse of village finances (Rahayu, 2016; Winarjo, 2021). Based on these non-ideal conditions, while waiting for changes in voter behavior, the only way to stop high political costs (primarily related to money politics or vote buying) is strict law enforcement (Rumesten, 2014). Any candidate for village head who commits a legally prohibited act must have their candidacy disqualified. If necessary, law enforcement is brought to justice as a criminal offense.

The second pillar that supports the solidity of the VFM building is the Principle of Shura (Deliberation). Islam places Shura as a substantial principle of making public decisions. As Khan (2022) explained, the Shura mechanism for achieving Islamic moral values in collective decisions involves two stages to achieve a 'Shariah-compliant decision.' First, a mechanism for consultation and deliberation with religious leaders, scholars, and policymakers should be established to provide public decision options that follow Sharia values. Second, a mechanism for deliberation with the public, both individually and as representatives, to make joint decisions on the options provided by the first level of the shura mechanism.

Referring to empirical findings related to the implementation of VFM in Lobuk Village Government, there is no formal mechanism or institution that represents deliberation with experts at the first level. To the researcher's knowledge, formal institutions such as the 'Sharia Experts Board' also do not exist in other village governments in Indonesia. The Village Head (along with all village officials) of Lobuk conducted his initial deliberation by consulting informally regarding village problems with Religious Figures and Community Leaders. The results of discussions and deliberations with religious leaders, academicians, and community leaders are then brought to the public deliberation mechanism.

Reflecting on the Prophet Muhammad's (*PBUH*) experience as a social leader, proposing a 'Shariah Experts Board' for implementing the Islamic Governance of VFM is essential. This institution comprises religious leaders, academics, and specialized experts who are recognized for their particular expertise and adequate qualifications in religious understanding. This institution will partner with the Village Head and the Village Consultative Body (*BPD*) to discuss substantive matters in village financial management at the first level before discussing them at the second level (public deliberation).

Implementing this Shura Principle manifests in two substantial value elements: substantive participation and *amal jama'i* (collectiveness-togetherness work). The first element, substantive participation, is the community's active involvement in each VFM stage. The second element of the shura principle is *amal jama'i* or collectiveness-togetherness work. the *amal jama'i* element is characterized by good planning resulting from joint deliberations, exemplary leadership, and a spirit of collectivism for all villagers and other stakeholders.

Finally, the Islamic Governance of VFM for Indonesia has the highest or ultimate goal (symbolized by a roof). The ultimate goal of VFM governance entities is to obtain God's pleasure (*mardhatillah*). Allah SWT says in the Quran, "And there are those who would dedicate their lives to Allah's pleasure. And Allah is Ever Gracious to His servants." (*Surah Al Baqarah*/2: 207). *Tafsir Al Azhar* explains that this verse emphasizes that being a Muslim means surrendering oneself entirely to Allah SWT (HAMKA, 2019). The primary purpose of all sacrifice endeavors is to obtain the pleasure of God (*ibtigha mardhatillah*).

The premise also aligns with Salleh's (2003) thoughts that the ultimate goal of Islamic-based development is the pleasure of Allah SWT. Furthermore, Salleh (2003) explained that the endeavor to obtain God’s pleasure requires three main requirements: a) strengthening Tawhid as a foundation. b) maintaining and earnestly carrying out Islamic law (Sharia), and c) maintaining morals (*Akhlaq*) towards Allah SWT.

5. Conclusions, limitations, and recommendations

The findings of the research conclude that the concepts, principles, and elements contained in the Islamic VFM governance could be applied in the VFM implementation of research sites (Lobuk Village). This study provides empirical evidence on the implementation of VFM, carried out in accordance with Islamic principles and elements (government), resulting in good performance. The Lobuk Village Government, the research site, is making optimal efforts to manage village finances in accordance with Islamic transcendental values. As a result, several achievements, both administrative and substantive, have been achieved. These achievements are not only recognized and felt by village officials and other institutions related to VFM. Village communities, as the main stakeholders in village development funded by village finances, also feel and receive direct and tangible benefits. Islamic VFM governance, as a conceptual framework derived from the values of the Quran and Sunnah (diachronically), finds empirical evidence in the implementation of VFM at the village government level.

Field findings in Lobuk Village can then become a factual interpretation of the values of Islamic governance of VFM synchronically within the framework of the Islamic Accounting Anthropology approach (Mosque Building Metaphor). Based on the 'transferability' concept of qualitative study, the Islamic VFM governance implementation, as illustrated in Lobuk Village, holds potential for broader application in similar sociocultural contexts (other village governments in Indonesia).

Furthermore, this research's findings, which establish the concept of Tawhid as the primary foundation for implementing VFM, should serve as a standard for regulating public sector or government finances in Indonesia. Together with the other two principles (Adil/Justice and Shura/Deliberation) as pillars (and the Islamic elements from which they are derived), the Tawhid Principle needs to be included in law and regulations as the central values that need to be referred to by all VFM actors. The Ministry of Villages, the Ministry of Home Affairs, and the Ministry of Finance, the three ministries that have been carrying out the function of regulating VFM, need to pay attention to the results of this research so that they are accommodated in written regulations referred to by village financial managers.

This research also contributes to the public sector or government accounting discipline through empirical evidence of three related parties: VFM actors at the village government level, central/regional government, and village society. For VFM actors at the village level, the empirical evidence of Islamic VFM implementation helps them to have a holistic understanding of the values they need to possess in order to have a religious consciousness while carrying out VFM, which will provide blessings in this world and the hereafter for themselves, their families, and society.

The second contribution applies to the central or regional government, which is at a level above the village government. The results of this study regarding Islamic VFM can be a justification for restructuring VFM governance to incorporate the values of Islamic religiosity. Structuring systems, mechanisms, and procedures for VFM can enable the findings of this research to incorporate strong Islamic principles and elements in the implementation of VFM.

Ultimately, this research can provide an empirical picture for all village communities as VFM stakeholders, demonstrating that the Islamic values embodied in all VFM activities are key to the success of village development in general. Good cooperation between the actors who are entrusted with managing village finances and the village community, in general, will bring the ultimate goals of VFM to be achieved, namely a just, peaceful, and prosperous village that is blessed by Allah SWT, as mentioned in the Quran as a land that is *baldatun toyyibatun wa rabbun ghafur*: a good, safe, prosperous country and its people have their sins forgiven by God.

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