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FRAUD PREVENTION BASED ON LOCAL WISDOM VALUES: A CASE STUDY OF VILLAGE CREDIT INSTITUTIONS IN BADUNG REGENCY

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Abstract:
The urgency of this research stems from the high risk of fraud in the financial management of Village Credit Institutions (LPDs), which threatens to harm village communities and undermine the economic sustainability of customary villages. Given past incidents, LPDs must adopt preventive measures to minimize potential losses due to fraud. While existing studies highlight the importance of structural mechanisms in fraud prevention, such approaches have not been fully effective. This study is significant for examining the roles of human capital and organizational commitment in fraud prevention, while positioning Tri Kaya Parisudha as a moderating variable that strengthens the consistency between ethical intentions and actual behavior in LPD management practices. Effective fraud prevention enables LPDs to optimally fulfill their function as drivers of the village economy. The study aims to analyze the impact of human capital and organizational commitment on fraud prevention within LPDs and to examine the moderating role of Tri Kaya Parisudha, thereby developing a fraud prevention model grounded in ethical values and local wisdom. A quantitative research method was employed. The study population comprised all LPDs in Badung Regency; purposive sampling yielded a sample of 71 LPDs classified as "healthy" or "sufficiently healthy." Data collection involved distributing questionnaires to LPD heads, who served as the study's respondents. The collected data were analyzed using Partial Least Squares-Structural Equation Modeling (PLS-SEM). The results indicate that human capital and organizational commitment have a significant positive effect on fraud prevention. Furthermore, the findings show that Tri Kaya Parisudha strengthens the positive influence of human capital and organizational commitment on fraud prevention.

Keywords: Human capital; Organizational commitment; Fraud prevention; Tri Kaya Parisudha

INTRODUCTION

The Village Credit Institution (LPD) is a microfinance institution that plays a strategic role in strengthening the economies of customary village communities in Bali. LPDs were fundamentally established to foster collective well-being and promote community-based economic self-reliance. However, the rising number of fraud cases reveals a contradiction with the ideal values inherent to these institutions. Various audit reports and media accounts indicate fundamental issues regarding LPD governance practices. A prominent case occurred at the Anturan Customary Village LPD, where the former head was charged with corruption involving the fabrication of fictitious loans and the management of personal business ventures, resulting in losses exceeding IDR 151 billion. A similar case took place at the Sangeh Customary Village LPD, with estimated losses of around IDR 56 billion.

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Furthermore, systematic fund misappropriation was uncovered at the Yangbatu Customary Village LPD in East Denpasar; the modus operandi involved granting loans without feasibility analysis, exceeding maximum loan limits, and setting interest rates below regulatory requirements, causing state losses of IDR 2.62 billion.

Given these cases, LPDs must implement preventive measures to minimize potential losses from fraud, as prevention is considered more effective than remediation after fraud has occurred. While research emphasizes the importance of structural mechanisms—such as governance and internal control systems—these approaches have not fully provided a comprehensive explanation of fraud prevention effectiveness, largely due to resource limitations and low compliance among management (Adetiloye, et al, 2016). This underscores that fraud prevention cannot rely solely on systems; it also requires individuals possessing integrity and a commitment to anti-fraud practices. Consequently, this study adopts a behavioral perspective, focusing on human capital and organizational commitment as key determinants of fraud prevention.

Human capital reflects the capacity of human resources, developed through education, technical financial competence, experience, an understanding of operational procedures, and the integrity and professionalism of those in management. In the context of fraud prevention, human capital serves as a crucial factor—particularly when governance and internal controls are not functioning effectively. High-quality human capital enhances an individual's ability to identify fraud risks, understand the associated legal and social consequences, and optimally apply principles of prudence and oversight (Canran Hou, 2025). Furthermore, competent individuals tend to be more sensitive to signs of fraud and are better equipped to make rational decisions in alignment with social norms and legal requirements (Kern & Weberg, 2016; Ariastini et al., 2017; Donelson et al., 2017; Sugiarti & Yudianto, 2017; Kim et al., 2018).

Organizational commitment is a psychological construct reflecting an individual's attachment to an organization's goals and values; it plays a vital role in shaping ethical behavior, including the prevention of fraud. According to organizational commitment theory, individuals with a high level of commitment are more likely to adhere to regulations and ethical principles, thereby reducing the likelihood of fraud, whereas low commitment is often correlated with opportunistic behavior and a focus on personal interests. In financial governance, strong commitment fosters accountable and transparent practices and cultivates a culture of integrity—acting as an informal social control that suppresses the propensity for fraud (Pramesti et al., 2020; Muhsi & Riska, 2021; Meutia, 2021; Muliza & Atuti, 2023). Consequently, organizational commitment serves as a strategic factor in strengthening fraud prevention within community-based financial institutions, such as LPDs (Village Credit Institutions).

Both human capital and organizational commitment are individual attributes that influence ethical behavior and the intention to prevent fraud. However, these two factors are not always optimally realized in preventing fraud, particularly when individuals encounter pressure, opportunity, conflicts of interest, or the rationalization of misconduct (Dwiyanti et al., 2022; Ratna, 2023). From the perspective of the Fraud Hexagon Theory, fraud is understood as a more complex phenomenon; beyond being influenced by pressure, opportunity, and rationalization, it also involves capability, arrogance, and collusion—additional elements that heighten the risk of fraudulent activity. High levels of capability—lacking adequate moral restraint—coupled with an arrogance that fosters a sense of superiority and immunity to rules, as well as collusion that enables collective fraud through cooperation among parties, can potentially facilitate the occurrence of fraud within an organization. Therefore, in the context of an LPD (Village Credit Institution), it is necessary to reinforce normative values rooted in local wisdom—specifically Tri Kaya Parisudha—which serves as a moral reminder, encouraging individuals to align their thoughts, words, and actions to avoid deviant behavior, both personally and collectively. In this way, Tri Kaya Parisudha functions as a moderating variable that strengthens the impact of human capital and organizational commitment on the effectiveness of fraud prevention.

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The Theory of Planned Behaviour (TPB) is relevant for explaining an individual's intention to engage in fraud prevention. This framework aligns with Tri Kaya Parisudha—a Balinese Hindu ethical teaching that emphasizes harmony between thoughts (manacika), words (wacika), and actions (kayika). In the context of LPD (village-based financial institutions in Bali), the values of Tri Kaya Parisudha serve as a crucial foundation for shaping the behavior of managers, encouraging them to uphold integrity and prevent fraud (Darmayanti & Sujana, 2018; Dewi, 2021). These values are believed to suppress internal impulses and the rationalization of fraud by strengthening an individual's moral compass. Consequently, this study offers a more comprehensive understanding of fraud prevention by integrating the TPB with local wisdom into a single conceptual framework.

The "state of the art" of this research lies in the development of a fraud prevention approach that extends beyond structural and technical mechanisms—such as governance and internal control systems—by incorporating behavioral values rooted in local wisdom. While previous studies have largely emphasized the role of formal systems in curbing fraud (Mersa et al., 2021; Adnyani & Hutnaleontina, 2022; Rashid et al., 2022), such approaches have not always proven effective when individuals face pressure, conflicts of interest, or opportunities to commit fraud. Therefore, this study proposes a more comprehensive approach by introducing Tri Kaya Parisudha as a normative reinforcing variable, designed to strengthen the internalization of human capital and organizational commitment toward fraud prevention.

The novelty of this research lies in the expansion of the Theory of Planned Behaviour through the inclusion of Tri Kaya Parisudha as a new construct representing Balinese local wisdom. This integration enriches the TPB by incorporating moral and cultural dimensions into the explanation of fraud-prevention behavior, specifically within the context of LPDs in traditional Balinese villages. This development aligns with the view (Perugrini & Bagozzi, 2001) that the TPB is dynamic and can be extended to enhance the theory's capacity to explain actual behavior.

METHODS

This study employs a quantitative method to analyze the influence of human capital and organizational commitment on fraud prevention, while also examining the moderating role of Tri Kaya Parisudha in this relationship. The population consists of all LPD—village credit institutions—located in Badung Regency. Sampling was conducted using a purposive sampling technique, which selects samples based on specific criteria. In this study, the criteria for inclusion were LPDs categorized as "healthy" or "sufficiently healthy," resulting in a sample of 71 LPDs. Data were collected by distributing questionnaires to the heads of the respective LPDs. As this is a causal study—aimed at analyzing cause-and-effect relationships—it requires inferential statistical analysis tools capable of explaining such connections. To address the research questions, the collected data were analyzed using Structural Equation Modeling (SEM) based on the Partial Least Squares (PLS) approach.

RESULT AND DISCUSSION

Measurement Model Evaluation (Outer Model)

Validity Test

The outer loading value for the research variables is greater than 0.5, indicating that all measurement indicators meet convergent validity requirements, and each indicator is valid. Furthermore, based on the construct validity test using the Average Variance Extracted value, the test results met the test criteria of more than 0.50, indicating that the research variables met construct validity.

The next test result showed that the factor loading value in each variable column was the highest compared to the cross-loading values of the other variables, thus, the indicators for each research variable met discriminant validity.

Reliability Test

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The reliability test results using the composite reliability value and Cronbach's Alpha value showed values above 0.70, indicating that each variable in this study is reliable.

Inner Model Evaluation (Structural Model)

The R square value is 0.722, meaning that 72.2 percent of the variance in the fraud prevention variable can be explained by human capital and organizational commitment, while the remaining 21.8 percent is attributed to other variables not included in the research model.

Hypothesis Testing

Hypothesis testing is conducted to evaluate whether the relationship between latent variables is significant. Hypothesis testing can be calculated from the p-value and the t-statistic. A relationship between two variables is considered significant if the p-value is less than 0.05 (5 percent) or the t-statistic is greater than 1.96.

Figure 1. Bootstrapping Model

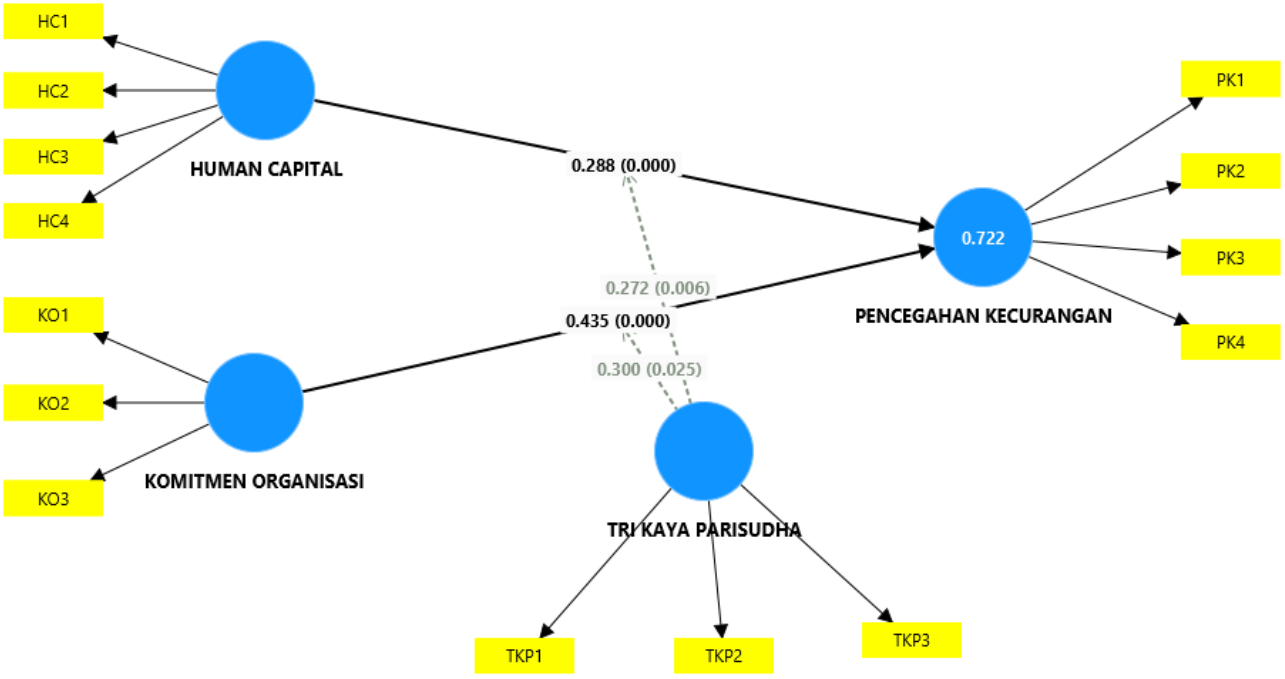


Table 1. Hypothesis Test Results

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
Human Capital -> Fraud Prevention	0.288	0.301	0.087	3.320	0.000
Organizational Commitment -> Fraud Prevention	0.435	0.452	0.085	5.137	0.000
Tri Kaya Parisudha x Human Capital -> Fraud Prevention	0.272	0.256	0.108	2.510	0.006

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Tri Kaya Parisudha x Organizational Commitment -> Fraud Prevention	0.300	0.255	0.153	1.964	0.025

Source: Data Processed 2026

The following discussion of the hypothesis testing results is explained in detail to understand the research findings.

The Effect of Human Capital on Fraud Prevention

Data analysis results show a positive coefficient of 0.288 with a p-value of 0.000 (< 0.05). These findings indicate that human capital has a significant positive effect on fraud prevention; therefore, H1 is accepted. This implies that the higher the quality of human capital possessed by employees or organizational managers, the more effective fraud prevention efforts within the workplace will be. Employees with superior individual capabilities demonstrate a higher level of diligence in monitoring transactions, adhering to standard operating procedures (SOPs), and detecting potential irregularities at an early stage. Furthermore, a consistent level of human capital quality across all organizational levels facilitates an effective cross-monitoring system, thereby minimizing opportunities for fraud to occur.

In the specific context of an LPD (Village Credit Institution), managers with strong human capital not only possess a technical understanding of financial operations but are also capable of identifying potential fund leakage, carefully overseeing credit and deposit transactions, and minimizing the risk of financial statement manipulation—which could otherwise harm the members of the traditional village community. Regarding the "knowledge" indicator, LPD administrators and employees who are well-versed in LPD governance regulations, financial accounting standards, and customary village rules are better equipped to understand their operational boundaries, which helps prevent the abuse of authority in areas such as credit disbursement or cash management. Moreover, in terms of the "expertise" indicator, LPD administrators equipped with specialized skills—such as creditworthiness analysis, collateral verification, and financial bookkeeping—are less likely to be deceived by fraudulent schemes, such as fictitious loans or double-entry bookkeeping irregularities. Meanwhile, critical thinking skills in problem-solving assist LPD (Village Credit Institution) managers in making sound decisions when facing internal or external pressures, as well as in confidently rejecting interventions that violate established procedures.

The findings of this study reinforce the "Fraud Hexagon Theory," suggesting that high-quality human capital among LPD managers can effectively narrow the "opportunities"—or systemic weaknesses—often exploited to commit fraud. Furthermore, when all levels of an LPD organization possess strong and consistent human capital, robust cross-monitoring emerges; this makes it difficult for any individual with the capability to commit fraud to carry out their schemes without being detected by other staff members. Additionally, these results support the "Theory of Planned Behaviour," indicating that LPD managers with superior human capital are better equipped to exercise self-control over their actions and prevent the occurrence of fraud. A solid understanding of the detrimental impact that fraud has on an LPD's sustainability—and on the trust of the indigenous community (*krama*)—fosters a positive attitude among managers, encouraging them to reject fraudulent acts and commit to upholding the LPD's integrity. These findings align with previous research, which concluded that human capital has a significant positive impact on fraud prevention (Canran Hou, 2025; Kern & Weberg, 2016; Ariastini et al., 2017; Donelson et al., 2017; Sugiarti & Yudianto, 2017; Kim et al., 2018).

The Effect of Organizational Commitment on Fraud Prevention

The data analysis results show a positive coefficient of 0.435 with a p-value of 0.000 (< 0.05). These findings indicate that organizational commitment has a positive and significant effect on fraud

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prevention; therefore, H2 is accepted. This suggests that the stronger the commitment of the management and staff toward the organization, the greater the LPD's (Village Credit Institution's) capacity to prevent fraud. In the context of an LPD, organizational commitment is not merely a professional bond between employees and the institution, but rather a "sense of belonging" and a social responsibility toward the sustainability of an institution owned by the traditional village community.

In this study, organizational commitment is reflected through three indicators that contribute to fraud prevention. First, affective commitment—an emotional attachment to the organization—indicates the extent to which management and staff possess a psychological bond and a sense of belonging toward the LPD. Individuals with a strong emotional attachment tend to be cautious in exercising their delegated authority, as they recognize that any deviant behavior would not only harm the organization but also impact the community associated with the LPD. For instance, in the credit disbursement process, employees with a high sense of belonging to the LPD are more likely to conduct accurate analysis and documentation, while avoiding the issuance of credit that does not comply with established regulations. Thus, affective commitment can foster an internal drive to refrain from actions that could potentially harm the LPD.

Second, continuance commitment based on a cost-benefit analysis of leaving the organization relates to an individual's rational assessment of the potential consequences of not maintaining their affiliation with the organization. In the context of fraud prevention, this consideration can serve as a factor that encourages individuals to avoid actions that pose a significant risk to the continuity of their careers and employment. For instance, actions such as manipulating financial statements, recording fictitious receipts, misusing cash, or granting credit in violation of established procedures can lead to serious consequences for the individuals involved. Beyond the potential loss of employment, such actions can result in financial and reputational damage, and may even carry legal consequences if they meet the criteria for a violation. Awareness of these potential repercussions encourages management and staff to carefully weigh the risks before engaging in misconduct; this serves as a rational consideration that curbs an individual's inclination to take the risk of committing fraud.

Third, there is a sense of moral obligation to remain with the organization (normative commitment). Employees may feel a moral and ethical duty to remain loyal and contribute their best to the LPD (Village Credit Institution). Within the context of Balinese culture, this obligation aligns with the value of communal service a form of service rendered to the traditional village. When preparing monthly financial statements or presenting accounts during village assembly meetings, employees with a strong normative commitment would feel a sense of moral guilt if they were to conceal data regarding non-performing loans.

Viewed through the lens of the "Fraud Hexagon Theory," the findings of this study confirm that organizational commitment acts as a bulwark, helping to mitigate the elements that trigger fraud within LPDs in Badung Regency. Regarding the element of "opportunity," highly committed employees will not exploit gaps or weaknesses in the LPD's internal control system for personal gain; instead, they are more likely to report or rectify such issues. In terms of "rationalization," employees with a high level of affective commitment hold a positive perception of the LPD, making it difficult for them to justify actions that would harm the institution. Meanwhile, regarding the element of "pressure," a high degree of integrity and moral attachment among those managing the LPD serves as a safeguard, preventing them from viewing the institution's assets as a shortcut to resolve personal financial issues through fraudulent means. The results of this study are consistent with previous research, which found that organizational commitment has a significant positive effect on fraud prevention (Pramesti et al., 2020; Muhsi & Riska, 2021; Meutia, 2021; Muliza & Atuti, 2023).

Tri Kaya Parisudha Moderates the Influence of Human Capital on Fraud Prevention

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Data analysis results show a positive coefficient of 0.272 with a p-value of 0.006 (<0.05). These findings indicate that Tri Kaya Parisudha effectively strengthens the positive influence of human capital on fraud prevention within LPDs (Village Credit Institutions) in Badung Regency; thus, H3 is accepted. This implies that a high level of knowledge, expertise, capabilities, and skills (human capital) possessed by LPD management and staff will lead to more optimal and effective fraud prevention when balanced with the internalization of Tri Kaya Parisudha values. While human capital provides the technical ability to detect and close loopholes for fraud, the values of Tri Kaya Parisudha provide a moral foundation and spiritual awareness, ensuring that such technical capabilities are used solely to maintain clean institutional governance.

In the context of LPDs, the application of Tri Kaya Parisudha comprising manacika (right thinking), wacika (right speech), and kayika (right action) serves as a moral framework that guides the competencies of managers toward the honest, transparent, and responsible operation of the LPD. Consequently, the enhancement of human resources extends beyond professional proficiency; it is also reflected in how individuals think, communicate, and act while carrying out the LPD's operational activities. First, the manacika aspect relates to the process of thinking correctly and ethically in the execution of duties. This is evident in activities such as credit disbursement and creditworthiness analysis. The manacika value encourages staff to exercise objective judgment when making credit decisions, discouraging any intent for personal gain—such as soliciting commissions from clients, granting preferential treatment to specific parties, or approving loans that are, in reality, ineligible. Second, the wacika aspect pertains to honesty and truthfulness in the communication of information. The application of this value can be linked to financial reporting activities and the transparency of LPD (Village Credit Institution) management. In practice, wacika (truthful speech/communication) is reflected in the transparent disclosure of the LPD's financial condition to relevant stakeholders, including during village assembly forums. Managers who adhere to the principle of speaking the truth will not use their accounting expertise to manipulate financial statements ("window dressing"), conceal non-performing loans, or present a financial position that does not reflect the actual reality. If discrepancies in transaction records or indications of fund misuse are discovered, staff members do not choose to conceal such information; instead, they report it to the appropriate authorities, such as the LPD Supervisor, the traditional village leadership, or the Supervisory Board. Consequently, the communication competence and mastery of financial information possessed by managers can be directed toward fostering transparency while narrowing the scope for potential fraud. Third, the kayika aspect relates to concrete actions that align with the values of truth and responsibility. In LPD operations, the application of kayika can be observed in cash transaction activities and asset administration. This is demonstrated through regular cash counts (cash opname), the reconciliation of cash balances with accounting records, the timely deposit of customer funds, and the management of LPD assets in accordance with established procedures. Furthermore, kayika guides managers to refrain from using their access and authority for personal gain—such as taking or utilizing LPD cash funds without a legitimate basis.

The results of this study support the Theory of Planned Behavior, which posits that an individual's behavior is determined by their intention. The variable Tri Kaya Parisudha acts as a component that reinforces one's attitude toward a given behavior. Human capital provides capacity in the form of knowledge, skills, abilities, and experience, while Tri Kaya Parisudha deepens this understanding to the level of morality and spiritual conviction, thereby providing moral guidance for the application of such capacity. The combination of human capital and Tri Kaya Parisudha fosters an attitude that views fraudulent acts as reprehensible—violating ethical standards and contradicting religious teachings—which in turn helps suppress the intention to commit fraud. In the context of an LPD (a community-based financial institution), the integration of managerial competence with local values, such as Tri Kaya

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Parisudha, is crucial. Managers who possess high competence but lack a moral foundation might exploit their knowledge and authority to identify and exploit loopholes in control systems. Conversely, when such competence is coupled with the application of Tri Kaya Parisudha, the managers' abilities can be directed toward upholding the integrity of the LPD's operations. Therefore, the stronger the application of Tri Kaya Parisudha, the greater the capacity of human capital to effectively carry out fraud prevention functions (Darmayanti & Sujana, 2018; Dewi, 2021).

Tri Kaya Parisudha Moderates the Influence of Organizational Commitment on Fraud Prevention

Data analysis results show a positive coefficient of 0.300 with a p-value of 0.025 (< 0.05). These findings indicate that Tri Kaya Parisudha effectively strengthens the positive influence of organizational commitment on fraud prevention; thus, H4 is accepted. This suggests that organizational commitment exerts a significantly stronger and more optimal impact on preventing fraud when internalized alongside the local ethical teachings of Tri Kaya Parisudha. In the context of an LPD (Village Credit Institution), organizational commitment fosters a sense of belonging and employee loyalty. However, such commitment can sometimes wane when faced with extreme financial pressure or significant opportunities to commit fraud. This is where Tri Kaya Parisudha serves to reinforce the ethical and spiritual foundation. Grounded in these local cultural values, employee commitment transcends a mere focus on meeting targets or formal employment obligations; it evolves into a moral commitment that underpins the integrity of all operations within the LPD in Badung.

An employee's affective commitment—when aligned with pure intentions and a clean mindset (manacika)—prevents the emergence of hidden agendas or conflicts of interest. Employees do not merely feel a sense of ownership toward the LPD; they consciously direct their thoughts toward identifying risks and resisting the temptation to engage in fraudulent acts. Furthermore, the moral obligation to speak the truth is reinforced through the wacika aspect. Employees and LPD management are encouraged to report financial conditions accurately and transparently, without manipulating records. Additionally, *wacika* empowers committed employees to engage in whistleblowing should they encounter any operational anomalies. Furthermore, cost-benefit considerations—or "continuance commitment"—such as the risk of job loss or social sanctions imposed by the traditional village (*desa adat*), are manifested concretely through disciplined behavior (kayika). Employees are not merely motivated by the fear of dismissal; rather, they proactively adhere to all standard operating procedures (SOPs) for cash recording, ensuring that the assets of the Village Credit Institution remain secure from potential misuse.

From the perspective of the Theory of Planned Behavior (TPB), fraud-prevention behavior is preceded by behavioral intention. Organizational commitment shapes the attitudes and internal drive of management and staff to sustain the LPD, safeguard the organization's interests, and avoid actions that could harm the institution. However, the efficacy of this commitment in fostering fraud prevention is significantly strengthened when grounded in Tri Kaya Parisudha—a set of moral and spiritual values that guide individuals to think, speak, and act correctly. The interplay between these elements ensures that fraud prevention is no longer viewed merely as a formal professional obligation, but as a moral and spiritual responsibility to uphold the trust placed in the institution by the traditional village community. While organizational commitment fundamentally pertains to the relationship between an individual and the organization, the integration of Tri Kaya Parisudha provides a moral foundation that reinforces this bond. In this sense, organizational commitment supplies the impetus to protect the LPD, while Tri Kaya Parisudha offers a moral orientation on how that protection should be carried out. This synergy fosters a stronger intention to prevent fraud, which is subsequently realized through tangible behavior in the execution of duties and the daily operations of the LPD (Darmayanti & Sujana, 2018; Dewi, 2021).

CONCLUSION

Based on the research results and discussion, it can be concluded that human capital and organizational commitment have a positive and significant impact on fraud prevention within LPDs

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(Village Credit Institutions) in Badung Regency. These findings indicate that the quality of knowledge, expertise, capabilities, and skills of the management and staff are crucial factors in enhancing the effectiveness of oversight, detecting potential irregularities, and minimizing opportunities for fraud. Furthermore, organizational commitment—reflected through a sense of belonging, loyalty, and responsibility toward the sustainability of the LPD—fosters a work culture characterized by integrity, oriented toward the interests of both the organization and the members of the traditional village.

Moreover, Tri Kaya Parisudha is shown to strengthen the positive influence of human capital and organizational commitment on fraud prevention. This confirms that intellectual capacity, technical competence, and organizational commitment yield more optimal contributions when supported by the internalization of the moral and spiritual values embodied in Tri Kaya Parisudha: thinking rightly (Manacika), speaking rightly (Wacika), and acting rightly (Kayika). Consequently, preventing fraud in LPDs cannot rely solely on human resource competence and organizational commitment; it also requires the reinforcement of local wisdom values as an ethical foundation for operational activities and institutional governance. These findings underscore the importance of integrating the quality of human resources, organizational commitment, and local wisdom values to achieve LPD governance that is characterized by integrity, transparency, and an absence of fraud.

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