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Do We Need Risk Management for Village Fund?

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Abstract— *The administration of village funds has been established by the government since 2014. In addition to having reaped a lot of benefits, village grants have also caused a lot of abuse in the use of village funds. One solution that might hamper the misuse of village funds is the application of risk management. The purpose of this study is to study the implementation of the concept of risk management in village fund management. The method used is survey approach. 79 (seventy nine) respondents consisting of academics and practitioners were respondents in this study. The results showed that the majority of respondents thought that it was necessary to implement risk management in village fund management. Village fund managers are advised to implement risk management in village fund management. Village fund management organizations are recommended to have a chief risk officer*.

Keywords— *Village fund, risk management, chief risk officer*.

I. INTRODUCTION

The provision of village funds has been determined by the government based on law number 6 of 2014 concerning villages. Based on this law, villages, which are the smallest unit of government organizations, receive a special allocation from district funds. The allocation of village funds aims to make village development more focused. The objectives of village management according to law number 6 of 2014 include encouraging initiatives, movements and participation of village communities for the development of village potential and assets for common welfare and advancing the economy of rural communities and overcoming gaps in national development

Many parties have felt the benefits, but there are also many problems related to village funds. There are many deviation or abuse in the management of village funds. The Deputy Regent of Kubu Raya Pontianak, for example, stated in Tribun Pontianak.Co.Id (2018) that there are indeed several villages in Kubu Raya that are still undergoing investigations. Coaching steps are carried out in accordance with the inspectorate's recommendations. Effran Kurniawan in Lampung Post (2018) stated that the Ministry of Villages revealed 24 modes of deviation from village funds. The 24 modes of deviation are well-known in planning, disbursing funds, implementing activities, and reporting activity accountability (LPJ). The 24 modes are fully presented in Table 1 below. Fachrur Rozie in Liputan 6 (August 17, 2017) said that the KPK revealed 6 (six) points of irregularity in village funds, namely the procurement of inappropriate goods and services, procurement of fictitious goods and services, budget mark-ups that do not involve the community in village deliberations, misappropriation of funds village for personal gain, weak supervision, and embezzlement of village officials' honor.

TABLE 1. Village Fund Deviation Mode

No.	Stages	Modes
I	Planning	1. Planning deliberations are just a formality; 2. Preparation of a village budget that does not fully refer to the Permendes on the use of village funds; 3. The making of the RAB is not proportional; 4. The construction was not carried out a field survey.
II	Disbursement of Funds	1. Disbursements that are not equipped with a payment request letter; 2. Disbursements are not equipped with proof of transaction; 3. The application of village financial management techniques is not verified; 4. The amount of disbursement is only based on the estimation of the village head. 5. The funds disbursed are kept by the village head and are not distributed; 6. Disbursed funds are kept in an amount that exceeds the specified limit for a long time; 7. Funds that are not stored in the safe.
III	Implementation of Activities	1. Appointment of executor of activities which is only a formality; 2. Assistant staff is not maximal; 3. Activities not in accordance with the APBDes; 4. There is no change in APBDes; 5. Activities carried out are not in accordance with the RAB; 6. Activities carried out past the fiscal year.
IV	Activity Accountability Reporting (LPJ)	1. Report is overdue; 2. Supporting documents in the report do not match the time; 3. Engineering evidence that supports transactions with fictitious value; 4. Fake stamps for proof of fictitious transactions; 5. Signature of fake funds recipient. 6. The implementation of activities in the LPJ recipient document does not match the amount received; 7. The work carried out by the local government is claimed as village work; 8. LPJ results differ from results in the field.

(Source: Lampung Post).

This phenomenon raises the question whether risk management needs to be Implemented in the management of village funds? To what extent has it been implemented?.

Previous research on the benefits of risk management for performance improvement still shows inconsistent results. Risk management theory is issued by the Committee on Sponsoring Organization (COSO, 2004). Coso stated that the goal of risk management is to provide reasonable assurance regarding the achievement of the entity's objectives. There have been many previous studies that show the benefits of integrated risk management to increase the achievement of firm performance, especially profit. Callahan and Soileau (2017) in their research concluded that there is a relationship between the maturity of the integrated risk management process and the firm's operating performance. Callahan and Soileau used a broad sample of industries and concluded that the broader level of maturity of the Integrated risk management process achieves higher operating performance than firms in the same industry that only use metrics that are closer to processing revenue. Ahmad et al (2014) said that integrated risk management is an approach to combat the volume and complexity of risks facing organizations today. So that by fighting the risks faced by the organization, obstacles to achieving goals can be removed or reduced and the achievement of company goals can be optimized. However, there is still variability in the results of research on the benefits of risk management on performance. Some research results state that integrated risk management is useful for improving performance, but some research results state that there is a variability in the relationship between integrated risk management and performance. McBride (2012) concluded based on the results of his research that there were various levels of integrated risk management implementation with various types of effectiveness. McBride said there are opportunities to conduct additional research to gain deeper insights into the organizations that should implement the risk management framework, while analysis should also be done on the effectiveness of other risk management tools. Kanhai and Ganesh (2014) concluded based on the results of their research on bank risk management practices in Zimbabwe that the success of risk management implementation is determined by the adequacy of its risk management structure, the quality of its organizational culture, the intensity of the regulatory environment, and the size of the bank. So that there is no persistence and consistency of research results regarding the benefits of risk management on performance. Several research results state that there are various obstacles in implementing risk management. Callahan and Soileau (2017), for example, conducted research on the relationship between risk management implementation at various levels and firm performance. The sample is officials at internal audit firms in the US and other countries. The results showed that there was a significant influence between the level of risk management implementasi and firm performance. However, the results of his research show that there are still many obstacles in implementing risk management so that many companies have not implemented it optimally. The benefits of risk management for improving performance also depend on the level of implementation. The difficulty level in implementing risk management makes many entities do not implement as expected. Therefore, researcher are interested in conducting research on the benefits of risk management to improve performance.

In some countries, there is little research on risk management. Ahmad et al. (2014), for example, conducted research at that time because there was still very little empirical data found at that time regarding the application of risk management in public companies in Australia at that time. In Indonesia, there is still little research on the application of risk management in public companies in Indonesia and the benefits it brings. Therefore, this research was conducted to see the importance of implementing risk management in managing village funds.

II. LITERARY REVIEW

Performance

Performance is the goal of all entities or organizations. Performance is the result of management activities. Parameters that are often used to assess performance are carried out using an approach where financial information is taken from financial reports or other financial reports. There are several definitions of performance. Performance is a certain level of the best results obtained and involves achieving the entity's goals (Verboncu, 2005 in Lidia, 2015). So doing means achieving the goals that the company has set. Messer (2017) states that comparing actual performance with planned activities is an important management control. The implication of Messer's statement is that performance is what it actually does. Dincer, Hacioglu, and Yuksel (2017) state that performance measurement is a process that analyzes company output and the effectiveness of the resources obtained by the company. Kask and Linton (2016) divide performance into several levels, namely underperforming, low performance, medium performance, and high performance. Performance appraisal aims to determine the effectiveness of the company's operations that have been carried out. Non-financial performance, performance measurement uses non-financial measurement units such as customer satisfaction and employee satisfaction. Conversely, financial performance uses financial measurement units such as current year profit, return on assets, return on equity, and so on.

Risk Management

Risk management is part of the management control system. Auzair (2013) states that the management control system (MCS) as a system providing information to the business world must be designed explicitly to support business strategies to produce superior performance. In managing village funds, there is also a management control system. Risk management is a risk management application integrated in the planning and implementation of company goals and objectives. With the knowledge of corporate risk management, all the goals that the company has set in strategic planning are no longer considered to be achievable on their own. There is a certain level of risk that hinders the achievement of the entity's unidentified and defined objectives. The amount of risk must be determined from the beginning before annual planning is carried out. So for each risk identified in each company target, the amount of risk must be calculated, and risk mitigation measures determined. The definition of risk management according to COSO (2004) is a process carried out by the entity's board of directors, management, and personnel, which is applied in strategic settings and throughout the company, which is designed to identify potential events that can affect the entity, and manage risk according to risk appetites. To provide a reasonable reason for achieving the entity's objectives. So risk management is a process with the aim of achieving the entity's goals. Regarding company goals, Mios, Kozula, and Pecina (2015) state that the goal of risk management is to increase the likelihood that an organization can achieve its goals. This means that risk management must be created and implemented with the aim of protecting and creating shareholder value. So Milo et al. argue that risk management protects and enhances owner value. Prior to its adoption by COSO, many of the risk management studies and perspectives were approached in piecemeal terms.

There is a view to approaching risk management in an integrated manner. D 'Arc (2001), for example, concluded from his research that a general approach to risk management is preferred over an individual approach and an integrated approach is preferred over a separatist approach. COSO (2004) states that there are 7 (seven) components of risk management, namely targeting, event identification, risk assessment, risk response, control activities, information communication, and monitoring. The seven components are the steps that must be followed in carrying out an integrated risk management process so that company goals can be achieved. Back (2010) revealed from the results of his research that risk management supports more effective organizational management because it helps to understand and assess risk. Performing this process in an organization makes it possible to perform operations that increase the likelihood of success and reduce the likelihood of failure. So risk management identifies and assesses looming hazards thereby increasing the likelihood of success, and lowering the likelihood of failure.

Several previous studies have shown a relationship between the benefits of implementing corporate risk management on firm performance. Tseng (2007) concluded from the results of his research that the relationship between risk management and firm performance depends on the suitability of the firm risk management and five factors that affect the company, namely environmental uncertainty, industrial competition, company complexity, firm size, and company existence. monitored by the board of directors. Hoyt (2008) conducted a study to measure the extent to which companies apply risk management, and the value implications of the program. Her research focus is on insurance companies in America. The results of his research show a relationship between risk management use and firm value. Shivashankarappa et al. (2011) concluded based on the results of his research that risk management is a means to help organizations shift their focus from crisis response and compliance to evaluating risks in business strategies proactively to improve investment decision making and maximize stakeholder value. So that risk management can improve the quality of decision making and maximize stakeholder value. Dafikpaku (2011) concluded based on the results of his research on risk management that those who fail to plan, plan to fail. This adage has been a driving factor for many. With respect to risk management, it fails to plan with full awareness of the likelihood and impact of an event that may occur, planning fails because there is the possibility of unexpected events. The Dafikpaku statement above contains the basic philosophy of risk management. Anyone who does not plan with full awareness of the likelihood and impact of a possible event is planning failure. Liu (2012) states from the results of his research that the application of risk management can improve internal audit performance if its development is directed at this. Monda et al. (2015) in his article stated that value creation is one of the goals of implementing risk management. On the other hand, companies implementing risk management are driven by the desire to first protect value for their shareholders. Bride (2012) concluded based on the results of his research that the use of risk management techniques is very easy and effective in improving decision making in the context of risk. Nan (2015) conducted research on companies listed on the China Stock Exchange. The results of his research show that all levels of risk management performance among Chinese companies are relatively low and that there are large differences between these companies. Next, we will take a closer look at the dynamically developing conditions of risk management in China and make a horizontal comparison with the application of risk management in foreign companies in order to find more effective methods to improve risk management performance in Chinese companies. Florio and Leoni (2016) conducted research on companies listed on the Italian stock exchange regarding the relationship between the extent to which the risk management system was implemented and firm performance. The results showed a relationship between the implementation of risk management and firm performance. Callahan and Soileau (2017) conducted research on the relationship between the implementation of corporate risk management at various levels and company performance. The sample is officials at internal audit firms in the US and other countries. The results showed that there was a significant influence between the level of risk management application and firm performance.

However, there are several studies that show that there are still many obstacles in implementing risk management and doubts about its usefulness to improve company performance, so that many companies have not been able to fully implement it. Rodriguez et al. (2009) concluded from his research that to increase the value of risk management implementation, people must be able to communicate within their own team and with other teams. They must be able to develop activities in which they can exchange views and reach conclusions during the meeting. A positive working environment of people for good communication fosters successful risk management practice by providing motivation and openness to acceptance of different views. So that good communication between human resources is needed as a prerequisite for the success of risk management. McBride (2012) concluded based on the results of his research that there were various levels of risk management implementation with various types of effectiveness. McBride said there are opportunities to conduct additional research to gain a deeper view of the organizations that should implement the risk management framework, while analysis should also be done on the effectiveness of other risk management tools. Kanhai and Ganesh (2014) concluded based on the results of their research on bank risk management practices in Zimbabwe that the success of risk management implementation is determined by the adequacy of its risk management structure, the quality of its organizational culture, and the intensity of the regulatory environment, and the size of the bank. OECD (2014, page 74) informs that the Swiss Code of Obligations mandates that risk management is one of the areas that can be delegated by the Board of Directors to the executive board, but must continue to supervise. This policy indicates that risk management must be implemented, but that the Board of Directors is sufficient to monitor and supervise. The OECD (2014, 78) further states that risk management in Swiss companies is primarily seen as a line management responsibility. Companies are increasingly adopting risk policies that designate members of senior management as risk owners for specific risks. So the focus of implementing risk management in companies in Switzerland lies in its management. The responsibility of the Board of Directors is only to direct and supervise it. In Indonesia, the duties of the Board of Directors only direct regarding risk management in line management, however the responsibility for implementing risk management remains with the Board of Directors (Decree of the Ministry of SOEs, 2012). Lundquist (2015) conducted research on administrative processes regarding the acceptance, implementation and integration of risk management in American universities and academies due to the lack of such research, especially in universities. The results showed that higher education institutions adopted risk management as a result of proactive initiatives by the Council or the President of the University or in response to unexpected events (or both). The risk management stages according to Lundquist's research results are to form, develop, be established, and be integrated. Most university managers consider risk management important to be able to achieve the institutional goals, but practitioners say they do not trust the faculty. Fraser and Simkins (2016) are present based on the results of their research on the challenges faced by risk management practitioners, and the basic techniques of implementing risk management, including additional techniques that may be worth using. Fraser and Simkins outline 26 basic techniques that need to be considered and suitable for use in building the risk management methodology.

From the literature review and the results of previous studies above, it is proven that risk management is useful for improving performance. So it must be applied in optimal village fund management.

III. METHODOLOGY

This study uses a survey method. The research respondents were academics and village fund practitioners. The distribution and filling of questionnaires was carried out online by distributing questionnaire links to various population of respondents. The things that are asked in the questionnaire are as follows:

1. The application of risk management in village fund management can improve the performance of village fund management.
2. Village fund managers need to consider the application of risk management.
3. Village fund managers only need to apply part of the risk management concept.
4. Village fund managers need to formally implement integrated risk management.
5. Village fund managers only need to apply a part of the risk management concept, anticipate some risks, and think about mitigation steps.
6. Only risks that need to be anticipated by the village fund manager, mitigation steps do not need to be considered.
7. Only part of the risk that the village fund manager needs to anticipate, the mitigation steps do not need to be considered.
8. Only certain risks need to be anticipated by the manager of the village fund and determine mitigation measures.
9. There is no need to consider risks in managing village funds.
10. Village fund organizations need to have a Chief Risk Officer (CRO)
11. Village fund managers need to consider the three lines of defense in which the risk owner, risk manager, and internal audit must be separate.

Data collection was carried out online using the Google form. A total of 79 (seventy nine) respondents consisting of academics and practitioners filled out the questionnaire.

IV. RESULTS AND DISCUSSION

Research Results

The survey was filled in by 79 (seventy nine) respondents. The survey questionnaire was filled in by academics and auditors who had audited the management of village funds. The questionnaire was filled out online. The survey data recapitulation shows the following results.

From the table below it can be seen that the statement with the highest score is "the application of risk management in village fund management can improve the performance of village fund management", and the statement with the highest score is "there is no need to consider risks in managing village funds".

Discussion

From table 2, it can be seen that the question with the highest score is that the application of risk management in village fund management can improve the performance of village fund management. This question is general and very basic. By implementing risk management, risks in managing village funds can be better anticipated. Risks in the management of village funds include increased commodity prices, increased inflation, bad weather conditions, dishonesty of managers, natural disasters, and low human resource capacity of village fund management organizations. After

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determining the risks, the likelihood of these risks is determined. The impact of these risks on the achievement of village fund management objectives also needs to be calculated and determined. Based on likelihood and impact, a risk map can be made. After creating a risk map, mitigation steps can be found and determined. The performance of village fund management is the achievement of inputs, outputs, outcomes, benefits, and impacts of managing village funds. With the application of risk management in the management of village funds, it is hoped that the level of irregularities in the use of village funds will decrease.

TABLE 2. Recapitulation of Survey Results

RESULTS SURVEY OF RISK MANAGEMENT RECAPITULATION VILLAGE FUND MANAGEMENT						
No.	**QUESTION**	1	2	3	4	**SKOR**
1	The application of risk management in village fund management can improve the performance of village fund management	**1**	**3**	**58**	**38**	**3,33**
2	Village fund managers need to consider the application of risk management	**1**	**3**	**64**	**33**	**3,28**
4	Village fund managers need to formally implement integrated risk management	**1**	**1**	**75**	**22**	**3,18**
11	Village fund managers need to consider the three lines of defense where the risk owner, risk manager, and internal audit must be separate	**1**	**5**	**71**	**22**	**3,14**
10	Village fund organizations must have a Chief Risk Officer (CRO)	**1**	**9**	**65**	**25**	**3,13**
5	Village fund managers only need to apply a part of the risk management concept, anticipate some risks, and think about mitigation steps	**5**	**26**	**53**	**16**	**2,79**
8	Only certain risks need to be anticipated by the village fund manager and determine mitigation measures.	**5**	**36**	**47**	**12**	**2,66**
3	Village fund managers only need to apply part of the risk management concept	**8**	**44**	**46**	**2**	**2,41**
6	Only the risks that need to be anticipated by the village fund manager, the mitigation steps do not need to be considered	**12**	**59**	**24**	**5**	**2,23**
7	Only part of the risks that need to be anticipated by village fund managers, the mitigation steps do not need to be considered	**12**	**65**	**21**	**3**	**2,14**
9	There is no need to consider risks in managing village funds	**31**	**52**	**13**	**4**	**1,90**

Village fund managers need to consider implementing risk management. This statement gets the second highest score. This statement should be the mindset of village fund managers. At least village fund managers consider implementing risk management in an effort to achieve village fund goals. Irregularities or misuse of village funds, for example, are more likely to be overcome by implementing risk management. If the risks are not managed in advance, it is like deliberately plunging into risks.

Village fund managers need to formally implement integrated risk management. This question is the question that gets the next score and belongs to the good group (above 3). Formal risk management means the application of risk management supported by a written decision letter and SOP from the authority regarding the application of risk management. Integrated risk management means that the planning and budgeting system must be linked to the risk management system. If the risk system has been linked to the operational system, any changes to the risk map will automatically affect the operational and strategic plans.

Village fund managers need to consider three lines of defense in which risk owner, risk manager and internal audit must be separated. This question gets the next highest score. This statement is a management concept issued by the Internal Auditor Agency (2013). The Three Line of Defense Model consists of operational management (first line), risk management, and management functions (second line); and internal audit (third line), which provides assurance to organizational governing bodies and senior management based on the independence and objectivity of the company. The IIA study considers roles and responsibilities as well as the need for horizontal coordination and communication in the approach to risks and opportunities.

Village fund organizations need to have a Chief Risk Officer (CRO). This question got the next high score. The chief risk officer (CRO) or chief risk management officer (CRMO) is the executive of the organization responsible for enabling efficient and significant risk governance, as well as associated opportunities, to the business and its various segments. In more complex organizations, the CRO is generally responsible for coordinating the organization's risk management. CROs are responsible for assessing and mitigating significant competition, regulatory and technology threats to corporate capital and revenues. The roles and responsibilities of the CRO vary depending on the size of the organization and the industry.

V. Conclusions and Suggestions

Conclusion

This research was conducted because of the many irregularities and violations in the management of village funds. This study aims to determine the importance of implementing village fund management concepts and their application. This study used a quantitative method with a survey approach. A total of 79 (seventy nine) researchers and academics were respondents in this study. The results show that the application of risk management in village fund management can improve the performance of village fund management, village fund managers need to consider implementing risk management, village fund managers need to implement formally integrated risk management, village fund managers need to consider three lines of defense where the risk owner is , risk management and internal audit must be separate, and village fund organizations need to have a Chief Risk Officer (CRO). This means that the application of risk management in managing village funds is very necessary and must be applied as optimally as possible.

Suggestion

Based on the research conclusions above, it is suggested that:

1. Village fund management organizations ranging from BPMD (Village Community Empowerment Agency) or DPMD (Village Community Empowerment Services) to villages applying risk management concepts.
2. The concept of risk management is applied optimally.
3. The village fund management organization must have a chief risk officer (CRO).
4. Village fund management organizations need to pay attention to the concept of *three lines of defense* in building a risk management organization.
5. Creating a risk management application. This application is connected to the Government Agency Performance Accountability Report (LAKIP) preparation software.
6. The Ministry of Home Affairs makes provisions on the implementation of integrated risk management in village fund management organizations.

The next researcher should examine the benefits of implementing this risk management application in reducing the number of irregularities in the use of village funds.

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