



Fraud Risk Mitigation through the Integration of Hindu Values: Evidence from the Village Credit Institution (LPD) of Kesiman

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Abstract

Fraud in community-based financial institutions like Lembaga Perkreditan Desa (LPD) is a serious threat to governance and financial integrity. This study examines how Hindu values are included in fraud risk management at LPD Kesiman. We used a qualitative descriptive approach and gathered data through interviews with managers, supervisors, and community leaders, supported by relevant documents. Following the COSO Fraud Risk Management Framework (2023), the findings show that integrating Tattwa (the belief in God as moral accountability), Susila (ethical conduct as internal control), and Upacara (rituals that promote collective honesty) greatly strengthens the fraud mitigation framework. The originality of this study lies in proposing a model that incorporates Hindu values into fraud risk management as a form of local wisdom, a topic that is rarely addressed in the literature. This shows that preventing fraud in community financial institutions requires both technical methods and the internalization of cultural and spiritual values.

Keywords: Fraud Risk Management; Hindu Values; COSO; Local Wisdom; LPD

Abstrak

Kecurangan pada lembaga keuangan berbasis komunitas seperti Lembaga Perkreditan Desa (LPD) merupakan ancaman serius bagi tata kelola dan integritas keuangan. Penelitian ini bertujuan mengkaji penerapan nilai-nilai Hindu dalam manajemen risiko kecurangan pada LPD Kesiman. Metode yang digunakan adalah kualitatif deskriptif dengan pengumpulan data melalui wawancara dengan pengurus, pengawas internal, dan pemimpin adat, serta telaah dokumen. Berpedoman pada COSO Fraud Risk Management Framework (2023), temuan penelitian menunjukkan bahwa integrasi Tattwa (keyakinan pada Tuhan sebagai akuntabilitas moral), Susila (etika sebagai kendali internal), dan Upacara (ritual yang menumbuhkan kejujuran kolektif) mampu memperkuat kerangka mitigasi kecurangan. Kebaruan penelitian ini terletak pada usulan model yang mengintegrasikan nilai-nilai Hindu sebagai kearifan lokal dalam manajemen risiko kecurangan—suatu pendekatan yang jarang dieksplorasi dalam literatur. Hal ini menegaskan bahwa pencegahan kecurangan tidak hanya bertumpu pada mekanisme teknis, tetapi juga perlu diperkuat melalui internalisasi nilai budaya dan spiritual.

Kata Kunci: Manajemen Risiko Kecurangan; Nilai Hindu; COSO; Kearifan Lokal; LPD

Introduction

Lembaga Perkreditan Desa (LPD) is a unique financial institution in Bali that focuses on community. It is based on the social, customary, and spiritual structures of the Desa Adat. Besides its economic role, the LPD also serves significant social and religious

functions. This is officially recognized through Bali Provincial Regulation No. 3 of 2001, which was later revised by Regulation No. 4 of 2019 (Arka, 2022). By 2022, there were 1,493 LPDs operating across Bali. This number highlights their importance in community-led economic development that combines financial, cultural, and spiritual aspects.

Despite this important role, increasing fraud cases have shaken public confidence. High-profile incidents like LPD Ungasan (losses of Rp 26–26.9 billion), Gulingan (Rp 30 billion), and Ngis (Rp 10.4 billion) show weaknesses in oversight and underline deeper systemic issues (Detikcom, 2022; Kompas, 2022; Merdeka, 2022). These incidents stress the need for a more complete approach to managing fraud risk.

The Fraud Hexagon (Vousinas, 2019) offers a way to look at fraud through six dimensions: pressure, opportunity, rationalization, capability, arrogance, and collusion. However, earlier studies on LPD governance have mainly focused on supervision and compliance (Ayu et al., 2021; Dewi et al., 2020; Ayuni & Budiasni, 2020). This focus falls short in Bali's socio-cultural context. There is a research gap regarding how cultural and spiritual values can help prevent fraud.

Hindu philosophy presents three main values: Tattwa (philosophical truth as moral responsibility), Susila (ethical behavior as control), and Upacara (rituals that promote honesty in the group). These can be integrated into LPD governance to improve integrity and accountability. Previous research points out that local wisdom like Tri Hita Karana is relevant for shaping behavior within organizations and preventing fraud (Martini et al., 2023; Dewi & Rahajeng, 2022; Saputra et al., 2022).

Problem Statement: Fraud cases in LPDs continue even with regulatory measures, showing that technical oversight is not enough without incorporating cultural and spiritual elements. **Research Objective:** This study aims to examine how the values of Tattwa, Susila, and Upacara can be included in fraud risk management at LPD Kesiman. It will propose a model that combines culture, spirituality, and governance to strengthen community-based financial institutions.

Methods

This study used a qualitative descriptive approach to understand how Hindu values influence fraud risk management at LPD Kesiman. The researchers collected primary data through purposive sampling of key informants, such as LPD managers, internal supervisors, and community leaders. They gathered secondary data from institutional documents, archives, and reports to support and confirm the findings. Data collection involved in-depth interviews, passive participant observation, and document analysis. The researcher served as the main instrument, guided by a semi-structured interview outline based on the COSO Fraud Risk Management Guide (2023). This guide was chosen for its recognized framework for fraud governance and its ability to adapt to local contexts. To ensure credibility and validity, the study applied source and technique triangulation across informants, methods, and documents. Data analysis followed Braun and Clarke's (2021) thematic analysis, which included transcription, coding, categorization, and systematic theme construction. This process helped interpret how Tattwa (philosophical truth), Susila (moral ethics), and Upacara (ritual practices) shape governance mechanisms. The results are presented in a narrative format, supported by quotes from informants. This approach reflects both methodological rigor and awareness of the socio-cultural context of the LPD.

Results and Discussion

The findings indicate that most principles of the COSO Fraud Risk Management framework are used in LPD Kesiman, but some weaknesses remain, especially in fraud governance, risk assessment, monitoring, and investigation. Fraud risk governance suffers from unclear anti-fraud regulations, weak whistleblowing mechanisms, and low transparency. These issues point to the structural problems highlighted in earlier studies of community-based financial institutions (Morales et al., 2014). However, the integration of Hindu values, especially Tattwa and Susila, adds a moral-spiritual aspect of accountability. Lokanan (2015) supports this by stating that governance failures often arise from cultural factors rather than technical ones. In LPD Kesiman, the principle of Tri Kaya Parisudha promotes integrity in decision-making and enhances fraud risk governance beyond just technical design.

Fraud risk assessment is mostly reactive and only occurs after irregularities arise. Unlike formal banking institutions, which have standardized risk assessment tools (Dorminey et al., 2012), LPD Kesiman relies heavily on management experience and community trust. Nonetheless, ritual practices like collective prayers before evaluation meetings integrate ethical reflection into assessment processes, showing how cultural and spiritual practices complement technical ones.

Fraud control activities, such as task segregation and audits, are present, but their inconsistent application leads to vulnerabilities. Previous studies confirm that control failures often lead to occupational fraud (Dorminey et al., 2012). In LPD Kesiman, Hindu values serve as informal but effective controls. Susila promotes discipline and honesty, while rituals instill a sense of spiritual responsibility in daily activities. This creates a hybrid model where formal controls are supported by cultural safeguards. Additionally, investigations of fraud often rely on kinship-based practices, which restore harmony but may compromise transparency and deterrence (Free & Murphy, 2015). Purification ceremonies help restore balance, but formal investigative procedures remain essential for establishing accountability. Monitoring is mainly informal and depends on village meetings, but customary leaders' oversight strengthens it. In contrast to formal institutions that focus on performance indicators, LPD Kesiman highlights moral accountability, viewing honesty as a duty to God and the community. This presents a unique governance structure based on spiritual responsibility.

Examining fraud risks through the Fraud Hexagon further illustrates how Hindu values act as ethical and spiritual safeguards. Financial pressures are eased not just by fair compensation but also by the principle of karma phala, which discourages misconduct through the belief in spiritual consequences. Opportunities for fraud decrease through dual oversight systems that mix technical checks with the ethical discipline of Tri Kaya Parisudha. Rationalization is limited by framing work as *sewa* (service) and *yadnya* (sacrifice), rendering fraud morally unacceptable. Although staff members have the capabilities, they are directed toward integrity through ethical training embedded in Susila. Arrogance is moderated through participatory governance in *paruman desa*, aligning with research that shows collective decision-making lowers the risk of power abuse (Free & Murphy, 2015). Lastly, collusion is restricted by communal participation and rituals such as *Pitra Yadnya* and *Rsi Yadnya*, which portray trust as a sacred inheritance.

Conclusion

This study shows that combining Tattwa (philosophical truth), Susila (ethical conduct), and Upacara (ritual practices) in the governance of Lembaga Perkreditan Desa (LPD) significantly improves fraud risk mitigation. This approach works alongside the

formal compliance and enforcement measures outlined in the COSO Fraud Risk Management Guide (2023). By adding spiritual and cultural aspects to the Fraud Hexagon framework, this study provides a broader model for managing fraud risk. This model goes beyond just technical and procedural methods. The practical takeaway is that governance in community-based financial institutions should not depend only on regulatory and structural mechanisms. It also needs to incorporate local cultural values to boost institutional integrity, accountability, and public trust. The originality of this research lies in its theoretical contribution: it connects fraud risk management frameworks with Hindu local wisdom. This connection enriches the conversation on governance models that are sensitive to different contexts while also being relevant on a global scale.

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