



The Implementation of Internal Control based on *Tri Kaya Parisudha* Concept and Accounting Fraud Prevention in Hotel Industry

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Abstract

The present research aimed at (1) to investigate *Tri Kaya Parisudha* concept in the internal control of accounting fraud potential prevention effort; (2) To investigate the obstacles faced in the implementation of the *Tri Kaya Parisudha* concept as the prevention effort of accounting fraud; and (3) To investigate stages carried out in preventing the obstacles faced in the implementation of the *Tri Kaya Parisudha* concept as the prevention effort of accounting fraud. The research was carried out using a qualitative approach and descriptive types of approach. The data used were both primary and secondary, such as interviews, observation, documentation, and literature study. The results showed that the implementation of the *Tri Kaya Parisudha* concept as the prevention effort of accounting fraud potential in Aneka Lovina Hotel had been running well but some obstacles made its implementation had not run optimally.

Keywords: Accounting fraud, Hotel industry, Internal control, *Tri Kaya Parisudha*.

INTRODUCTION

Accounting fraud has attracted a lot of public attention as dynamics which become the business people's center of attention. There are two types of fraud that often happen in an agency or company, such as internally and externally. External fraud is defined as fraud carried out by outsiders towards the company and internal fraud is fraud in form of

illegal activities carried out by staff, managers, and executives towards the company (Widjaja, 2013). Fraud is a form of a scam carried out intentionally that can lead to loss. Wilopo (2006) states that generally, accounting fraud is related to corruption. Accounting fraud is a form of corruption tendency in a definition and terminology, because, there are some elements involvements contains

misleading facts, rules violation or trust abuse. The act of fraud itself does not only appear in government agencies or manufacturing companies, yet, there is also fraud in the tourism industry such as lodging services or referred to as hotels.

In Bali, the hotel is a promising business, according to the status quo, which attracts domestic and foreign tourists. The increasing amount of vacation to Bali makes its increasing amount of hotel development. A hotel contains various departments on its running. One of those departments is its finance department. The department is important and has a crucial function in hotel management. It manages every inch of condition and activity which is related to finance and corporate funding. A finance department is very susceptible to accounting fraud if it does not get proper supervision. Hotels that have a high risk of fraud are Logement type hotels since they are the hotel types that still use manual system transaction records. For example, the Aneka Lovina hotel is located in Kalibubuk Village, Sukasada District, Buleleng, Bali.

Aneka Lovina Hotel and Restaurant is a logement built-in 1994. In an interview with Bapak Darmawan, a representative of the hotel, he said that the Aneka Lovina

Hotel is managed professionally by a trusted manager since it was built in 2016. The recording system in this hotel is still carried out manually.

A fraud action can be influenced by internal control and supervisors' monitor. To handle an accounting fraud problem, monitoring is needed; whereas, in getting good monitoring, effective internal control is needed as well (Wilopo, 2006). The possibility of fraud will get bigger if the internal control of a company is weak. Otherwise, when the internal control is strong, the fraud possibility can be minimized. Internal control effectivity has a great influence on the effort of accounting fraud potential prevention (Wilopo, 2006).

According to the problems explained, it is understood that to make positive changes, internal control is needed to prevent accounting fraud activities. The internal control carried out by Aneka Lovina Hotel is presented by a complete structure of job descriptions and functions inside of the Accounting Departement. Moreover, the hotel also adds a local concept of Bali to its internal control. This idea of the concept is implemented based on the staff background who are 100% Hindu and come from the local community. The local wisdom concept used is *Tri Kaya Parisudha*. *Tri Kaya Parisuda* is

one of the Hindu concepts which has a meaning of three human behavior that must be purified, namely think cleanly and purely (Manacika), honesty in talking (Wacika), and honesty in his doing (Kayika).

Based on the concept of *Tri Kaya Parisudha*, the staff, in each of their action, is expected to be in control and believes in *Karma*. The law of *Karma* is believed as one definite order, where the results of our doing are either bad or good based on the way it is done.

Mr. Darmawan, the hotel representative, stated in the interview that in 2016, the manager was found doing an accounting fraud and tens of millions of hotel money embezzlement. His action caused chaos in the financial condition of the hotel significantly. The financial report of the hotel at that time was manipulated. The suspect manipulated room transactions and foods and drinks bills. This happened since the internal control was weak. Since the problem was blown up, the Aneka Lovina Hotel made some changes to the financial department by dividing the job description of the cash receipts and recording. Additionally, the hotel implemented an internal control based on the *Tri Kaya Parisudha* concept since then, where the concept teaches human

beings to think, talk, and do ethically. The phenomenon is very unique to be investigated where the staffs and manager have a religious concept in mind to carry their job in a company and daily life. When someone has good character in their daily life, then prevention of crime, fraud, and bad actions which harm others can be done.

The research focus of the present research differentiates it from the research conducted by Wibowo (2014) entitled "The Internal Evaluation in Minimizing Fraud Potential in Trading Cycle of PT "X" in Semarang City" which focused on the financial department that recorded all activities such as the income and the cost. Moreover, the unique phenomenon of the present research is in the implementation of the local values of *Tri Kaya Parisudha* as the prevention effort of accounting fraud potential.

The aims of the present research were (1) to investigate the *Tri Kaya Parisudha* concept in the internal control of accounting fraud potential prevention effort; (2) To investigate the obstacles faced in the implementation of the *Tri Kaya Parisudha* concept as the prevention effort of accounting fraud; and (3) To investigate stages carried out in preventing the obstacles faced in the implementation of the *Tri*

Kaya Parisudha concept as the prevention effort of accounting fraud.

LITERATURE REVIEW

Theoretical Basis

Fraud Triangle

Fraud Triangle is a theory established by Cressey (1950). Cressey states a hypothesis about Fraud Triangle to explain the reasons for someone committing fraud. According to the research carried out, Cressey states that an unsolved financial problem can cause someone to commit fraud; which he thinks that the problem can be solved silently. Power abuse and job are the results of it. The suspect usually changes the concept of himself from the trustworthiness he gets upon the company assets becomes the use of the assets as the result of the power he gets upon it. Cressey additionally adds that many of the frauds are aware that they are committing illegal actions, yet, they try to convince themselves that those actions are reasonable. From the explanation above, Cressey believes that three factors support someone committing fraud, such as secret financial problem (pressure), chances to commit fraud, and the suspect's rationalization. The Fraud Triangle is a triangle of fraud; the fraud that happens in the workplace, such as,

corruption, the misuse of company assets, wrong financial review, and so forth.

Perception Theory

The theory is classified as suspect's psychology theory; whereas, perception is one important element that can influence someone's behavior. The differences of perception are strongly influenced by different interpretations of each individual or group. Perception, based on Robbins (2005) is a process where an individual arranges and interprets their sensory impressions to give meaning to their environment. However, what a person perceives can be fundamentally different from the reality of objective. Individual behavior is based on their perception of reality, not the reality itself. Relating the theory with the Tri Kaya Parisudha concept, it is strongly related to the concept of *kayika parisudha*; which means behaving well.

Fraud

Fraud is an illegal act done by someone or group intentionally or planned thus the suspects can gain profits and harm another people/group (Tuanakotta, 2012:28). Karyono (2013:4- 5) states that fraud has the elements of deviation and illegal act, done intentionally along

with specific purposes, such as deceiving or misleading other parties, which is carried out by people both inside and outside the organization. Fraud is designed to take an advantage of dishonest opportunities, which directly and indirectly harm other parties.

Based on several fraud definitions by experts, it can be concluded that fraud is an action that can be done by an individual or organization intentionally to cheat, hide, and get profits in one condition, whereas, the action can harm related parties. Some things can trigger a person committing fraud, according to Putra (2016), such as leadership, compensation suitability, internal control effectivity, law enforcement, organization ethical culture, and organizational commitment.

Internal Control

According to Hery (2017:132), management is responsible to prepare a report for investors, creditors, and other users. The responsibility to choose and adopt the right accounting policy, conducting adequate internal control, and presenting a financial report to the management parties, not to the auditors. Moreover, Hery said that two main concepts are underlying the arrangement and internal control implementation, that is the proper

congenital limitations (inherent). Management must develop internal control which will give decent assurance, not absolute, that the financial report has been presented reasonably. The internal control framework used by most of the companies in the USA is established by the Committee of Sponsoring Organizations (COSO) 1992. The components or elements of COSO controls are covering: control environment, risk evaluation, control activities, information, accounting communication, and supervision.

The Tri Kaya Parisudha Concept

Tri Kaya Parisudha means three main behaviors of human beings, such as thought, words, and behavior that must be purified, and in line with the argument of Suhardana (2007). *Tri Kaya Parisudha* can be defined as three fundamental behavior of human beings that must be purified such as *manacika*, *wacika*, dan *kayika*. According to Suhardana (2007), *manacika* means good thought, *wacika* means good words, and *kayika* means good behavior. A good thought is the fundamental of good words, which will produce good deeds. Fundamentally, good words and deeds are starting from good thoughts. From the principles, it is known that the

first thing a human must control is his thoughts.

Hotel Industry

Sulastiyono (2011:5) explains that a hotel is a company managed by the owner by providing food services, drinking, and room facilities to sleep for people who travel and can afford a certain amount of fee-based on the service they got without any certain agreements. The departments in a hotel are classified as follows according to Sulastyono (2011:63-186): front office, housekeeping, food & beverage, marketing, and sales department, accounting department, human resource department, engineering department, and security departments.

METHOD

The present research is descriptive research, by using a qualitative approach. The researcher focused on the understanding of the internal control implementation based on the *Tri Kaya Parisudha* concept in the efforts of accounting fraud potential prevention and the obstacles in its implementation, as well as the steps to overcome the obstacles. The focus of the present research was the internal control policy at Aneka Lovina Hotel regarding the potential of accounting fraud.

Aneka Lovina Hotel is located in Kalibubuk Village, Sukasada District, Buleleng, Bali. The location selection was based on the *Tri Kaya Parisudha* concept implementation in the hotel management; which the researcher found was very unique whereas the concept was implemented inside the hotel management operational.

The data resources used in the present research were based on two categories, such as primary data; gained from interview results of the manager and staff of the Aneka Lovina Hotel. Secondly is the secondary data which was gained from notes or historical reports of the Aneka Lovina Hotel operational. The researcher chose an informant with a consideration that he/she has to broaden knowledge and understanding about the investigated problems, and so has authority in deciding on the company. The informants in this study were the hotel manager, hotel finance department, and other staff who were related to the research.

The data collection method used were observation, interview, documentation, and literature study.

The concept of Miles and Huberman (1984) which is the interactive model was used as the data analysis technique. According to Milles and Huberman, data analysis is

classified into several stages, such as data reduction, data display, and conclusion drawing/verification.

Testing the validity of the data was carried out to prove whether the research was scientific research as well as to test the data obtained. The validity of the data in qualitative research includes the test of credibility, transferability, dependability, and confirmability (Sugiyono, 2007:270).

RESULT AND DISCUSSION

Tuanakotta (2012:28) states that fraud is an illegal act done by an individual or groups, intentionally or planned, and causes profits to the doers and harms to other people or groups. Fraud can happen because of several reasons such as weak internal control, less understanding of rules which makes the obedience towards the rules is weak as well. The weak understanding and obedience towards the rules can cause a not up-to-date policy setting as well as weak supervision. Concerning a company's policies can be one of the preventive solutions to minimize the potentials of accounting fraud. Aneka Lovina Hotel did the same thing to prevent accounting fraud potential. The hotel management made several policy changes, such as, divide the job description of the finance department;

the department that has high risk towards the accounting fraud potentials in its financial recording and its income and cost. The hotel also implemented the *Tri Kaya Parisudha* concept as the internal control in preventing accounting fraud potentials. Mr. Darmawan stated that:

“The policy implemented after the fraud case was first, dividing the job description amongst in the finance department's staffs; which dividing the financial recording and its income and cost. The era of development brings people to be ignorant towards moral values. In its implementation, Hindu teaches its people about a concept namely *Tri Kaya Parisudha* which means three humans' behavior such as thoughts, words, and behaviors that must be purified and controlled.”

The interview results with the hotel representative strengthen the reason for the internal control policy based on the *Tri Kaya Parisudha* concept which was implemented since there was moral degradation amongst people, following the era development. The aims of its implementation in the internal control were first to increase the quality of the human resources reflected through the ability of thinking, communicate, and behave; secondly, to increase the transparency on each staff and so prevent deviation which can be a loss to the company.

The concept of *Tri Kaya Parisudha* on The Internal Control of Accounting Fraud Potentials Prevention Effort at Aneka Lovina Hotel. The policy about internal control implementation which was based on the *Tri Kaya Parisudha* concept applied to all staff, managers, and the hotel owner. As the first step to getting the understanding, the researcher interviewed several informants regarding the internal control implementation which was based on the concept. The process of internal control in an organization is based on five elements, according to the Committee of Sponsoring Organizations (COSO) 1992, such as environment control, risks assessment, control activities, communication, information, and supervision.

The interview resulted in several statements from the hotel owner, hotel manager, and the staff about the implementation of internal control based on the *Tri Kaya Parisudha* concept in the effort of accounting fraud potentials based on internal control components based on COSO (1992). Several conclusions can be drawn, such as:

- 1) The organization environment control was implemented by: (a) planting politeness values, (b) planting moral values and self-

control towards the manager and staff; (c) Aneka Lovina Hotel obligated its staff to work in competent and professional ways which were reflected from the communication way, behave, and thinking (d) dividing job description based on each department (e) working ethical culture; where based on the environment control theory is related with the theory of Atribusi Glifandi, (2011) who explains that the action of someone is related to its cause attribute. Thus, the action of a leader is influenced by cause attributes. A fraud action can be influenced by internal control and monitoring by supervisors. To deal with the problems of accounting fraud, monitoring is needed, and to get good results of monitoring, effective internal control is needed as well (Wilopo, 2006).

- 2) The second component was risk evaluation by identifying risks that might happen after the implementation of the internal control policy based on the *Tri Kaya Parisudha* concept. The implementation of internal control based on *Tri Kaya Parisudha* could be ineffectively conducted. The cause was self-

awareness from each individual, the influence from the social culture, living environment, and the lack of understanding towards the concept of *Tri Kaya Parisudha*. Risk evaluation was associated with the Fraud Scale Theory where it is a theoretical development of the fraud triangle theory. In the Fraud Scale Theory, the possibility of fraud could be identified by observing the pressure, opportunity, and integrity of the suspect who committed fraud, while risk evaluation is the process of identifying, analyzing, monitoring, and managing risks that might occur in the implementation of the policies. Thus, risk assessment and Fraud Scale Theory have similarities where risk assessment and Fraud Scale Theory both observe or identify possibilities that will occur in the future.

- 3) The third component whereas the control activities in the finance department at Aneka Lovina Hotel could be seen from implemented training related to the concept of *Tri Kaya Parisudha*; conducted surprise inspections to see the

employee's performance directly; built trust in employees and accepting ideas or input submitted for the hotel's progress; gave rewards/appreciation to employees who have good performance at work which is reflected through good and honest communication and behave honestly. Theoretically, control activities are related to GONE Theory, which is the theory that emphasizes causes or encourages fraud proposed by Bologna in 1999. Control activities were carried out to ensure the implementation of management directives to minimize the risk of achieving company goals. Thus, control activities are associated with GONE Theory where GONE Theory has four factors that cause fraud, namely greed, opportunity, need, and disclosure. These factors can be minimized with good control activities.

- 4) The fourth component was information and communication. Information in this context referred to the accounting system at Aneka Lovina Hotel. The communication was reflected in

how to communicate in serving customers. Signaling theory is a theory related to information in the company which shows the existence of information asymmetry between company management and parties with an interest in company information such as financial statements. Melewar (2008: 100) states that Signal Theory shows that companies will provide signals through actions, information, and communication by providing a signal through good information and communication from the company.

- 5) The last component was the supervision carried out by the hotel owner and assisted by the hotel manager. The supervision was carried out by observing the performance of employees when carrying out their respective duties. In addition, supervision was also carried out specifically on the financial department which had a very vulnerable risk of fraud, namely by creating a routine reporting system, such as making daily, weekly, and monthly reports so that they could check in detail and

approval of cash disbursements in terms of buying hotel equipment as well as for restaurant needs. This agreement occurred before and after the transaction by the hotel owner. Similarly, supervisory control activities can also be linked to Gone Theory, where Gone Theory is a theory that causes or encourages fraud proposed by Bologna in 1999 consisting of greed, opportunity, need, and disclosure.

An organization surely cannot stand alone without people cooperating to reach its vision and mission. Planning in an organization is needed and must be done and reached by its members. Nowadays, local wisdom values are adopted by many companies as one of their policies. Aneka Lovina Hotel is not an excuse. The hotel adopted local wisdom namely the *Tri Kaya Parisudha* concept in its internal control to prevent potentials of accounting fraud. Mr. Darmawan stated that:

“The implementation of *Tri Kaya Parisudha* concept in the internal control of the company produces a better human beings quality reflected on the way he thinks, talks, and behaves. The presence of good thoughts will produce

good communication skills in working honestly and openly which prevent any kinds of accounting fraud potentials. By owning qualified human resources in working, thus, it will influence the hotel development. Yet, its implementation still faces obstacles.” (Interview session on the 18th of April, 2021 at 10:10)

Based on the interview result, it is known that the concept of *Tri Kaya Parisudha* on the internal control had been implemented well even though still faced obstacles were shown as follows:

“The policy has been implemented well, by the cooperation built since the local wisdom values are planted.”

The interview gained varied statements from the hotel owner, manager, and staff regarding the implementation of *Tri Kaya Parisudha* which can be concluded that moral values such as communicating, think, and do are needed significantly in the success of a work.

The concept of *Tri Kaya Parisudha* was implemented based on internal control such as environmental control, risk evaluation, control activities, communication and information, and supervision. The result of the observation using COSO recommendation, which contains five elements, it is known that the

implementation of the local wisdom in its internal control, had not been implemented well, whereas flaws were found in the risk prediction which was influenced by individual factors.

Obstacles Faced in The Internal Control based on Tri Kaya Parisudha Concept as The Prevention Effort of Accounting Fraud Potentials at Aneka Lovina Hotel

Each policy made by a company will not always run smoothly. There must be obstacles faced in its implementation. The same thing happened in the implementation of the *Tri Kaya Parisudha* concept as the effort of accounting fraud potentials prevention at Aneka Lovina Hotel. There were several obstacles found in its implementation, such as:

- 1) Social and cultural factors can influence internal control based on the *Tri Kaya Parisudha* concept, which could be seen from the way someone thinks daily, which was influenced by his environment. This problem must be handled properly by the hotel; if it is not handled well, the hotel's operational can be influenced as well.
- 2) Environmental factor was influenced by the family condition which influenced

someone's characters. When the family's environment is good, the character of the person will be good as well.

- 3) Lack of self-realization also became an obstacle towards internal control policy implementation based on the *Tri Kaya Parisudha* concept. This is because of the lack of understanding towards the concept itself; where makes the implementation is not optimally conducted in Aneka Lovina Hotel.

The obstacles explained are correlated with the theory of the fraud triangle by Donald Cressey (1950) which defines factors that influence fraud action. The factors are pressure, opportunity, and rationalization. Moral education significantly influences fraud whereas someone has a weak moral education, the opportunity, and power abuse will be used by him to fulfill his own needs and rationalizes it to get profits.

Steps Taken to Overcome the Obstacles in Implementing Internal Control Based on the *Tri Kaya Parisudha* as an Effort to Prevent Accounting Fraud Potentials at Aneka Lovina Hotel

The existence of several obstacles in the implementation of

internal control based on the concept of *Tri Kaya Parisudha* as the effort to prevent accounting fraud potentials at Aneka Lovina Hotel was overcome by the staff, manager, and owner using some steps. Firstly, conducting training about the local wisdom concept of *Tri Kaya Parisudha*. Secondly, doing close and intensive approach to the staff. Thirdly, implementing prohibitions along with punishments or penalties. The steps are considered exactly right to prevent fraud factors where the Pentagon Theory (Crowe, 2011) emphasizes that fraud exists because of five factors, such as pressure, opportunity, rationalization, competence, and arrogance.

According to the steps explained it is understood that those can balance competency and ability of the staff, whereas when the two are not balanced with ethics, an individual will be easily broken and do a power and opportunity abuse and rationalize his reasons behind to fill his own needs. Understanding staffs' character through intensive approach as well as penalties implementation for all staffs and manager was proven significantly well in overcoming the obstacles.

CONCLUSION, IMPLICATION, & LIMITATION

Some conclusions can be drawn from the research results, such as, in its implementation, *Tri Kaya Parisudha* concept in the internal control is implemented successfully, however, obstacles are still found such as the influence of social culture, environment factor, and self-realization of an individual. The steps are taken to overcome the obstacles faced in implementing internal control based on the *Tri Kaya Parisudha* concept, such as: doing training towards the concept of *Tri Kaya Parisudha*, doing intensive approach to the staff, and the implementation of penalties.

According to the research result at Aneka Lovina Hotel which implemented the concept of *Tri Kaya Parisudha* in its internal control as an effort to prevent accounting fraud potentials, some suggestions can be drawn, such as the next researcher is suggested to research the effectiveness of *Tri Kaya Parisudha* concept as the effort to prevent accounting fraud potentials to investigate its effectiveness; and the Aneka Hotel Lovina is expected to maximize the internal control implementation based on the concept of *Tri Kaya Parisudha*.

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