

Research Article

Risk Management in Village Financial Management in Village Government in North Sumatera

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Abstract: Village financial management plays a crucial role in ensuring the effective and efficient use of village funds, particularly when viewed from the perspective of risk management. Risk management in this context refers to efforts made by village governments to anticipate, identify, and address potential problems that may arise in the use of village funds. Central government policies provide an important foundation for quality planning, implementation, and supervision in village financial management. This study employs a descriptive approach to explain the challenges faced by village governments in managing finances and highlights the importance of applying risk management strategies to enhance village original income. In analyzing risks, accuracy and precision are required because the risks faced by the village government directly influence policy outcomes and ultimately affect the welfare of the community. By adopting appropriate risk management practices, village governments can mitigate financial mismanagement and improve revenue generation. One practical measure involves the application of targeted budget allocation policies, such as optimizing expenditure savings and ensuring effective absorption of funds. These strategies not only prevent misuse of resources but also promote sustainable financial growth at the village level. The implementation of village financial risk management is guided by the Minister of Villages Regulation, which serves as a formal reference for village governments in designing systems, procedures, and policies. Through the application of these guidelines, village governments are expected to achieve better financial governance, improve transparency, and strengthen accountability. Ultimately, risk management serves as an essential tool for ensuring that village financial management supports community development and enhances the welfare of rural society.

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1. Introduction

Villages, as the level of government that directly interacts with the community, hold a central role in development, especially considering that most areas in Indonesia are rural. Realizing a prosperous village requires the involvement of local governments with the authority to regulate and manage finances effectively, supported by independence in planning, budgeting, and implementing development programs. Village financial management covers all financial activities in the village, starting from planning, execution, administration, to reporting and accountability. Optimal village financial management will help in village development and make the village an independent village. The key to success in making villages independent is seen in how the village government develops the potentials of the village. Village governments are referred to as part of the government that has public service obligations and various forms of accountability efforts to improve the welfare of the community (Taufik, Pradesa and Agustina, 2019; Dura, 2016; Jupita & Juita, 2020). So that policies taken by the village government will basically always contain risks, both big and small. Risk Management is a proactive and continuous process that includes the identification, analysis, control, monitoring, and reporting of risks, including various strategies implemented to manage risks and their potential.

Village Governments in districts in North Sumatra Province must be able to manage their village finances so as to make villages independent. One of the strategies in the success of managing village finances is how the village is able to control the risks faced by the village government. Village governments in North Sumatra Province always receive assistance from the central, provincial and district governments such as transfer income. Transfer income is greater than the original village income, so it is said that the district village government is still not independent or still dependent. For example, village governments in districts close to the capital of North Sumatra Province are the Village Governments of Langkat Regency, Deli Serdang Regency, Karo Regency and Serdang Bedagai Regency. The risk obtained by the village government is how good village financial management by using village spending must be able to increase village income. Asbeni and Sunardi (2018) explained that village officials still do not understand village financial management and supervision still uses regulatory procedures, where regulations in the supervision of village financial management still need to be improved regarding the use of the village budget. Village officials must be able to understand in reporting all activities such as recording or bookkeeping regarding activities related to the use of village funds for village development where the reporting must be accountable and transparent. Therefore, it is very important to conduct research to analyze how risk management in village financial management in the Village Government of Karo Regency, Deli Serdang Regency, Serdang Bedagai Regency and Langkat Regency.

2. Theoretical Study

Village financial management covers all rights and obligations of the village that can be expressed in monetary terms, as well as all assets, whether in the form of money or goods, associated with the fulfillment of those rights and obligations. In accordance with Minister of Home Affairs Regulation (Permendagri) No. 20 of 2018, the management of village finances comprises five (5) stages to ensure effective and accountable governance.

First, the planning stage involves formulating the village government's revenue and expenditure plan for the relevant fiscal year, as stipulated in the Village Budget (APBDesa). This planning process is undertaken with the participation of the community through village development planning meetings.

Second, the implementation stage concerns the realization of village revenues and expenditures through the village cash account at a bank appointed by the Regent/Mayor. The Village Head delegates the preparation of the Budget Implementation Document (DPA) to the head of affairs or the head of budget activities, in line with their respective duties, within a maximum of three (3) working days after the enactment of the village regulation on the APBDesa and the village head regulation on its elaboration.

Third, the administration stage is carried out solely by the village treasurer, who is responsible for recording all financial transactions—both receipts and expenditures—systematically and chronologically, ensuring proper documentation and closing the books in an orderly manner at the end of each month.

Fourth, the reporting stage is the responsibility of the Village Head, who must submit reports on the implementation of the APBDesa and the first semester activity realization report to the Regent/Mayor through the Sub-district Head.

Fifth, the accountability stage requires the Village Head to submit a report on the realization of the APBDesa implementation at the end of each fiscal year to the Regent/Mayor as part of the overall village governance report. This accountability report contains financial statements, activity realization reports, and a list of sectoral, regional, and other programs implemented in the village. It must also be disseminated to the community in written form or via accessible media, such as radio, bulletin boards, community forums, or other information channels that are easily reached by the public.

Risk management is a system of procedures and rules applied to identify, analyze, assess, and monitor risks. Strategies in implementing risk management include instructions, plans, and procedures that function to support organizational units when managing risk. Risk considerations in public sector organizations can be classified based on financial fields such as income from real estate taxes lower than expected, Human Resources areas such as mistakes made by people when making decisions and Information Technology areas such as software crashes. Public risk management is governed by the Regulation of the Minister of Villages,

Development of Disadvantaged Regions, and Transmigration of the Republic of Indonesia No. 9 of 2020 concerning the implementation of risk management within the Ministry of Villages, Development of Disadvantaged Regions, and Transmigration. Article 13 outlines the stages of the risk management process, which include risk communication and consultation, risk context determination, risk identification, risk analysis, risk evaluation, risk treatment, as well as risk monitoring and review.

1. Contextualization

Contextualization aims to identify and analyze the Village Government as the environment in which risk management will be applied. This process includes identifying the primary stakeholders most directly involved in the implementation of risk management, as well as defining the scope and objectives, establishing the limiting conditions, and determining the expected outcomes of the risk management implementation. As part of context determination, criteria are established to facilitate the analysis and evaluation of risks. The context serves as the foundation for the implementation of all stages within the risk management process, and the process should not be conducted outside the framework of the established context.

2. Identify Risks

Risk identification aims to recognize all types of risks that may hinder, reduce, or delay the achievement of the objectives of the Risk Owner Unit within the Village Government. This process involves determining the location, timing, causes, and mechanisms of potential risk events that could obstruct, diminish, or postpone the attainment of the established objectives.

3. Risk Analysis

Risk analysis aims to identify and map existing risks, which will serve as the basis for evaluation and the formulation of risk management strategies. The process involves examining the sources of risk and the current level of control, followed by an assessment of the risks in terms of their potential consequences (consequence level) and the likelihood (frequency level) of their occurrence.

4. Risk Evaluation

Risk evaluation aims to determine the prioritization of risks that have been previously identified and analyzed. This process enables decision-makers, specifically the Risk Owner Unit (UPR), to assess whether further risk management actions are required and to establish the order of priority for addressing those risks.

5. Risk Handling

The purpose of the risk management process is to identify the most effective and efficient method for addressing a specific risk. This process includes exploring various risk management options—such as reducing the probability of occurrence, mitigating the impact, accepting the risk, avoiding the risk, or transferring/diverting the risk—selecting the most suitable approach, and subsequently developing a comprehensive risk mitigation plan.

6. Monitoring and Review

Risk monitoring and review are primarily intended to identify and anticipate changes in the organizational context, risk profile, severity of individual risks, and the effectiveness of mitigation measures. This process entails the continuous evaluation of risk management plans, strategies, and systems to ensure their ongoing relevance and adaptability to changing circumstances.

7. Communication and Consulting

The communication and consultation process aims to gather relevant information and convey each stage of the risk management process, ensuring that all parties involved can fulfill their responsibilities effectively. This process, which is integral to the entire risk management framework, is implemented through the development of communication channels with both internal and external stakeholders.

Taufik, Pradesa and Agustina (2019) explain the institutional theory in identifying risks in village government, five categories of risk impacts that have the possibility of appearing in village government can be identified, including:

1. Financial risk is any form of decision made by the village government related to financial aspects that have the potential to cause losses.

2. Strategic risk is a form of risk caused by the determination and implementation of policies or strategies, and improper decision-making from the village government. In addition, this risk can be caused by the village government not complying with or not implementing changes in laws and other applicable regulations.
3. The risk of fraud is a form of risk experienced by the village government due to the factor of deliberate fraud, and has great potential to cause losses, both material and non-material losses. The form of loss can be measured in terms of the financial value of non-material losses related to non-financial losses
4. Managerial risk is a risk faced by the village government due to the decline in the competitive advantage factor and performance produced by the village government.
Technical risk is a form of risk experienced by the village government if there are changes in the impact that may occur on the project, system, or all infrastructure in the village government when the implementation does not run as previously anticipated.

3. Research Methods

The method in this study uses quantitative descriptive analysis, which is to observe village financial management based on data from the Village Budget Realization Report for 4 years from 2019 to 2022. District government in North Sumatra. There are 4 Village Government Districts in North Sumatra Province, namely Langkat Regency, Deli Serdang Regency, Karo Regency and Serdang Bedagai Regency. Observing the Village Government in managing village finances, both village original income and village expenditure by managing risk management under the supervision of the internal control system.

4. Results And Discussion

Research Results

Village Financial Management that is not achieved because the village government cannot control the risks that occur. Risk management in village financial management is very important to be achieved in achieving strategies in village development. The following is the risk management process for village governments in Langkat, Deli Serdang, Karo and Serdang Bedagai Regencies to overcome the increase in original village income with the aim of 4 village governments living continuously experiencing dependence from the central, provincial and district governments. Before explaining the risk management process, the following is the development of village original income and village expenditure data used by village governments in Langkat, Deli Serdang, Karo and Serdang Bedagai Regencies.

Original village income is income obtained by the village from the results of village business such as the existence of village-owned business entities. This Village Business (BUMDES) is managed by the village government in accordance with the potential owned by the village government, along with the original village income data for Langkat, Deli Serdang, Karo and Serdang Bedagai Regencies.

Table 1. Village Original Income Data in Village Governments in Langkat, Deli Serdang, Karo and Serdang Bedagai Regencies

Village Govern- ment	Village Original Income			
	2019	2020	2021	2022
Langkat Regency	2.483.582.000	300.668.490	666.107.840	449.956.420
Kabupaten Karo	147.279.000	264.829.000	87.299.488	37.887.200
Kabupaten Deli Serdang	11.821.907.000	1.866.169.000	946.038.000	1.168.688.492
Serdang Bedagai Regency	530.415.000	986.107.000	562.293.248	979.623.692

Source : BPS, 2024

Table 1. shows that the development of the village's original income has experienced unstable fluctuations. This condition is due to the disaster faced globally, namely the Covid 19

outbreak, so the government issued a policy on limited out-of-home activities, making the interaction of village business transactions reduced and having an impact on the achievement of village original income. Then village spending is village financing issued by the village government to finance village operations for 1 period. Village expenditure issued by the village government for village development only operates in 2019. Meanwhile, 2020 led to Covid 19 disaster spending which experienced an increase in the realization of village spending. So that the original income of the village cannot cover village expenditure, an alternative method is always done by obtaining transfer income from the central, provincial and district governments. Transfer income consists of village funds, tax revenue sharing funds and regional levies, village fund allocation, provincial financial assistance, and district financial assistance. The following is the village expenditure table of the Village Government for Langkat, Deli Serdang, Karo and Serdang Bedagai Regencies:

Table 2. Village Expenditure Data in Village Governments in Langkat, Deli Serdang, Karo and Serdang Bedagai Regencies

Village Govern- ment	Village Shopping			
	2019	2020	2021	2022
Langkat Re- gency	326.334.316.000	390.703.115.000	344.722.649.647	347.020.399.028
Kabupaten Karo	273.707.625.000	290.378.034.000	280.535.929.879	257.443.918.682
Kabupaten Deli Serdang	497.428.599.000	502.982.035.000	560.032.112.000	530.914.444.648
Serdang	277.406.615.000	285.474.922.000	269.009.927.926	270.630.448.832
Bedagai Re- gency				

Source : BPS, 2024

The risk management process in village financial management in village governments in Langkat, Deli Serdang, Karo and Serdang Bedagai Regencies is

Contextualization

In determining the context of risk management in village financial management, the village apparatus is not able to manage village finances so that the village is still dependent on the central government because of the low original village income generated and village development is still not prosperous for the community.

Identify Risks

The problem of the village government in Langkat, Deli Serdang, Karo and Serdang Bedagai Regencies is that the management of village finances is not on target, making some villages still lagging behind in obtaining facilities, both advice and infrastructure. Mistakes in planning village government activities/programs can create high risks such as the village's original income obtained is unable to finance operational needs.

Risk Analysis

The risks faced by the Village Government for Langkat, Deli Serdang, Karo and Serdang Bedagai Regencies are financial risks, strategic risks, fraud risks, managerial risks and technical risks. The financial risk to the village government is the low income from the village results obtained by the village government in 4 districts which has the potential for the village government to depend on obtaining financial assistance from the central government, provinces and districts. The strategic risk to the village government is that the use of village funds is not on target in financing village expenditures. Where village spending is only used for spending and not spending in creating new investments. The risk of fraud in the village government occurs in reporting the use of the budget that is not in accordance with government regulations so that the use of the budget does not lead to the development of the village as a whole. The managerial risk faced by the village government

is the weak regulation regarding the use of village funds that are not accountable and transparent. And the technical risk in the village government is the inappropriate and equitable use of village funds, causing there are still villages that are lagging behind in development such as lights that have not entered the village, roads that have not been paved, there are no ditches and village security and others.

Risk Evaluation

Village governments in Langkat, Deli Serdang, Karo and Serdang Bedagai districts must always evaluate village financial management 3 times for 1 year. Evaluation of the causes of why the village government is still low in obtaining original village income, even though the village has strategic potential but human resources are not able to manage it well. So that the use of village funds spent is not absorbed in improving village development. The need for revisions to the planning program for the use of village funds, then the implementation of planning for the use of village funds must be realized so that in administration and reporting it is very important to be used as the responsibility of the village head in carrying out the use of village funds. The importance of regulatory changes in village financial management in accordance with technological changes and the development of community needs.

Risk Handling

Risk management in village financial management can be done by containing risks and reducing risks. In containing risks, the village government must increase village businesses by providing guidance to village businesses by providing training, financial assistance and support from village government regulations to improve village businesses. The village government's planning in increasing the village's original income can be achieved through increasing village businesses. Improving the economy of the village community will help the village in prospering the community and make the village independent and not dependent on the central, provincial and district governments. Then to reduce the risk here, the village government must reduce village expenditure that does not lead to an increase in village development by financing village development towards stimulating an increase in the original income of the village in the sense of the word village government reducing non-essential costs (avoiding waste of useless village spending) and making savings in spending costs.

There are 5 village expenditures, namely the first expenditure on the implementation of the village government, related to the operational costs of village office needs such as ATK, Head Salaries and village apparatus. Second, expenditure on the implementation of village development such as village lighting (lights), paving roads, making ditches in village hamlets so that they do not experience flooding, and providing medical centers. These three community development expenditures include socializing the community about health, drug use avoidance, religious counseling and activities related to social community. Fourth, community empowerment spending includes increasing community skills such as training in making products that can be sold and marketed so as to improve the community's economy. And fifth, Disaster or Unexpected Expenditure is expenditure used to overcome disasters faced by village communities such as floods, earthquakes, fires and disease outbreaks.

Monitoring and Review

The village government requires monitoring or oversight in managing village finances through mechanisms such as the government's internal control system. Supervision of village financial management helps prevent and mitigate risks or failures in planning, implementation, administration, reporting, and accountability in the utilization of village resources. Reviews conducted by the Village Head and village officials aim to ensure procedural, policy, and systemic compliance in managing village finances, thereby preventing corruption in the use of village funds. This supervision and review activity needs to be carried out in 1 year for 3 times with the aim of creating good governance village government, namely good village government governance by applying value for money measurements, which are economical, effective and efficient.

Communication and Consulting

Communication and consultation are very necessary in the risk management process, because it is necessary to hold meetings or discussions, both internal parties are village heads and village

officials and external parties are community leaders, the central government, provinces and districts, BPKP, stakeholders or village-owned enterprises regarding non-achievements in village financial management. Inputs or suggestions obtained from the evaluation of the results of the village financial accountability report carried out by the village head are very important in order to become a discourse of improvement in the planning and reporting of the next village financial management so that village development is achieved in the welfare of the community.

Discussion

Risk management is very important in the success of village financial management so that problems can be overcome before they experience failures in using village funds and the community does not become victims of village government policies. Asbeni and Sunardi (2018) explained that the quality of products produced by the village government is development in the field of infrastructure, because the slow budget that enters the treasury cannot be conditioned by the village apparatus, but the implementation of activities is a good benchmark or the success of the products made. So that village officials must evaluate activities that are not optimal and risk management in the village government prioritizes social aspects because the culture of the community in the village leads that if the work is not done properly, it will violate the applicable provisions such as the social sanctions obtained. The same thing happened in the village government in Langkat, Deli Serdang, Karo and Serdang Bedagai districts. The community will not trust the village apparatus again and feel disappointed with the work system they carry out in the use of village funds. The importance of understanding village officials in optimal village financial management so that mistakes do not occur that are detrimental to the village government and the community.

Regulation is a guideline in the success of village financial management, both maintaining the quality of planning, implementation, and supervision of village financial management, in line with the results of research by Asbeni and Sunardi (2018). Good regulations will realize economical, efficient and effective village financial management. Then Taufik, Pradesa and Agustina (2019) explained that the main focus in risk management in village government is on financial management because this risk is the lowest value likely to occur in financial risk and managerial risk. I disagree with Taufik and his friends, because the village governments in Langkat, Deli Serdang, Karo and Serdang Bedagai Regencies, financial risk is very important because mistakes in the use of village funds will result in fatality in village development so that village programs or activities are delayed then managerial risks are the key in the course of village financial management.

Consistent with the findings of Muslih (2020), the application of risk management in village financial management can enhance the overall performance of financial governance at the village level. Village fund managers should implement a formally integrated risk management system and consider the "three lines of defense" model, in which risk owners, risk managers, and internal auditors operate independently. Furthermore, village fund organizations should appoint a Chief Risk Officer (CRO). These considerations underscore the necessity of implementing risk management in village fund administration as effectively and optimally as possible. Then Maulana (2023) in preventing the risk of fraud or corruption in the use of village funds in accordance with Permendagri No.20 of 2018 concerning village financial management, the village government must publish information on the Village APB through a large billboard installed in front of the village office has been implemented. But the reality is that there are still many village governments committing fraud in use and villages, so it is necessary for the central government to make a firmer policy regarding the risk of fraud that will harm the people and state of Indonesia due to the lack of transparency and accountability in village financial management. The central government needs to monitor and review the activities carried out by the village government with the aim of avoiding failures in village financial management and the creation of good government governance.

Conclusions And Suggestions

Risk management is the key to success in managing village finances so as to make good government governance, transparency and accountability. The implementation of risk management with 7 stages needs to be carried out optimally so that the use of village funds can run according to the plan and accurately. Risks that are important to pay attention to are financial risks and managerial risks because these two risks are very fatal if mismanaged. The need for central, provincial and district government support regarding changes in village financial management policies in order to obtain quality planning, implementation and supervision in the use of village funds. The village

government needs to save village expenditure so that the allocated expenditure can stimulate the increase in the village's original income.

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