



# FRAUD PREVENTION BY INTEGRATING TRI HITA KARANA VALUE AS ORGANIZATIONAL CULTURE

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**Abstract** — Purpose – This study aims to integrate the value of Tri Hita Karana (THK) as an organizational culture in fraud prevention efforts. Design/methodology/approach– This study uses a qualitative approach with an ethnographic research design. Data collection was carried out through participatory observation, interviews, and analysis of artifacts. The interview was conducted at the Pecatu Traditional Village LPD as the LPD with the largest assets and profit contributors who were not involved in fraud.

Finding– The results of this study provide an illustration that in terms of religiosity based on the dimensions of Ozer et al. [1] namely behavior, effect, and affect, the LPD of the Pecatu Traditional Village has implemented the THK practice well. Based on the fraud prevention carried out by the Pecatu Traditional Village LPD, it has implemented fraud prevention based on the Thompson dimension [2] which is internalized with THK. Based on the diamond fraud theory, the Pecatu Traditional Village LPD implements prevention to mitigate the factors causing fraud which are internalized with THK. The results of this study are that there is an internalization of THK in LPDs that are not involved in fraud. This study also proves that the values in THK are in line with the values needed in fraud prevention efforts.

**Originality/value**– Research that examines the internalization of THK in fraud prevention efforts, especially in LPD, is still limited. On the other hand, LPDs, especially in Bali, have a very large role so that research in the context of fraud prevention efforts in LPDs is very necessary.

**Keywords**—Tri Hita Karana, Fraud Diamond Theory, Village Credit Institutions (LPD),

## I. INTRODUCTION

The Price Waterhouse Coopers survey of global economic crime and fraud stated that nearly half of global organizations have experienced fraud. Fraud is an act of violating legal norms and regulations to gain benefits for one party which can harm other parties. Fraud that occurs in business and non-business organizations has received a lot of attention because of the various material-economic losses caused [3]–[5]. The major financial accounting scandals that have ever occurred are the case of Enron, World Com, Global Crossing, Tyco, etc., which led to the erosion of investor confidence in financial markets [6], [7]. Therefore, there are many research which have been done to find ways to prevent fraud.

Factors causing fraud were revealed by [8], namely pressure, opportunity and rationalization, which became known as the fraud triangle. [9], [10]. Cressey [8] This has contributed to the discipline of criminology which then inspired other disciplines to use this concept, including the field of accounting [3]–[5], [11], [12]. Next research by [13] found the fourth factor that causes someone to commit fraud, namely the capability. Capability is the individual's ability to override internal control and control the situation to commit fraud due to a lack of conscience, where an individual feels entitled to receive resources that are not covered by the relevant organizational policies and procedures. [14]. Capabilities are internal factors in the form of abilities, such as skills, knowledge, and work experience (experience). These four factors are then integrated to become the fraud diamond [15]–[17].

Interesting results obtained from the study of Schuchter & Levi [5] which state that conscience is declared capable of inhibiting or triggering fraud. Conscience is stated to be very dependent on organizational culture, because organizational culture contains the values that are owned by members of the organization [18] so that it can serve as a conduit to prevent or facilitate fraud [19]. If the organizational culture supports a good conscience, then fraudulent actions can be well prevented, but if the organizational culture is weak, for example, every time there is an act of fraud by the company is allowed, then over time the conscience becomes silent and even disappears so that fraud becomes a common thing that can be done at any time [19], [20]. Therefore, an organizational culture that is honest, open and helps each other can prevent fraud [21], [22]. Anti-fraud strategies can be in the form of policies, procedures, techniques, structures and environments that are created to reduce pressure to commit fraud, minimize opportunities to commit fraud, reduce the ability to commit fraud and reduce the sense of rationalization in committing fraud. A well-designed organizational culture will be able to function as an anti-fraud strategy, although fraud cannot be completely eliminated, the signs and warnings shown can be managed by combining training and experience to detect and prevent fraud.

The Balinese Hindu community has a culture that has become a philosophy as well as a way of life in all aspects of life, namely Tri Hita Karana. The concept of Tri Hita Karana is basically a foundation that comes from the teachings of Hinduism but actually this concept is a universal concept that exists in the life of every religious community in the world. Terminologically, Tri Hita Karana comes from Sanskrit, namely: Tri means three, Hita means happy, Karana means cause, so Tri Hita Karana can be interpreted as "three causes of happiness". The concept of THK is a concept of harmonization of relationships that is always maintained by the Balinese Hindu community, including parahyangan (human relations with God), pawongan (human relations), and palemahan (human and environmental relations) which are sourced from the Bhagavad Gita. Therefore, the concept of Tri Hita Karana that developed in Bali is a cultural concept rooted in religious teachings.

Bali, which is synonymous with culture, has a financial institution that aims to preserve and strengthen traditional villages as a communal space for economic, cultural and religious life called the Village Credit Institution (LPD). LPD has an important role for a traditional village in supporting social, cultural, and economic life [23]. However, there were major fraud cases that occurred in several LPDs that tarnished the LPD's image, these cases include, among others, the Ungasan LPD fraud case committed by the former head of the LPD, caused a loss of Rp. 26.8 billion. Another fraud case occurred in LPD Sangeh, where based on the results of an internal audit of the Public Accounting Firm, the Sangeh LPD suffered a loss

of more than IDR 130 billion due to the actions of the former chairman of the Sangeh Traditional Village LPD who served for 31 years, from 1991 to 2020. Fraud cases also occurred in LPD Kapal which was carried out by the management of the LPD, this caused 15,000 customers to suffer losses of Rp. 15 billion due to cases of embezzlement of customer funds. LPD Sangsit also experienced a fraud case in the form of embezzlement of customer funds by three LPD managers with an estimated loss of 600 million. Fraud is vulnerable to every organization and is illegal and characterized by deception, concealment, or a breach of trust.

Regional Regulation No. 3 of 2017 Article 23 explains that 20% of the profit earned in the LPD is used for village development funds and 5% is used for social funds. Village development funds and social funds are used to realize activities that reflect the teachings of Tri Hita Karana. The teachings of Tri Hita Karana are contrary to acts of fraud, because this teaching aims to maintain harmonious relations in the life of the Hindu community in Bali, which consists of palemahan (harmonization between humans and the environment), pawongan (harmonization between humans and fellow humans), and Parahyangan (harmonization between humans and others) man with God. Internalization of THK that is carried out in the work environment will provide happiness and prosperity so that it is expected to prevent deviant actions such as fraud. Tri Hita Karana in this study is related to control belief, so that the culture and religious values of Tri Hita Karana are expected to have a positive impact on fraud prevention, because in Tri Hita Karana there are noble values that can be used as guidelines in living life, thus causing a person to avoid from negative actions.

Based on the cultural aspect, the ethnographic research design became the research design chosen in this study to provide an understanding of the internalization of THK in an effort to prevent fraud in LPD. This study has an urgency to provide an analysis from a cultural perspective because various cases of fraud that occur are very contrary to the teachings of Hinduism, one of which is the value of THK.

## II. LITERATURE REVIEW

### A. Religiosity

The concept of religiosity is used in this study to analyze how the value of Hinduism, especially THK, is carried out by the LPD and the LPD management based on the dimension of religiosity according to Ozer et al. [1] modified to suit Hindu religious values and relevant to this study. The religiosity dimension consists of the dimensions of feeling (affect), behavior (behavior), and effects (effect). Affect to analyze the importance of Hinduism and the value of THK in life. Behavior to analyze actions carried out in accordance with Hindu religious teachings, especially the value of

THK. Effect to analyze the impact of the practice of religious values, especially the value of THK.

*B. Fraud*

Fraud is a deliberate act with the intent to deceive and take advantage of another party. The theory used in this study is the fraud diamond proposed by Wolfe and Hermanson[13]. Fraud diamond is an extension of the Fraud Triangle theory by Cressey[8]. The elements of the fraud diamond are pressure, opportunity, rationalization, and capability. According to Thompson[2] There are several ways to prevent fraud, namely investigating prospective employees, suppressing fraud opportunities, creating a work environment that can detect dishonest acts, and punishment for any dishonest behavior in the workplace.

III. RESEARCH METHODOLOGY

This study uses an ethnographic research design to gain an understanding of the value of THK to prevent fraud in LPDs in Bali which is practiced in everyday life. Based on this opinion, this research was conducted to understand the viewpoints of the LPD management and the public regarding the internalization of the THK value in an effort to prevent fraud in the LPD. The data analysis technique used in this research is that developed by Creswell[24] which consists of six steps starting from processing and preparing data for analysis to preparing interpretations.

IV. DISCUSSION

*A. Religiosity*

THK is the view that to achieve the process towards

a prosperous life, efforts are needed to maintain harmony or harmony which consists of: 1) Parhyangan, namely harmony between humans and God Almighty, 2) Pawongan, namely harmony between humans and humans or each other,

Palemahan namely harmony between humans and the environment or nature. In this study, the concept of religiosity was used to analyze the value of Hinduism, especially the THK carried out by the LPD and the LPD management based on the dimension of religiosity according to Ozer et al.[1] modified to suit Hindu religious values and relevant to this study. The religiosity dimension consists of the dimensions of feeling (affect), behavior (behavior), and effects (effect). Based on the aspect of feeling (affect) to analyze the importance of religion, especially the value of THK, which is the basis of the program made by LPD. The head of the Pecatu LPD stated, "THK is a concept of balance in Hinduism, between the relationship between humans and God, the environment and fellow human beings that is inherent in the daily life of the LPD, so that Tri Hita Karana is a guideline, which is contained in the governor's regulation and is actually implemented in daily management "

This is also explained in the Bali Provincial Regulation No. 3 of 2017 concerning LPD explaining that the distribution of LPD net profits at the end of the accounting year is set (a) 60% capital reserves, (b) 20% village development funds, (c) 10 production services. %, (d) development, supervision and protection fund 5%, (e) social fund 5%. Based on the behavioral aspect (actions) to analyze the behavior carried out in accordance with the teachings of Hinduism, especially the value of THK in LPD are as follows:

<b>Parhyangan</b>	Dharma	LPD management believes in the concept of karmaphala which gives confidence to always do good in order to get good results. This is in accordance with the Dharma teachings about the concept of the truth of life
	Sradha	The LPD management believes in the concept of sradha (belief in Hinduism) and believes that God is always watching and seeing everything that His people do, this can be seen from the absence of CCTV in the LPD area but the employees continue to work honestly
	Bhakti	Delivering canang every day and doing piodalan
<b>Pawongan</b>	Ngayah	Employees are elected by the villagers and serve to advance the LPD
	Paras Paros Sagilik Saguluk Sarpa-Naya	Empathy by helping residents, such as sick people borrowing money, should not be complicated
	Satya	Honest employees in carrying out the work
<b>Palemahan</b>		Giving canang di natah (mother motherland) and donating funds tokelihan banjar (village head) which is used to preserve nature

The Effect aspect is to analyze the impact of practicing religious values, especially the THK value, which is to provide direction for all LPD employees to always maintain balance or harmonization, namely Parahyangan, Pawongan, and Palemahan. This was stated by the head of the LPD as follows. "This THK gives us direction to always maintain upward harmonization, to others and the environment." The LPD management also said the same thing

"Yes we have to balance everything, to God to humans and the environment"

#### a. *Thompson Dimensional Fraud Prevention*

Components declared by Thompson[2] in the prevention of fraud carried out by LPD Pecatu are as follows.

##### 1. *Investigation of Prospective Employees*

LPD employees were initially selected by the customary village residents. As stated by the head of the LPD below "LPD employees were chosen by the villagers because they were asked to serve by the community." Based on the perspective of THK, the service carried out by the LPD is included in ngayah (working sincerely) which is included in pawongan to advance the LPD. This was stated by the head of the LPD and one of the LPD employees. "serving as a form of ngayah to traditional villages for LPD so that they can develop and benefit the village".

##### 2. *Creating a Work Environment That Can Detect Dishonest Acts*

Detecting dishonest acts is carried out by LPD Pecatu by checking the money received from the collector with proof of cash entry and input results on the computer. Employees who serve at the LPD office are also checked by the LPD cashier by checking money received from the public with proof of transactions. This was conveyed by an LPD employee. "checked between the incoming transaction records with money and input in the computer application" The head of the LPD Pecatu stated:

"The Pecatu LPD has the work ethic that becomes an ethical guide in carrying out LPD operations, the work ethic of the Pecatu Traditional Village LPD is formulated simply into 3K, namely honesty, intelligence and sincerity.

The principle of honesty is a basic attitude in managing a traditional-based financial institution such as an LPD. Every management and employee is required to carry out their duties as straight as possible by adhering to the applicable rules relating to the management of the LPD.

##### 3. *Suppress fraud opportunities*

Reducing the opportunity for fraud carried out at LPD Pecatu, namely by creating

information disclosure between management, such as the amount of money not only known by the cashier but also informed to all employees. This was disclosed by LPD employees.

"We are open between the cashier and the collector, there is openness of incoming money so that the money we have is known together, if for example the collector enters the wrong data into the application into his record, he must confirm that he is responsible. thus reducing the chances of doing anything wrong..."

The principles of openness (satya) and responsibility (swadharma) implemented by the LPD management will reduce the opportunity for fraud. The interesting thing found in the LPD is that it does not use CCTV as a control tool to reduce opportunities for fraud or fraud prevention.

##### 4. *Punishment for every dishonest act in the workplace*

The problems experienced by the Pecatu Traditional Village LPD during its establishment are problems that can still be fixed and are not classified as fraud, such as errors in recording or inputting transactions in the application and based on village rules (perarem) if a big mistake occurs, it will be discussed with adat to get consideration so that it can be resolved through family channels. This was revealed by the Head of the LPD of the Pecatu Traditional Village

"Hopefully it doesn't happen here, at least there are writing errors that can still be corrected. Errors that we can still find answers to. The mistake still doesn't harm anyone else."

Based on the perspective of THK, this is included in adat iwigama (customs as a form of religious practice). The LPD of the Pecatu Traditional Village has a rule in the form of a niskala-scale legal principle as the "last" step, the niskala is in the form of a witness madewa ceremony (swearing before God).

#### b. *Diamond Fraud Theory*

The fraud diamond is a new view of the fraud phenomenon proposed by Wolfe and Hermanson (2004). Overall the elements of the fraud diamond include: pressure, opportunity, rationalization, and capability.

##### 1. *Pressure*

Pressure is the desire of employees to act fraud due to pressure from internal and external parties. Based on the implementation of participatory observations, the Pecatu Traditional Village LPD carried out several things to mitigate pressure at work.

##### a. *Creating a flexible work environment*

The flexible working atmosphere in question is not too rigid like an office in general.

Employees may listen to music from the radio while working to relieve fatigue. LPD employees may also exercise (foot therapy) when not serving the community or customers.

b. Tirta Yatra and Traveling

The Pecatu Traditional Village LPD carries out tirta yatra activities and travels on holidays. Tirta yatra in everyday language in Bali is understood with the meaning of praying to pretend. After carrying out tirta yatra, employees usually travel to restaurants or other tourist attractions.

2. *Opportunity*

Cressey[8] stated that there is a perception of the opportunity to commit fraud, namely the opportunity because the perpetrator has general information and expertise to carry out fraud. The Pecatu Traditional Village LPD tries to mitigate fraud opportunities by implementing financial information disclosure and carrying out responsibilities according to SOPs. The interesting thing found in the LPD is that it does not use CCTV as a control tool to reduce opportunities for fraud or fraud prevention. What is believed by LPD employees is the belief in the existence of Ida Sang Hyang Widhi Wasa (Sradha).

3. *Rationalization*

Fraud perpetrators do not view the fraud as an unethical act, the fraud perpetrator justifies the act as an ethical act before the fraud is committed. LPD Desa Adat Pecatu tries to mitigate rationalization by providing a standard salary because one of the reasons for rationalization is feeling short of salary or wanting to borrow money and will pay it later. As stated by the head of the LPD below:

“The salary given is also not too small. Because it is adjusted to the UMK and gets a number of benefits such as health benefits and provisions that are obtained at the end of the year, the welfare obtained for the direction of corruption can be suppressed”.

Based on the perspective of THK, sradha and dharma and belief in karmaphala are very important things to be applied in the work environment, this will reduce the rationalization of fraud.

4. *Capabilities*

Fraud, which generally has a large nominal value, is unlikely to occur if there are no certain people with special capabilities in the company or have the capability[13]. Although LPD employees have the capability, the existence of information disclosure

reduces the gap for fraud to occur. Based on THK's perspective, this includes satya (honesty). All employees try to be open to existing financial information so as to create information disclosure. The Pecatu Traditional Village LPD carries out various programs such as providing scholarships, cremation funds, and social funds. Based on various internalizations of THK carried out by LPD employees, it provides benefits for the Pecatu Traditional Village LPD, namely increasing public trust and LPD customers so that it further increases public interest in saving or borrowing funds at the LPD. This is expressed by the community.

IV. CONCLUSIONS

Based on the results and discussion, it is concluded that the integration of the THK value in fraud prevention efforts in LPD is as follows. Based on religiosity, from the behavioral dimension, the THK practices implemented at the Pecatu Traditional Village LPD have been implemented well. Based on the affect dimension, THK is very important in financial management in LPD and this has been regulated in Perda no. 3 of 2017 which states that 20% of LPD profits are used for village development and 5% for social funds. Based on the effect dimension, THK provides direction for LPD to carry out balance or harmonization to God, others, and the environment.

Based on the dimensions of fraud prevention according to Thompson[2], fraud prevention has been carried out at LPD starting from investigating prospective employees, creating a work atmosphere that can detect dishonest acts, suppressing opportunities and punishments for dishonest acts based on the diamond fraud theory carried out by LPD Desa Adat Pecatu to mitigate fraud triggering factors. Based on the diamond fraud theory carried out by the Pecatu Traditional Village LPD to mitigate the fraud triggering factors, they are as follows: 1) What the LPD does to reduce pressure is to create a flexible environment (pawongan) and tirta yatra and travel (parahyangan) 2) What the LPD does to reduce opportunities is to create openness (Pawongan practice of satya) and instill responsibility for the task (Pawongan practice of swadharma), 3) What the LPD does to suppress rationalization is to provide salaries above the UMK and Production Services, and to strengthen dharma (karmaphala belief) (parahyangan).

What the LPD does to suppress fraud is that although employees have a working position in the LPD, fraud is not carried out in the LPD because of information disclosure and honesty (satya) including in the practice of pawongan and the community because they are trusted and have various programs that help the community, this is impact on the high trust of the public.

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