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THREE LINES OF DEFENSE: A FORM OF REINFORCEMENT OF VILLAGE OWNED ENTERPRISE

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ABSTRACT

This study aims to explore the controls implemented in Village Owned Enterprises (BUMDes) financial management from the perspective of the three lines of defense at BUMDes "KITA" Wologai Tengah Village, Ende, East Nusa Tenggara. This study uses a qualitative descriptive method with sample collection techniques using primary data through FGDs and in-depth interviews with BUMDes management and village government, as well as secondary data through supporting documents. The research data obtained is processed by coding the results of the data collection stages, reduction, verification, and formulation of answers to research problems. The result shows that Three Lines of Defense model adopted by BUMDes "KITA" has not provide an optimal result in every line. This is because of this BUMDes is still new which has been running about three years so they are still focusing on the how to develop the BUMDes. So, they have not considered business continuity too much through risk mapping and control in financial management. This research has implications for the need for further consideration in using the concept of the three lines of defense for BUMDes, in addition to the need for the role of the central government in optimizing risk management to mitigation of fraud.

KEYWORDS : Financial Management; Three Lines Of Defense; Village Owned Enterprises.

ABSTRAK

Penelitian ini bertujuan untuk mengeksplorasi pengendalian yang diterapkan dalam pengelolaan

keuangan Badan Usaha Milik Desa (BUMDes) dari perspektif tiga garda pertahanan di BUMDes “KITA” Desa Wologai Tengah, Ende, Nusa Tenggara Timur. Penelitian ini menggunakan metode deskriptif kualitatif dengan teknik pengumpulan sampel menggunakan data primer melalui FGD dan wawancara mendalam kepada pengurus BUMDes maupun pemerintah desa, serta data sekunder melalui dokumen pendukung pengelolaan keuangan. Data penelitian yang diperoleh diolah dengan membuat koding dari hasil tahapan pengumpulan data, dilakukan reduksi, verifikasi, serta perumusan jawaban atas persoalan penelitian. Hasil penelitian menunjukkan bahwa model Tiga Gardas Pertahanan yang digunakan di dalam melihat pengelolaan keuangan BUMDes “KITA” belum memberikan hasil yang optimal di setiap lini. Hal tersebut dikarenakan BUMDes ini baru dibentuk dan beroperasi selama tiga tahun, sehingga masih fokus pada pengembangan unit usaha di dalamnya, sehingga belum terlalu mempertimbangkan kelangsungan usaha melalui pemetaan dan pengendalian atas risiko dalam pengelolaan keuangan. Penelitian ini membawa implikasi perlunya pertimbangan lebih lanjut di dalam penggunaan konsep tiga garda pertahanan bagi kelembagaan BUMDes, di samping juga perlu adanya peran pemerintah pusat di dalam mengoptimalkan pengelolaan risiko sebagai upaya pertahanan dari kecurangan.

KATA KUNCI : Badan Usaha Milik Desa; Pengelolaan Keuangan; Tiga Gardas Pertahanan.

INTRODUCTION

A village is one of the pillars supporting the economy. The disbursement of funds continues to be carried out by the central government as an effort to develop the village economy. In 2022, the disbursement of village funds is expected to reach IDR 68 trillion ([Bernard, 2022](#)). One of the goals is to increase the village and community income through Village-Owned Enterprises (BUMDes) ([KPPN BKT, 2021](#)). The BUMDes is philosophically interpreted as a pillar that has the ultimate goal of national welfare as it is a business formed and established on the basis of a shared commitment among grassroots communities – namely village communities – to work together, and build the strength of the community’s economy in order to realize the welfare and prosperity of rural communities ([Kemendes PDTT, 2015](#)). This is supported by a statement from the Minister of Village, Development of Disadvantaged Regions and Transmigration which describes the two main objectives of the existence of BUMDes at this time, namely increasing the Village Original Income (*Pendapatan Asli Desa* (PADesa)) and encouraging the dynamics of the community’s economy for the welfare of rural communities which is also regulated by the government in [Undang-Undang Republik Indonesia Nomor 6 Tahun 2014 Tentang](#)

[Desa \(2014\)](#) and also its status to become a legal entity through Undang-Undang Republik Indonesia No 11 Tahun 2020 Tentang Cipta Kerja (2020) (Kemendes PDTT, 2021).



Figure 1. Cummulative Number of BUMDes until 2020

Source: kemendes.go.id (2020)

The significant development of BUMDes in Indonesia is also shown through the data provided by the Ministry of Villages, Development of Disadvantaged Regions and Transmigration (*Kemendesa PDTT*), showing that in 2020, the cumulative number of BUMDes in Indonesia is 51,134 (Figure 1). In addition, Figure 1 also shows that in the period of 2015-2020, the village funds allocated as BUMDes capital reached IDR 4.2 trillion. Meanwhile, the contribution of PADesa sourced from BUMDes during that period reached IDR 1.1 trillion. Quantitatively, the number of BUMDes is also assessed through policies developed by the Indonesian government, then through the Regulation of the Minister of Kemendesa PDTT Number 3/2021, the Kemendesa PDTT will always serve registrations for BUMDes to become legal entities and until early 2022, there are 2,628 BUMDes and 40 Joint BUMDes (*BUMDes Bersama*) that have obtained a legal entity number ([Herman, 2022](#)). Furthermore, the Kemendes PDTT also projects that by 2028, all villages in Indonesia will have a total of 74,968 BUMDes ([Puspita, 2022](#)).

In 2022, the policy on the use of village funds is focused on two things: 40% of them are for anything related to *Program Bantuan Langsung Tunai* (BLT) for the village communities affected by the Covid-19 pandemic; and 60% of them are for village community empowerment programs – whereas 8% is used to support the Covid-19 handling activities handling, such as the acceleration and dissemination of vaccinations; 20% for food and animal security; and 32% for priority programs as a result of deliberations ([Hayati, 2021](#)). The BUMDes capital can also be one of the components that can be funded by the village funds related to the acceleration of economic recovery according to the authority of the community, one of which is through prioritizing the results of village meetings if BUMDes is considered helpful in making the village economic conditions and PADesa to have the potential to continue to be developed. The use of village funds as BUMDes capital can be accommodated by ensuring that its management is carried out in an accountable and transparent manner, and no legal cases involving the village stakeholders due to weak supervision which in this case are also carried out by the Village Head ([Kharisma, 2021](#)).

As explained earlier, the village government has the responsibility for managing the village funds administratively so that there is no element of abuse of authority ([Suhendar et al.,](#)

[2022](#)), including monitoring the use of village funds as BUMDes capital. In this case, BUMDes have very noble aspirations for improving the Indonesian economy, so that the management of funds in BUMDes should also prioritize the principles of BUMDes financial management which refers to the village financial management. In fact, it was found that there were many cases of misuse of village funds involving the village officials. According to ICW 2022, cases of corruption in the village funds continue to increase. In 2021, cases of corruption in the village funds reached IDR 233.3 billion, while in the previous year, it reached IDR 50.1 billion. The increase in corruption cases in one year reached more than 400% ([Rany, 2022](#)). Cases of fraud also occurred in the financial management of BUMDes which involved the village government officials. BUMDes should be a pillar of increasing the village income, but in reality, it is widely misused for personal interests.

There have been many corruption cases involving the village officials. For example, a corruption case in BUMDes Jaya Makmur Gabuswetan, Indramayu involved a former village head and BUMDes chairman which resulted in a state loss of IDR 276 million ([Rahman, 2022](#)). One corruption case also occurred in Bandung Marga village which involved the village head by making a fictitious BUMDes under the name BUMDes Bintang Bermani which resulted in a state loss of IDR 119.9 million ([Muhamad, 2021](#)). In addition to the village officials, many BUMDes corruption cases also involved the management of BUMDes itself, such as a case in BUMDes of Kerta Buana village, Karangasem which was conducted by the management for personal interests, resulting in a state loss of IDR 800 million ([Juniasa, 2022](#)). A similar case also occurred in BUMDes Lentong Village, Kota Baru whereas there were fictitious transactions conducted by the former chairman of the BUMDes, causing a state loss of IDR 332 million ([Asmunda, 2021](#)).

The number of fraud cases occurred shows that the goals and positive values of the establishment of BUMDes have not been fully understood by the managers, including the village officials. The managers are more concerned with their personal interests than improving the economy of rural communities in general. In addition, the personal interests leading to fraud cases can also occur due to weaknesses in the control applied within the BUMDes. If the implemented controls are optimal, the risks of problems – especially those related to fraud – can be mitigated. In accordance with the existing literature, an internal control is highly required to mitigate the frauds in the organization's financial management. The application of internal control in the operations of an organization is able to minimize fraudulent actions that can harm the organization itself ([Fadila, 2019](#)).

Many previous studies have explored the elements of control in BUMDes, including [Primanandi et al. \(2022\)](#) who examined BUMDes Karya Sejati and showed that the elements in operational control and management of BUMDes include the control environment, risk assessment, control activities, information and communication, as well as supervision so as to prevent the occurrence of risks. In addition, the BUMDes internal control can be realized by dividing the tasks and authorities in the BUMDes management, authorization, and periodic monitoring and evaluation so as to maintain and increase the BUMDes assets ([Achmad et al., 2022](#)). [Puspitasari \(2021\)](#) stated that the separation of duties and recording activities as well as transaction evidence is a factor that can minimize the occurrence of fraud in the BUMDes management. Besides, studies by [Sari et al. \(2019\)](#) and [Febriani & Suryandari \(2019\)](#) revealed that the internal control has a significant influence on the potential for fraud, and a good control will minimize the potential for fraud against the village funds. They further added that the fraud can be minimized

through the development of a good control structure, strict employee selection, improved internal audit and transparency in policy making. In contrast, [Adhivinna & Agustin \(2021\)](#) and [Safitri et al. \(2022\)](#) showed that the internal control has no influence on the potential for fraud and villages.

This study aims to explore the controls applied in the financial management of BUMDes from the perspective of the three lines of defense in BUMDes “KITA” in Wologai Tengah village. The novelty of this research uses the concept of three lines of defense developed by The Institute of Internal Auditors ([The Institute of Internal Auditors, 2013](#)) which consist of management control and internal control, then looks at its implementation in BUMDes. BUMDes “KITA” was chosen as the research object as it was first established at the time of Covid-19 pandemic and was able to last for 3 years. It is even expanding its business unit to boost the pace of the village economy.

This research is expected to be able to provide benefits for BUMDes, government, and academics. The results of this study are expected to be an evaluation for BUMDes “KITA” in Wologai Tengah village regarding the importance of implementing the three lines of defense in BUMDes to realize the control so as to minimize the occurrence of fraud. Further, the results of this study are expected to be an input for the local government to seek supervisions as a form of control and as a basis for reference in formulating policies in an effort to develop and improve the operational sustainability of BUMDes. Finally, this research is expected to be useful as literature material for academics on a study of the three lines of defense of financial management in BUMDes.

The stakeholder theory explains a concept that in organizations, it is necessary to form a good relationship with stakeholders who have an influence in the decision making process ([Freeman, 1984](#)). Although this theory is usually focused on private sector organizations, it is possible to be applied to non-profit organizations ([Hickman & Akdere, 2017](#)). One form of non-profit organization that adopts this theory is the public sector, specifically BUMDes – one form of institutional in the village. In its operational organization, BUMDes needs to consider the needs and harmonization of relations between the stakeholders. As for this study, the stakeholders are BUMDes, the village government, community members and also parties outside the village such as related agencies, namely the Village Community Empowerment Office and the Tourism Office. A good relationship between the stakeholders needs to be maintained in an effort to meet the needs between them. The needs of stakeholders will be met by the existence of BUMDes financial management that meet the principles of a good financial management. One indicator that can be used as a reference that the funds are managed well is when it is able to mitigate the risks of fraud by optimizing the application of control.

Fraud is defined as an act of abusing a person's position to take organizational resources or assets for personal interests and gains ([ACFE, 2018](#)). The development of the framework for motives for committing fraud continues to develop. At first, [Cressey \(1953\)](#) using the fraud triangle framework conveyed that a person will have a motive to commit fraud because of (1) pressure – both a pressure that is influenced by external parties and a pressure that arises from internal impulses; (2) opportunity – someone who has the opportunity tends to have the potential to commit fraud, especially when the organization's internal control is still minimal; (3) rationalization – when someone commits fraud, they tend to rationalize and consider the fraud to be a natural thing and also done by other parties. Next, [Wolfe & Hermanson \(2004\)](#) added that there is a capability in the motive to commit fraud within the diamond fraud framework. The next development comes from

the thoughts of [Howart \(2010\)](#) through the fraud pentagon framework which adds a competency component related to one's academic capacity, as well as adding an arrogance component which explains that arrogance is also able to encourage someone to commit fraud. Based on its types, fraud is divided into three types, namely asset abuse, corruption and financial reporting fraud ([ACFE, 2018](#)).

In the concept of three lines of defense, the organization's operational processes will generally be the responsibility of the three lines. [Utami \(2018\)](#) revealed that the first line has the responsibility to manage risks and assess the implementation of internal control within the organization which can be realized through an authorization and an optimal supervisory role. Next, the second line has the responsibility to manage organizational risks and ensure that the role of the first line is carried out in accordance with its main function ([Utami, 2018](#)). Finally, the third line will involve the role of internal auditors as independent parties in providing guarantees for the achievement of the objectives of the governance, risk management processes, and the implementation of internal controls in the organization. The concept of three lines of defense can also be implemented in the governmental sector ([Asad et al., 2019](#)). In the governmental sector, the first and second line will be run by work units from each regional apparatus, while the third line will involve the *Aparat Pengawas Intern Pemerintah* (APIP) ([BPKP, 2018](#)).

The BUMDEs financial management refers to the village financial management. This is due to the absence of standard rules providing specific guidelines regarding the financial management of BUMDEs, including the principles in managing the BUMDEs finance ([Syam et al., 2020](#)). The village financial management in accordance with [Peraturan Menteri Dalam Negeri Nomor 20 Tahun 2018 Tentang Pengelolaan Keuangan Desa \(2018\)](#) is done following five stages, including planning, implementation, administration, reporting and accountability. In the first stage, the planning begins with compiling a mapping of revenues and expenditures according to the funds they have ([Hasniati, 2016](#)). When this first stage is implemented in BUMDEs, the planning will be discussed together through village meetings attended by the stakeholders. Next, in the second stage, the budget that has been prepared in the previous stage will be implemented and based on the realization of incoming and outgoing funds, the recording will continue to be updated in the administration stage ([Menteri Dalam Negeri Republik Indonesia, 2018](#)). Furthermore, the last two stages will be connected to each other. The recording results from the administrative stage will produce output in the form of financial information which is then compiled into an accountability report, and submitted to the stakeholders ([Menteri Dalam Negeri Republik Indonesia, 2018](#)).



Figure 2. BUMDEs Financial Management

Source: Peraturan Menteri Dalam Negeri Nomor 20 Tahun 2018 Tentang Pengelolaan Keuangan Desa (2018)

METHODS

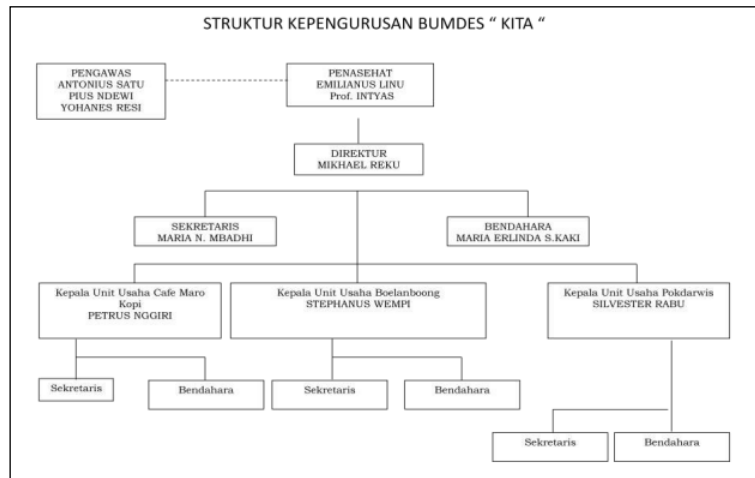
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This study was done in a descriptive-qualitative manner, aiming to explore the control applied in the financial management of BUMDes through the perspective of three lines of defense in BUMDes “KITA” located in Wologai Tengah village, Detusoko district, Ende regency. The primary data was collected through focus group discussion (FGD), and interviews with several respondents. Meanwhile, the secondary data was obtained from supporting documents, such as financial transactions, financial records of each business unit, minutes of coordination meetings with BUMDes, as well as the minutes of *Musrenbangdes* activities. The FGD was attended by relevant parties, namely the Head of the Cooperatives and Small and Medium Enterprises Service, representatives of the staff of the Village Community Empowerment Service, the Village Head, the Village Secretary, BUMDes managers including the coordinator for each business unit, cooperative management, the Head of *Badan Permusyawaratan Desa* (BPD), chairman of *pokdarwis*, and representatives from several other community members. Meanwhile, the interviews were also conducted separately for the community members who knew the information related to BUMDes.

The research phase began with conducting FGDs and in-depth interviews with each informant. Information gathering is based on the indicators of the three lines of defense. In the first line, ensure that there is a conducive control environment, implement risk management policies and consciously consider risk factors in decisions and actions taken and demonstrate effective and transparent internal controls. On the second line, the defense indicators are seen from the responsibility for developing and monitoring the implementation of the company's risk management as a whole, the existence of supervision over the implementation of organizational functions within the corridor of risk management policies and the establishment of standard operational procedures established by the organization. The third line of defense indicator is seen whether the internal auditors review and evaluate the design and implementation of risk management as a whole and ensure that the first and second defenses run as expected.

The next research stage was to map data from interviews and FGD activities by giving a specific code related to the answers of the informants and then eliminating data that was not relevant to the research problem. Then, the data was triangulated by comparing the answers from each respondent in relation to the research problems discussed. The triangulation was carried out to examine the data validity obtained through the consistency of the answers to the questions given, including comparing the respondent's answers to the same question items. This triangulation was also carried out by comparing the results of FGDs and interviews as well as with the secondary data consisting of supporting documents. Besides, the triangulation was also a process to confirm and examine the congruence between these data sources. The next stage was to display the data showing the results of the triangulation and elimination process, which was then presented in a descriptive narrative. In the final stage, conclusions were made to answer all research questions, namely describing and exploring the three lines of defense implemented in the village institutions, in this case BUMDes.

RESULTS AND DISCUSSION



Source: secondary data

Figure 3. The organizational structure of BUMDes "KITA"

Overview of Research Object

BUMDes "KITA" was a business entity owned by Wologai Tengah village, Detusoko district, Ende regency, East Nusa Tenggara province, established in 2020 and had been operating for approximately 3 years. This BUMDes had three business units, namely Boelanbong Camping Ground, Customary Village Tourism of Wologai Tengah, and "Maro Kopi" Coffee Sales. This BUMDes was classified as an institution in the village that was brave enough to take risks because it was established during the Covid 19 pandemic conditions. However, it had proven to be able to survive until its third year where the current conditions had started to experience an increase in income, especially from foreign tourists who had started come to visit to experience the atmosphere of natural tourism in Kelimutu National Park. Usually at the same time, they would be suggested to visit the surrounding villages, one of which is Customary Village Tourism of Wologai Tengah.

BUMDes "KITA" was currently managed by several community members elected as administrators, consisting of the Chair, Secretary, Treasurer, and the Coordinator of their respective business units. The organizational structure can be seen in Figure 3. Each management had their respective duties and responsibilities, especially in developing the BUMDes business unit which had showed an increase in income which was also received by BUMDes "KITA" in the last three years.

The Three Lines of Defense in Efforts to Mitigate The Risks of Fraud in BUMDes Financial Management

The BUMDes financial management applied in BUMDes "KITA" in Wologai Tengah, Ende regency, East Nusa Tenggara province could not be separated from the risks that led to frauds, causing the main objectives of improving the village economy and the community welfare to be not achieved. The risk of fraud could not be automatically eliminated from the stages of BUMDes financial management. Therefore, the most possible thing to be done by stakeholders in the village was to optimize the internal control. The risk of fraud that might occur in the BUMDes financial management stage included the misuse of assets caused by the needs of each business unit that had the need to be immediately developed. At the end, they thought they had the need to propose for a maximum budget, without considering the urgency of their needs. In its implementation,

the funds were failed to be disbursed due to the limitations of existing human resources related to the development that would be carried out.

Some of BUMDes sources of capital came from the percentage of village funds managed by the village government, as well as assistance from the district government and/or provincial government. If the funds were then used for personal gains, the next possible fraud risk was a corruption. The fraud in the form of corruption had often occurred in various BUMDes and had the potential to also occur in the BUMDes “KITA” in Wologai Tengah. Therefore, it was crucial to optimize the internal control – which was the responsibility of all stakeholders. This was in accordance with a statement made by Mosalaki (customary leader) in Wologai Tengah village:

“So far, our elders have given their permission for us to run this BUMDes, we need to be responsible, do not use the money for our personal insterests. All parties must be responsible, not only the Village Head, neither the mosalaki nor the administrator of BUMDes.”

(Sejaub ini para leluhur sudah beri izin kita buat BUMDes ini, harus kita jaga baik-baik, janganlah pakai uang itu buat beli ini itu bikin kaya diri sendiri. Semua harus ikut tanggung jawab, tidak hanya bapak desa (kepala desa), tidak hanya mosalaki, tidak hanya pengurus BUMDes...)

This statement is in line with what was conveyed by the Head of Wologai Tengah Village:

“BUMDes has its name KITA (US) which means ours, it belongs to us. We are the one who create, manage, and enjoy our work result. Do not take advantage from it for our personal interests. It is our responsibility, do not mess around with it.”

(BUMDes ini sekali lagi punya nama KITA yang berarti milik kita bersama, kita buat, kita kelola, kita nikmati hasilnya sama-sama. Jangan dibuat seenaknya sendiri beli ini itu cuma untuk kepentingan pribadi berkedok BUMDes... Tanggung jawab kita ini, jangan main-main...)

The three lines of defense were such a form of implementation of internal and risk controls, aiming to mitigate the occurrence of fraud risks in the management of an organization, including BUMDes. The first line was the deepest and closest defense to the BUMDes core involving the managers. In this first line of defense, it was necessary to measure an effective internal control through the role of BUMDes managers in implementing the risk management that had been determined during the implementation of the duties and responsibilities of BUMDes financial management. Furthermore, it was necessary to carry out a periodic monitoring and transparency of the measurement of internal control applied in the financial management of BUMDes. One of the important parts in implementing an effective control was through the division of tasks and authorization functions within the organization. Thus, it was found that BUMDes “KITA” had implemented a division of tasks shown through its organizational structure with clear main tasks and functions for each section. This was in accordance with what the Head of BUMDes “KITA” stated as follows:

“Speaking of job distribution, at the beginning we only had a structure of organization. Then we realized that we needed more personnels to make sure that everyone does what supposed to be done, no overlapping”

(Bicara masalah pembagian tugas, di awal memang hanya sebatas ada struktur organisasi. Namun berikutnya kita ini sadar bahwa jelas kita butuh lebih banyak orang untuk menjaga benar semua menjalankan sesuai masing-masing yang sudah ditugaskan, jangan sampai tumpang tindih)

This was supported by a statement from the Coordinator of the Customary Village Business Unit as follows:

“I realize that each unit has their own responsibility. We will then escalate the process to the Head for the authorization and to decide how much money will be disbursed. The point is we try to avoid the overlapping, Mam.”

(Iya betul, saya juga merasa perlu bahwa tiap unit usaha punya tanggung jawab masing-masing, nantinya jika butuh pengesahan dan pengeluaran uang baru kami ajukan ke ketua untuk diputuskan akan diberikan berapa untuk pengembangan. Intinya jangan tumpang tindih begitu, Ibu...)

The organizational structure and separation of functions had been carried out in BUMDes “KITA”. However, each member of the BUMDes management who acted as the manager had not fully mapped the risks in detail in relation to each stage of BUMDes financial management. The controls set were still general in nature, so that the management of risks in its operational activities related to the financial matters had not been widely carried out, especially by the BUMDes managers. This condition was confirmed by the Head of BUMDes:

“Our focus is on how we develop this BUMDes to be like other BUMDes which we hope it can increase the local revenue. No financial issues to be concerned so far, because like it was said before, this belongs to us, must be protected by all parties.”

(Disini kami baru berpikir bahwa yang penting adalah bagaimana mengembangkan BUMDes ini menjadi seperti BUMDes lainnya yang bisa meningkatkan pendapatan asli daerah. Risiko yang menyangkut masalah keuangan sejauh ini belum ada yang harus diwaspadai, karena kembali lagi semua milik kita bersama, harus dijaga bersama...)

A similar statement was also conveyed by the Head of Wologai Tengah Village:

“Like what we have discussed before that there must be a risk of money stealing. They must know if that happens, they steal money from their own brothers and sisters. Just remember that.”

(Seperti yang Ibu bicarakan tadi, ada risiko pencurian uang, ya itu pasti ada, tapi kembali lagi mereka harus ingat bahwa kalau sampai itu terjadi, mereka itu sedang makan uang saudaranya sendiri. Itu saja yang harus mereka ingat...)

This was supported by *Mosalaki* who stated that:

“This village also belongs to our ancestors. If a fraud happens, the fault is on many people, our ancestors will be angry.”

(Kampung ini juga milik leluhur yang harus kita ingat, kalau sampai ada yang curang, kesalahannya pada banyak orang, leluhur kita akan marah lihat yang seperti itu..)

Further, the defense in the second line was a function or organizational unit that helped building and monitoring the control of defense in the first line. While not entirely independent, these functions ensured that the first-line defenses were adequately designed, implemented and operated. The second line of defense was dominated by the development of rules and Standard Operating Procedures (SOP) used as a form of control in ensuring that the risk management was carried out in a concrete manner. Next, it was also necessary to carry out a supervision regarding the implementation of rules and compliance with the SOPs that had been made and implemented, including the financial management of BUMDes. Several rules and SOPs that had been made regarding the financial management of BUMDes had not been written, but were verbally delivered by the BUMDes

management to the community members, village governments, and the BPD. For example, the BUMDes management discussed the responsibility for receiving money and consolidated reports from each business unit to be turned into a comprehensive BUMDes financial report. This was supported by a statement from the treasurer of BUMDes “KITA”:

“We have the unwritten rules on budget submission, disbursement, and accountability which we always convey it to all BUMDes administrators and to the community.”

(Terkait bagaimana pengajuan anggaran, pencairan dan pertanggungjawaban pasti ada aturannya, namun memang belum kami buat secara tertulis, tapi sudah itu selalu disampaikan ya kepada pengurus BUMDes, ya ke masyarakat juga...)

This was also supported by a statement from the Head of BUMDes as follows:

“We also convey the rules in meetings, also in Musrenbangdes, on how to run this BUMDes, about the money, and the outcome.”

(Kita pasti sampaikan itu dalam rapat-rapat koordinasi di desa, juga saat Musrenbangdes disampaikan kepada semua yang hadir, bagaimana tentang BUMDes ini berjalan, bagaimana uangnya, bagaimana hasilnya)

So far, when there were problems, especially those related to the financial management of BUMDes, they were always discussed in regular meetings usually held by the village government. In addition, if the problems encountered were possible to be resolved in the BUMDes internal forum, then it did not need to be brought into the coordination meeting forum at the village level. This implied the existence of monitoring and reporting related to the risks in the financial management of BUMDes which could be identified from the problems faced. However, the results of the interview show that there were forms of problem solving efforts through the control owned by BUMDes and this was a lesson to maintain or even improve the existing control. This condition was supported by a statement by the Head of BUMDes as follows:

“Once again, there must be risks along the way when we run this BUMDes. So far, we work on the problems together, we (the BUMDes administrators) discuss the problems in person. When we feel stuck, we escalate the problems to the Head or Secretary of the Village.”

(Sekali lagi risiko pasti ada, bahkan masalah- masalah juga muncul seiring dengan jalannya BUMDes ini. Namun selama ini ya bisa saja kami selesaikan bersama, kadang kami (pengurus BUMDes) langsung bertemu untuk bahas masalah itu, atau jika kami merasa tidak bisa menyelesaikan kami panggil Bapak Desa atau Sekretaris Desa untuk buat rapat bersama...)

The statement from the Chairman of the BUMDes was strengthened by the treasurer of BUMDes as follows:

“At first, we could not figure out things like how much money should we spent, who would receive it, to whom we should report. We together need to sit down and talk about it to avoid different prices given to the tourists.”

(Dulu pernah ada kebingungan bagaimana uang-uang ini kemudian diterima siapa, berapa jumlahnya, ya waktu wisatawan masuk ke kampung adat, nanti apa buktinya, disetorkan kepada siapa, hal ini kan perlu dibahas bersama... Ini supaya jangan orang satu dan yang lain beri harga beda untuk wisatawan)

Finally, the last line was the third line of defense which focused on the supervisory function of the supervisor and for large-scale organizations. Usually, this third line involved

internal auditors responsible to the audit committee, commissioner, or supervisory board. The role of internal auditors was much more intense, because the internal auditors in a company were part of the company that were independent of other parts of the company. The function of the third line of defense was to ensure that the first and second line of defense worked optimally. The BUMDes as an institutional organization in the village should also have a section that supervised its overall performance, including the financial management. In this study, it was found that the supervisory function had been carried out ex-officio by the Head of Wologai Tengah Village. The supervisory function carried out by the Village Head was manifested in the coordination meetings held periodically to discuss the development of BUMDes, both in terms of business operations and financial management. This was stated by the Head of Wologai Tengah Village:

“The village administrators do the supervision by getting involved in the implementation of BUMDes. We discuss every matter in meetings...”

(Pihak desa melakukan pengawasan dengan terlibat dalam kegiatan BUMDes, misalnya jika ada kegiatan yang melibatkan penggunaan perkemahan, kami ikut kesana Ibu... Belum lagi kami usahakan apapun dibicarakan dalam forum pertemuan dimanapun bisa dilakukan...)

This was also confirmed by the Head of the Boelanbong Camping Ground Business Unit as follows:

“Our Village Head usually comes to the event in Boelanbong, to observe and make sure everything is ok. Not only about the readiness of the event, but also the water supply, how the money is spent. Everything should be balanced.”

(Iya selama ini kalau ada kegiatan di Boelanbong, Bapak Desa (Kepala Desa) pasti ikut meninjau tidak hanya kegiatannya, tetapi juga kesiapan alat, persediaan air, dan bagaimana dana diterima dengan jumlah peserta, harusnya seimbang...)

Based on the results of this study, the supervisory function had also been carried out directly with the people involved in BUMDes activities. It was not uncommon for several activities managed by the BUMDes business unit to involve most of the village community – such as in the provision of consumption by PKK women in Wologai Tengah village, meanwhile the *pokdarnis* management was also involved in maintaining the security in the environment around the campsite. Similarly, when foreign tourists came to enjoy the beauty of customary villages, they first watched dance performances involving local village arts groups. As for the financial management of BUMDes, the meetings were routinely held between the BUMDes management and the village government to discuss the operations and future development of BUMDes. Besides, usually in the *Musrenbangdes*, there was also a discussion agenda related to the BUMDes. In this session, the BUMDes management usually explained the progress of BUMDes, both regarding the activities that had been carried out by each business unit, as well as explaining the use of funds and income received, so that all community members participating in *Musrenbangdes* activities could also get the latest information while also being the supervisors of BUMDes operations which had begun to develop over the past three years.

BUMDes “KITA” in Wologai Tengah village, Ende regency, East Nusa Tenggara province was an institutional form in the village, aiming to improve the economy of rural communities by developing business units owned. As a business entity that had just been established and operated, there were many things that needed to be strengthened, including the issue of financial management. The number of cases of fraud that occurred in the financial management of BUMDes in Indonesia indicated that there were weaknesses in

the controls applied. The potential risks in the financial management were not anticipated properly through the existing controls, so that in the end, it led to corruption, asset abuse and fraud in the BUMDes financial reporting. Although there were many theories and concepts exploring the importance of control in the financial management activities, they were not enough to make the stakeholders felt the need to improve the existing controls, map out in more detail the risks that might occur, and anticipate if they actually occurred.

One form of control usually used as a reference for an implementation in large-scale companies was the three lines of defense model. For BUMDes, this model could still be adopted although it could not be fully identified in its operations, including in its functions and parts. The first line of defense in BUMDes “KITA” could be identified through the existence of a separation of duties and functions from each of its administrators ratified through a Decree. The BUMDes management was responsible for carrying out its activities and achieving the goals. In the implementation of BUMDes operational activities, there were risks threatening the BUMDes in achieving their objectives. These risks needed to be managed optimally by the BUMDes management. The first line of defense identified in BUMDes “KITA” was still relatively weak, considering that the risks had not been mapped according to its possibility of occurrence and the impacts when they actually occurred. The focus of BUMDes managers was more on the efforts to make BUMDes survive and develop in the future, without considering that there would definitely be risks that might occur and become obstacles in achieving the organizational goals. If there were problems in the financial management of BUMDes, they would only find a solution, but not look for preventive measures so that similar things would not happen again.

Further, the second line of defense focused on the existing functions in managing the BUMDes finance to run as they should through optimizing the compliance with rules and SOPs related to the BUMDes financial management. This line of defense also still had a weakness in the absence of a written SOP regarding the financial management of BUMDes. Currently, there was an information system supporting the entry of BUMDes that could accommodate the integration of the three existing business units. However, its implementation was still hampered due to the limitations of human resources capable of operating the information system. From the beginning, this information system was designed as a form of control in the financial management, including to mitigate the risks of fraud. Several things related to the BUMDes financial management guidelines had been given by the relevant agencies, namely the Village Community Empowerment Office through trainings. However, because they thought that they were still relatively new, and there was a confusion experienced by BUMDes administrators when faced with the entry application and financial recording mechanisms, therefore it was still being done manually. Although the rules and SOPs for the BUMDes financial management had been delivered and agreed upon with all stakeholders verbally, it was necessary to have a written SOP that was a common reference, understood by all stakeholders and had a strong legal force if it was ratified by the authorities.

The third line of defense usually shown through the role of internal audit was not the case in BUMDes. BUMDes “KITA” had a supervisory function carried out by the Head of Wologai Tengah Village. In many BUMDes activities, the Head of Wologai Tengah Village was involved to directly supervise in the field. Similarly, he also regularly received financial reports and reports on the BUMDes management activities. Further, the supervision was also carried out by the community members directly because they were also invited to the activities initiated in each business unit by the BUMDes management. Thus, the community members could also supervise the financial management activities and even the

operation of BUMDes activities if they wanted to. However, this results show that the third line of defense had not worked optimally as there was a lack of progress from the BUMDes Supervisory Board which should carry out an independent supervisory function and had no special interests in it. An external party, in this case the Community Empowerment Office of Ende Regency, was usually the one which regularly came to the village to see the BUMDes “Kita” development as well as the one to consult to if there were problems in the BUMDes management, including the financial management. However, in the coordination meetings between BUMDes and village officials or in *Musyawarah Perencanaan Pembangunan Desa (Musrenbangdes)*, the supervisory board is always involved to provide advice for the operational activities in BUMDes “KITA”.

As a newly established BUMDes, BUMDes “KITA” had not shown too many financial management problems. However, it did not mean that the risk identification and mapping based on their level was not carried out. Instead, when the risks could be identified and mapped from the start, the control could be done as soon as possible. Likewise, when using the three lines of defense usually implemented in large-scale companies, the functions of each line of defense were not yet visible, and even they all looked weak. This weakness was driven by many things, such as limited human resources in the village who still spent most of their time gardening and selling goods in the market rather than focusing on empowering BUMDes. This limitation of human resources who had not been technologically literate was also a factor resulting to a weak control in BUMDes. It was not enough to only be aware of having BUMDes as a common property, but it must be balanced with actions to manage it optimally, especially in its financial management by managing the risks and implementing control as much as possible.

This research also has results that are in line with findings from [Mabwe et al. \(2017\)](#) which states that there is a general lack of understanding of the three lines of defense in British financial institutions which causes duplication of roles in each line and high gaps for each scope. [Sihab & Diyanti \(2019\)](#) stated that in implementing the three lines of defense model, PT. Natural Gas still has problems in managing its risks in each line due to limited resources. The same results were shown by [Damayanti & Hapsari \(2022\)](#), namely that the three defense guards had not been optimally implemented in Tanjungsari Village due to weak supervision and the absence of an internal audit function. Furthermore, [Asad et al. \(2019\)](#) in their research proposed the existence of local government internal supervision with a three lines of defense approach to mitigate the risk of fraud in the process of procuring government goods and services. [Davies & Zhivitskaya \(2018\)](#) show that one of the efforts to strengthen an organization's governance mechanism is to recommend the "three lines of defense" model in relation to risk management and achievement of organizational goals. Likewise with the results of [Luburić \(2017\)](#) which seeks to strengthen the "three lines of defense" model in terms of managing operational risk more efficiently as a result of inadequate organizational operational systems, human resource factors, and the consequences of events that occur outside organization.

Furthermore, if it was associated with the stakeholder theory, the financial management of BUMDes should provide values to all stakeholder components, one of which was through optimizing the implementation of controls in all lines of defense. The three lines of defense model that had been adopted needed to be adapted to BUMDes as a public sector with a small operational scale in accommodating the achievement of goals of the BUMDes itself. Supports from the district and provincial governments should also be continuously improved to serve as a “reminder”, so that BUMDes could survive and maintain their

business continuity. It was necessary to consider the risks that might occur and implement strong controls to mitigate these risks.

CONCLUSION

Based on the results of this study, it can be concluded that the three lines of defense model adopted for BUMDes “KITA” had not provided optimal results in every line. This was due to BUMDes “KITA” which had only been running for about three years and its management was still focusing on the efforts to develop BUMDes, especially after the Covid-19 pandemic. Thus, they had not considered its business continuity too much through the risk mapping and control in its financial management. In addition, the limited human resources in the village, especially those who managed BUMDes, made the implementation of control in the three guards to be weak. Next, it required a hard work from all parties, both from the internal and external party of BUMDes, in efforts to manage the risks and implement the control and supervision in the financial management of BUMDes “KITA”.

The theoretical implications of this study is that the three lines of defense model commonly used by the large-scale companies cannot necessarily be implemented in small village institutions, such as BUMDes. Their risk management has not been systematically carried out, and it is still based on problems or cases that occur. There needs to be a more acceptable definition for institutions that have small-scale businesses and rural communities who may not have the knowledge as users of the three lines of defense model. Meanwhile, for the practical implications of this research, it is necessary to evaluate the village government in an effort to provide an understanding of the importance of risk management in BUMDes operations, especially in their financial activities. The evaluation also needs to be carried out for the district and provincial government through relevant agencies in providing trainings and assistance for BUMDes to be able to achieve their goals, namely to improve the community prosperity and the village economy.

There are several limitations in this study. First, the respondents’ limited knowledge on the risks experienced in the financial management of BUMDes “KITA”. In addition, the respondents had limited time to be interviewed, so that it was difficult to investigate each business unit. The FGD was carried out by inviting a joint meeting at the village office and discussing the BUMDes development problems. Thus, further researches are suggested to conduct in-depth interviews for each party appointed as the manager of the business unit. In addition, it is also necessary to compare with BUMDes which has been running for a longer period of time which have considered that there is an urgency in considering the continuity of business through the risk management and control implementation. Further researches are also suggested to adopt other models or concepts of internal control to be describe the conditions in the village better.

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