

Risk Based Internal Audit Based on Culture (Case Study at LPD Desa Adat Pecatu in Bali)

I Wayan Suartana^{1*} I Ketut Jati²

1. Faculty of Economics and Business, Udayana University, Jalan P. B. Sudirman, Denpasar 80232, Bali, Indonesia.
2. Faculty of Economics and Business, Udayana University, Jalan P. B. Sudirman, Denpasar 80232, Bali, Indonesia.

* E-mail of the corresponding author: suark15@yahoo.com

Abstract

Risk Based Internal Audit (RBIA) based on culture has been implemented by *Lembaga Perkreditan Desa* (LPD) to minimize risks that occur in the management of LPD, and created the synergy of leadership and supervision and risk management that conducted by LPD Chairman, Board of Supervisors, and *Prajuru* of *Desa Adat Pecatu*. LPD is an indigenous community-based financial institution that has perceived benefits for rural communities in particular, in the context of the development of social economy. The sample in this study is LPD of *Desa Adat Pecatu* in Badung District which already has *Awig-Awig* and *Perarem* on its own in the management of its business and has articulated risk management implicitly. This study showed that governance of LPD *Desa Adat Pecatu* has implemented its role and responsibilities of Board of Supervisors of LPD as an internal auditor in carrying out the supervision and control of the business involving the risk management to maximize performance. *Tri Hita Karana* and *Catur Purusha Artha*, as an element of culture becomes the operational basis in the management of business risks of LPD *Desa Adat Pecatu*. This is confirmed by the presence of *Awig-Awig* and *Perarem* of *Desa Adat Pecatu* as the basis for managing the riskbased on culture.

Keywords: LPD, Risk Based Internal Audit Based on Culture, *Tri Hita Karana* and *Catur Purusha Artha*

1. Introduction

*Lembaga Perkreditan Desa*¹ (LPD) is an indigenous community-based financial institutions that have perceived benefits for rural communities in particular, in the context of the development of social economy. Many studies examine the LPD, which would suggest that the LPD is an object that is unique and relevant to the large current good corporate governance and fit. Correspondingly, the paradigm in an effort to improve public access to the funds necessary to do productive economy intensified. This effort is called the primary goal of financial inclusion with no any side untouched by the financial sector. No one is denied the petition, when requiring financial services both in rural and urban areas. Credit is a fundamental right of every individual.

Financial inclusion has been and is being conducted by the LPD due the broad coverage that covers almost the entire *Pakraman* or traditional village with a relatively good accessibility. Table 1 and Table 2 shown LPD profile across the province of Bali from 1999 until 30th June 2013. From Table 1 and Table 2, can be explained that within five years, all indicators grew above the average of 500%. Developments are fantastic, especially asset growth occurred between the period of 1999 - 2005, the period when the economic crisis is still going on. Loan portfolio compared with deposit is 88%. LPD continues to grow, proving that these institutions have the endurance and stamina to survive while providing a real contribution to the spirit of development and the welfare of the community in Bali.

¹ Based on Bali Provincial Regulation No. 8 of 2002, *Lembaga Perkreditan Desa* (LPD) is a village-owned financial business entity conducting business activities in the village and for the residents of the village.

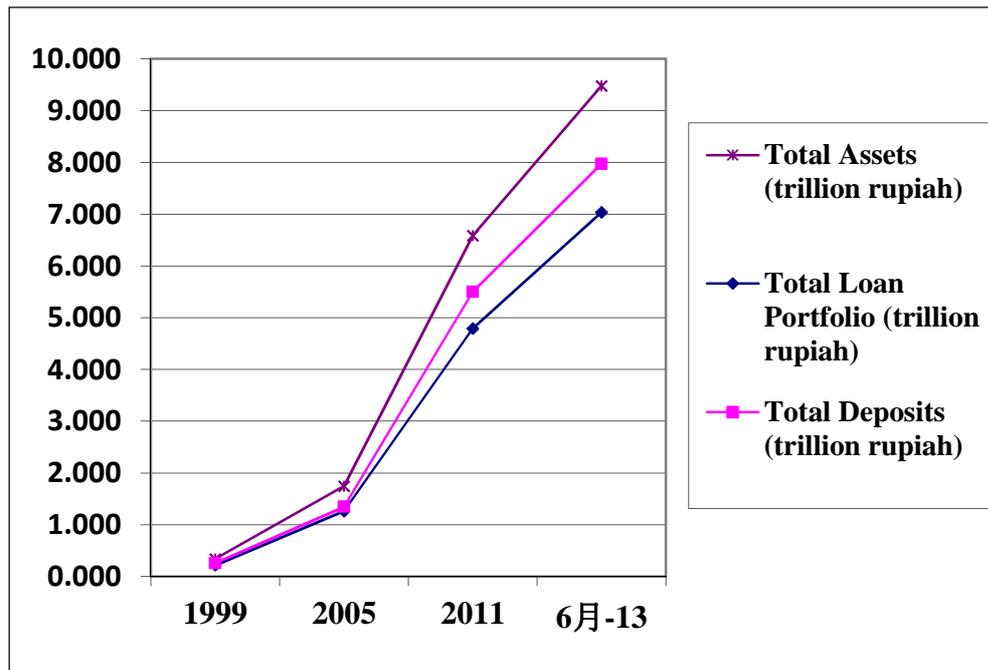


Figure 2. LPD Growth 1999 - Juni 2013
 Source: PLPDP Bali (2013)

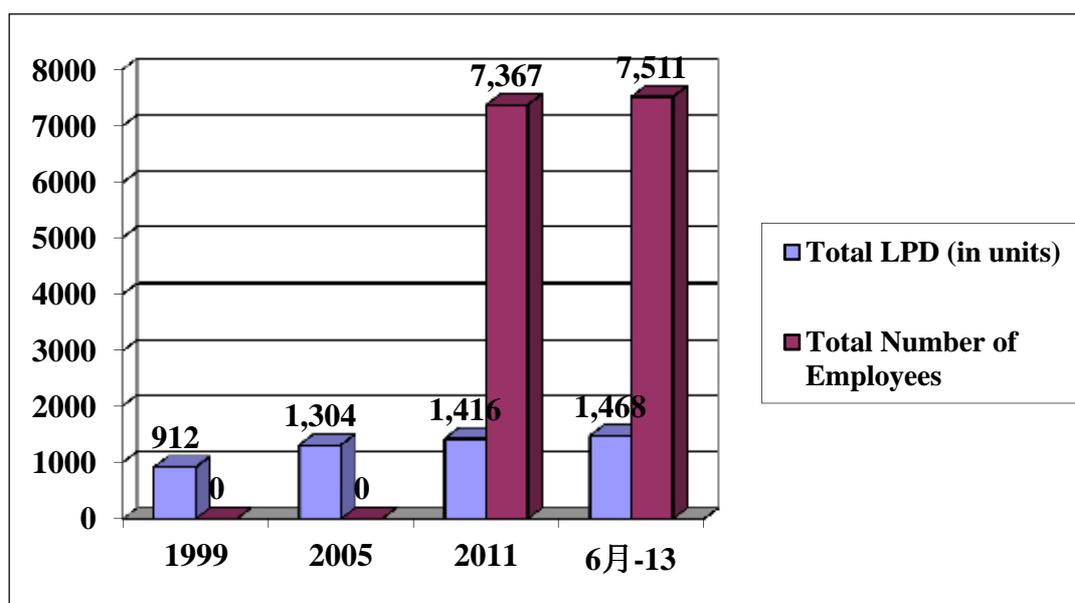


Figure 3. LPD Growth 1999 - Juni 2013
 Source: PLPDP Bali (2013)

Details of the distribution of LPD per district/city can be seen in Table 1. Table 1 shows that four districts and one city (Jembrana, Badung, Karangasem, Buleleng and Denpasar) all their traditional village have LPD, means the scope of capital to total population is fair. Percentage of LPD compared with the number of *Desa Adat* reached 97%, a position that is very good of accessibility. The total assets of the entire LPD of Bali Province per June 30, 2013 was 9.477 trillion rupiah, a very large number but with a greater risk of default. Therefore, a great asset became one justification for lifting the LPD as an object of scientific study because there is a big risk there. Connected with LPD, then the self-assurance and self-protection is an important area for LPD to manage themselves in the perspective of indigenous values that flexible with business advancement and fit with the social environmental, cultural and legal turbulence.

Table 1. Total LPD per District/City and Its Asset

| District/City | Total LPD | Total Desa Adat / Pakraman Village | Total Asset (in thousand rupiah) |
|---------------|--------------|------------------------------------|----------------------------------|
| 1. Jembrana | 64 | 64 | 242.882.039 |
| 2. Tabanan | 345 | 307 | 737.954.335 |
| 3. Badung | 122 | 122 | 3.762.010.229 |
| 4. Gianyar | 269 | 278 | 1.745.333.434 |
| 5. Klungkung | 107 | 108 | 317.969.269 |
| 6. Bangli | 158 | 160 | 415.360.062 |
| 7. Karangasem | 190 | 190 | 458.147.992 |
| 8. Buleleng | 166 | 166 | 888.047.381 |
| 9. Denpasar | 35 | 35 | 909.412.400 |
| Total | 1.418 | 1.468 | 9.477.117.141 |

Source: PLPDP Bali (2013)

Accordingly, these based on custom financial models has the power of synergy community relied on two unique pillars, namely ownership of the *Desa Adat*¹ and “*bebanjaran*”² decision-making models – not one man one vote. However, the development of financial inclusion LPD is not advancing everything individually. There is also a less encouraging or ill conditions due to mismanagement and mismanagement.

Ideally LPD attendance is expected as a model for creating a productive economic environment in order to fulfilling the needs of rural community funds in poverty alleviation. LPD Models in poverty alleviation play upstream, in the sense if the access to communities capital is served by financial inclusion, then the business activities of life can be fulfilled - have the purchasing power and small businesses can run on paths that is proportional. Poverty indicator from LPD is the surplus that returned to the members of *Desa Adat* in the form of distributions or allocations, appropriate with the rules laid down in the area. LPD’s ROA (ratio between net income and managed assets) should have an effect on poverty reduction with the assumption that portion of outstanding loans is more to the productive sectors.

Constructive relationship between the financial sector and the real sector in terms of any nominal value of X rupiah, equivalent to strengthening the real sector in order to increase people’s purchasing power. The progress of the financial sector will not have any meaning and do not reflect sustainability if there are still a lot of poverty and poor people. Results of research conducted by Suartana and Ariyanto (2009) ROA (Return on Assets) of LPD negatively affect the poverty reduction, which means any increase in ROA has implications for poverty reduction. LPD has a basis in the distribution of net income that is Regional Regulation No. 8 of 2002 (now Regional Regulation No. 4 of 2012). With the composition of 60% of capital reserves, 20% of construction funds for *pakraman* village, 10% production services, fund development, supervision and protection of 5%, and 5% social fund. From that percentage seems mostly the net income returned to *pakraman* village in the amount of 85% as capital reserve, development fund for *pakraman* village, and social funds. The earnings of LPD do not run to people to people or wealth of distribution as the form of dividends, everything will go back to the *Desa Adat*. LPD’s gains did not set on the basis of the share, so then there is a claim on it.

Seeing the development of LPD assets that so large then it required good governance. These statements reflect on the phenomenon of at least three factors that influence the success of financial institutions including LPD, namely risk management, governance, and internal audit functions (Suartana, 2009). These three factors are integrated in practice and located on the same system. Risk management concerns how LPD manage risk and mitigation actions, governance concerning how LPD maintain a healthy relationship with *prajuru*³ and management model of *bebanjaran* economic system that reliably and characterized, lack of financial accountability through the *Paruman*⁴ media, the validity and reliability of accounting statements, the absence of excessive intervention from the representatives of the owners and clear compensation system. Audit function acted by LPD regulatory agency also undergone institutionalization, but collided with capability issues.

¹ Desa adat is a traditional institution that embodies social, cultural and religious activities from communities in Bali.

² *Bebanjaran* is a community-based social system that consists of people with their rights and duties respectively.

³ *Prajuru* is the board of the indigenous villages (*desa adat*).

⁴ *Paruman* is a meeting that held in the traditional village, involving all members of the traditional village concerned.

Surveillance against the business risks such as the risk of credit is one of important dimension in assessing the health of a microfinance institution (Astawa et.al, 2012). *Lembaga Perkreditan Desa* (LPD) as a form of Balinese microfinance institutions also requires a suitable supervision of inherent risks. LPD is a financial institution owned by pakraman village/traditional village that has grown, and give social benefits, economic and culture to its members, so that needs to be nurtured and given internal controls efficiently and effectively.

2. Literature and Previous Research Findings

Risk assessment is the identification, analysis, and management of risks relevant to the preparation of financial statements or the other reports that presented fairly accordance with generally acceptable accounting principles in Indonesia or accounting standards applicable in the LPD. LPD risk assessment not only involves the observance of reporting methods, but more broadly cover the business risks faced by the LPD. Intensive control efforts conducted since LPD always face a variety of risks that is basically everything that hinders the goals and inflict potential losses. Risk not only includes fraud in financial reporting but more far reaching into the operational area. The cause and source of risk is holistic and diverse, but a single result that is detrimental to the LPD. LPD can make a business plan, programs, or actions to address specific risks or it could just accept the risk as long as after passing through an analysis of benefits and costs.

Based on the Committee of Sponsoring Organization (COSO) company risk management is part of the determination of the strategy. At the time of formulating the strategy LPD, managers analyze alternative strategies and identifying those events that threaten the achievement. When the risks inherent in each alternative strategies are identified and placed on the map of risk, then the alternatives can be evaluated based on the ability of LPD and how to unite with LPD risk appetite. Thus, the formulation of the strategy can be improved with PRP because the risks are identified and alternative strategies assessed by the company's risk appetite. In turn, the absence of a well-articulated strategy will cause the foundation for implementing company risk management become inadequate.

Koentjaraningrat (1993) mentions that the manifestation of culture as a system has elements/subsystems mindset/concepts/values, social subsystems, and artifacts/material subsystems. *Tri Hita Karana* containing elements *Parhyangan* (harmonious relationship between man and God Almighty), *Pawongan* (harmonious relationship between man and man), and *Palemahan* (harmonious relationship between humans and the environment) is essentially analogous to the culture system. In relation to culture, it can be said that *Parhyangan* analogous to susbsistem mindset/concept/value, *Pawongan* analogous to the social subsystem and *Palemahan* analogous to the artifact/material subsystem.

According to Johnstone and Bedard (2003) evaluation of business risks is essential conducted by the organization or company because it involves the governance mechanisms developed by the company concerned. Internal controls will be effective when done properly evaluate risk, systematic and measurable. Johstone (2000) and Kotchetova et.al (2010) also progressed more or less the same, which the evaluation of risk will determine which monitoring strategy to do, which means the higher the risk, the company scope of supervision will also be higher.

However, not all risk management strategies will be effective if it is not confirmed by culture or corporate culture and local wisdom that are still accepted and believed its truth. Kluwer (2013) mentions that since the massive fraud case that hit major companies in the United States (U.S.), which led to Congress signed the Sarbanes-Okley Act, needs for culture or cultural observance, against risk management is increasing.

According to Ramos (2009) an evaluation that conducted to assess the company should be followed by an adequate understanding of the internal control systems and business processes that applied to the company. Business processes also include the applicable corporate culture into a system of shared values. With this understanding of the outcomes of the evaluation will result in a more effective risk management.

Catur Purusha Artha as a showcase of cultural values can be used as a basis for business activities of LPD (Pancadana and Parwata, 2013). Indigenous culture or *Catur Purusha Artha* describes four things that are important to the LPD in the risk-based internal control, namely *Dharma*, *Artha*, *Kama*, and *Moksha*. The fourth aspect of *Catur Purusha Artha* has risk management content in the realm of values espoused managers or executives thus making LPD can live sustainably.

On the other hand, according to Saputra (www.undiksha.ac.id, 2013) behavioral dimensions of locus of control is supported by the *Tri Hita Karana* culture as the culture of an organization is able to further improve the performance of a company. These results can be interpreted that the implementation of *Tri Hita Karana* will support the sustainable business of a business entity. LPD is associated with a business entity that is susceptible with the risk, so the implementation of *Tri Hita Karana* will strengthen the risk-based supervision sustainably.

The study conducted by Astawa et.al (2012) showed that practices the values of cultural harmony represented in the *Tri Hita Karana* has an influence on LPD's credit risk. The essence of *Tri Hita Karana* will cause a decrease in the NPL (Non Performing Loan) which became one of the most important indicators in assessing the health of the LPD.

Well-managed LPD usually already running some focus for the management of risk. Once the complexity and evolving organization serving the broader market, it is a challenge to understand how different kinds of organizational units interact with each other and relates, and how the risk is managed in an integrated and comprehensive from a simple action, such as reducing the risk up to ongoing risk management, in the form of the optimization of risk without having to hurt the company.

3. Research Methods

The sample in this study is LPD of *Desa Adat Pecatu* in Badung District which already has *Awig-Awig*¹ and *Perarem*² on its own in the management of its business and has articulated risk management implicitly. The data used in this research is qualitative and quantitative data. Qualitative data is data that is not shaped figures include an explanation of the general description from the sample selected LPD and sustainable risk management application on the selected sample while quantitative data are data figures such as LPD financial statements in the form of income statement, balance sheet, cash flow statement and statement of changes in equity or external quantitative data derived from the Trustees LPD (Bank Pembangunan Daerah Bali) and Local Government. Quantitative data will support the justification of qualitative data.

Sources of data used in this study are:

- 1) Primary data is the data sources that directly provide data to data collectors. In this case the data is obtained directly from prajuru traditional village, administrators and supervisors LPD conducted through interviews and questionnaire.
- 2) Secondary data is data source that does not directly provide data source to data collectors, for example through the documents, and financial reports, statistical data, and so on. The data obtained from the relevant LPD and LPD Trustees.

3.1. Method of Data Collection

Data collection methods used there are:

- a. Observation, namely the collection of data by observing and recording systematically of the phenomenon or phenomena under study. Observations carried out by observing the application of Culture-Based Sustainable RBIA. This observation technique performed on LPD operational activities related to the issue of risk-based supervision.
- b. Interview is a data collection by conduct a discussion with the parties / sections concerned. Interviews conducted unstructured here, that is not using structured interview guide for the systematic and complete data collection. Interviews were conducted with respect to the explanation of risk management LPD and Risk-Based Control Strategies of LPD (on all components related to LPD Supervision). Data obtained by direct questioning with Supervisory Board of LPD, administrators and *Prajuru Pakraman Village*. This interview technique is conducted to gain a deeper understanding of the research object apart from the physical data that has been collected.
- c. Questionnaire, which is done by distributing questionnaires asking a risk-based internal control issues with the relevant parties.

3.2. Data analysis techniques

Data analysis methods used in this first year research is the elaborative descriptive technique, that is data obtained on application of RBIA described and compared with theories, concepts, best practices and rules.

¹ Awig-awig is a rule made by the community of *Desa Adat* in accordance with dharma religion in each of indigenous villages, as a basic guideline of LPD.

² Pararem is the operational elaboration of awig-awig which contains the governance of LPD.

4. Results and Discussion

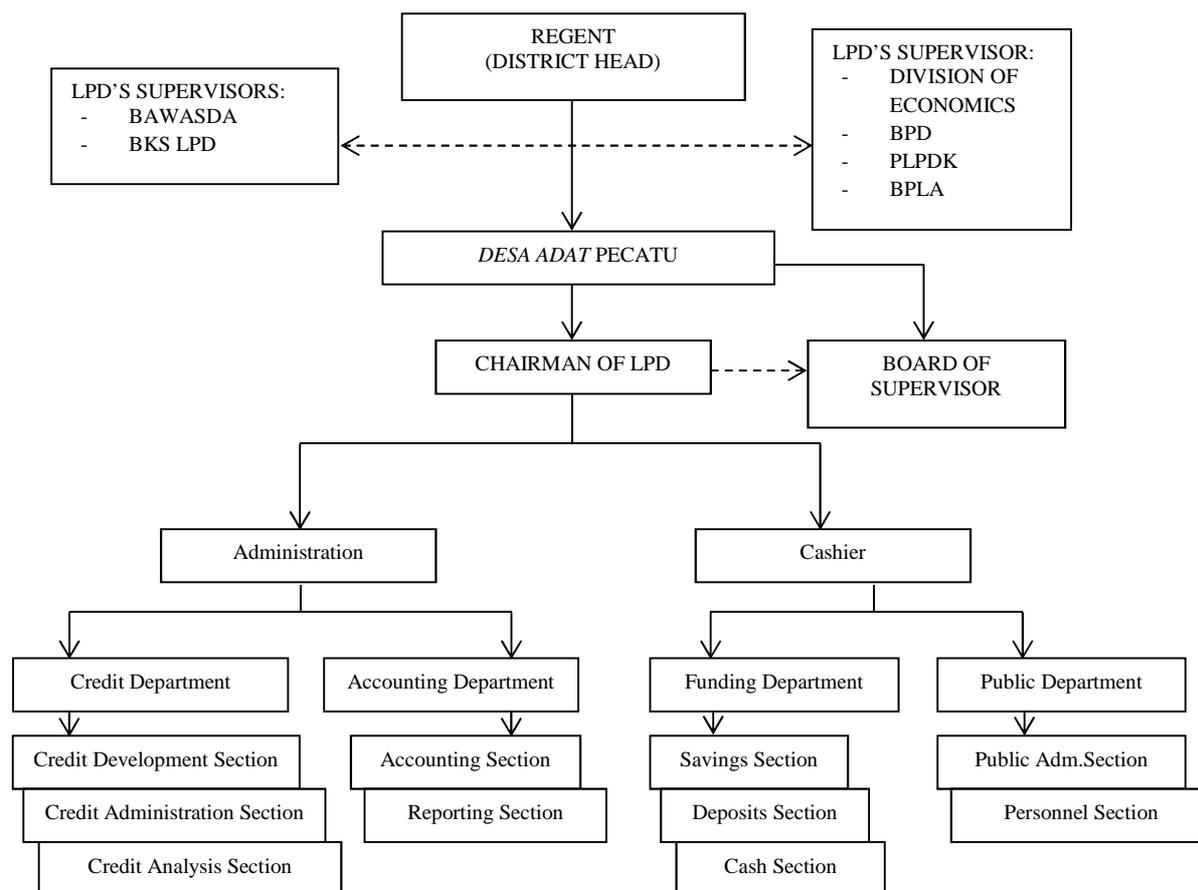
4.1. Overview of the LPD Desa Adat Pecatu

This research is a case study at the LPD *Desa Adat Pecatu* in Badung District, which uses line organizational structure that can be seen in the figure 1. With the organizational structure as stated in the above Figure 5.1 clearly shows that the Supervisory Board of LPD has a role and a duty to implement the guidance and supervision to coordinate with the Chairman LPD to conduct supervision periodically, scheduled, or incidental in accordance with the work program and conditions and considerations as deemed necessary by the Board of Supervisors of LPD. Duties and responsibilities of the Supervisory Board as an internal auditor that owned by LPD can not run smoothly if there is no coordination and cooperation from all parties that play an important role in managing the LPD for performance according with the work program and the expectations of local society (rural manners) sustainable.

4.2. Local Knowledge Owned by LPD in Risk Based Internal Audit (RBIA)

4.2.1. Tri Hita Karana

The essence of Tri Hita Karana in relation with the management of business risks LPD boils down to the values of harmony which is reflected in Parahyangan (the relationship between man and God), Pawongan (human relations) and Palemahan (harmonious relationship between humans and the environment). Tri Hita Karana taught the human to commit that the entire universe, including the environment around them, becomes a liability to be maintained and preserved. Tri Hita Karana analysis is an analysis that bases its study on aspects Parahyangan, Pawongan, and Palemahan (Windia and Dewi, 2011). Parahyangan is a concept which wants a harmony between man and God Almighty. In business activities must also be realized that business activity is an offering to the Almighty God. Business activity is not only the sole purpose of enjoying the benefits of this activity alone but actually controlled by God Almighty. Pawongan is a concept which wants a harmony between man and his fellow. In business activities, must be realized that businesses are essentially creatures of God, is no different from other human beings. Businessperson must maintain harmony with others that exist in an internal company. Harmony with each other should also be done externally to avoid social conflict with society. Lastly, Palemahan is a concept in which the business should be sensitive to the surrounding natural environment. Nature provides all the ease and generosity, then the business must pay attention to the natural environment by way of not excessively exploit. Tri Hita Karana concept is very close to the sustainable management of risks that are not only concerned with the financial aspects but also social and environmental.



Captions:

- _____ : Coordination Line
- : Supervision Line

Figure 3. Organizational Structure of Lembaga Perkreditan Desa (LPD) Desa Adat Pecatu in Badung District in Accordance to Regent Decree No. 1401 of 2002
 Source: LPD Desa Adat Pecatu, 2009

The relation of *Tri Hita Karana* with culture requires action and positive manager behavior. The action came in the form set examples of ethical behavior followed by a personal code of ethics managers and regulatory bodies of LPD, a formal set of rules behave, and treat employees fairly and with full respect. LPD organizations laden with cultural values that support the creation of an ethical operation style. Culture exists because the system's values are still strong. Management philosophy is "LPD *padruwen* village" or "LPD is owned by the village", then the reciprocation of the LPD is a shared responsibility in pakraman village. On the other hand, LPD is economically productive effort, that the result as much as possible for the prosperity and welfare of the community *Desa Adat/pakraman* village. LPD's operating style is slightly different from other businesses. Product rule of *pakraman* village level is still relatively strong and effective. Since it was shown to be robust, then such rules is maintained. Product regulation in question is *Awig-Awig* and *Perarem* of *Pakraman Village/Desa Adat*.

In cosmology, according to Saputra (www.undiksha.ac.id, 2013) behavioral dimensions, namely locus of control, supported by a culture of *Tri Hita Karana* as a culture for an organization is able to further improve the performance of a company. These results can be interpreted that the implementation of *Tri Hita Karana* will support the sustainable business of a business entity. LPD is associated with a business entity that is susceptible with risks then the implementation of *Tri Hita Karana* will strengthen the culture of risk-based supervision on an ongoing basis. Likewise, a study conducted by Astawa et.al (2012) showed that practices the values of cultural harmony which represented in the *Tri Hita Karana* has an influence on credit risk LPDs. Practice of *Tri Hita*

Karana will cause a decrease in the NPL (Non Performing Loan) which became one of the most important indicators in assessing the health of the LPD.

4.2.2. *Catur Purusha Artha*

Catur Purusha Artha as cultural values can be used as a basis in operations or governance of LPD (Pancadana and Parwata, 2013). Culture or local wisdom *Catur Purusha Artha* describes four things that are important to the LPD in RBIA. (1) *Dharma*, is the ultimate foundation of LPD in running its operations. In business activities conducted by the LPD should always be guided by the *Dharma*, namely the goodness or good governance. After practicing kindness in operation then God will bestow blessings in the form of *Artha* to his people who have done a consistent practice of his teachings. Governance of LPD is *Catur Dharma*, that composed of: (1) to belong to that benefit of pakraman village manners and, (2) provide the best service to customers, (3) mutual respect and foster a sense of family, and (4) trying to achieve the best by providing space and time for sustainable improvement

Artha, which are the next sequence after the main foundation conducted by LPD in the form of carrying out the teaching of *Dharma* or goodness as a measure of good governance, then LPD emphasizes their business activities on the aspects of gains, in the form of interest income of savings and loan business, based on the *Catur Dharma* earlier. LPD is an *Artha* institutions. After *Artha* aspect, the next stage is *Kama*, which is lust or desire or wish fulfillment on the basis of need. With the *Artha*, *Kama* or desire will be fulfilled with the benefits of LPD in the normal course of business. After the third stage is reached above then the latter is *Moksha*. *Moksha* is the spiritual and physical happiness. Business activities that carried out to help the economy of indigenous villagers so as to ease the burden of the life of the community (for example in the case of ceremonies) will feel happier because their basic needs are met. The fourth aspect of *Catur Purusha Artha* has risk management content in the realm of values espoused regulatory agency, manager or administrator thus making the LPD can live in a sustainable manner.

Furthermore, the values of *Catur Purusha Artha* can be operationalized into a number of important indicators that can strengthen management tasks, monitoring and reliability of LPD financial information.

4.3. Risk Based Internal Audit Based on Culture at *Lembaga Perkreditan Desa*

4.3.1. *Tri Hita Karana*

Risk management had been implemented by the LPD Pecatu able to minimize the risks that occur in the management of LPD Pecatu with the synergy of leadership and supervision and risk management conducted by LPD Chairman, Board of Supervisors, and *prajuru* of *Desa Adat Pecatu*. In this level *Pawongan* element that emphasizes the harmonious inter-relationship between human beings is very useful in the management of LPD Pecatu towards the achievement of the performance (return) of high and sustained over time. Furthermore, achievement of improved performance and sustained *Tri Hita Karana* utilized to support other aspects, which is *Parhyangan* element (relationship with God) in the form of utilization rightful share of profits and submitted by LPD Pecatu for *Dewa Yadnya* and *Manusa Yadnya* activities (mass cremation and temple ceremony) and the establishment and renovation of the temple (place of worship). In *Palemahan* elements (human relationship with the environment) success in managing the risk of a business carried on LPD Pecatu be used to support social activities in the *Desa Adat Pecatu*, such as sports activities, environmental hygiene, and the cost of education (scholarships) for students of primary and middle schools.

Table 2. The Operationalization of *Catur Purusha Artha* in RBIA

| <i>Dharma</i> | <i>Artha</i> | <i>Kama</i> | <i>Moksha</i> |
|---|---|---|---|
| <ul style="list-style-type: none"> • Working based on truth • Working with heart • Working for the dedication and professionalism • Working with control and risk awareness culture | <ul style="list-style-type: none"> • Monitoring and evaluation of performance-based • Gains derived to enlarge the business • Analysis of Costs and Benefits | <ul style="list-style-type: none"> • Desire to advance LPD based on the work ethic • The desire is controlled by the need • The desire to develop LPD as an Bebanjaran Economic System | <ul style="list-style-type: none"> • The welfare of society • The relationship of LPD financial ratios with job creation and poverty reduction • Sustainability of LPD • Spiritual and physical happiness or suka tan pawali duka |

Business risk management of LPD towards the achievement of sustainable performance with the motto "*Laba Padruwen Desa*" (profits belong to the *Desa Adat*) is in line with the Bali Provincial Regulation No. 3 of 2007 and Badung Regency Regulation No. 8 of 2002 and No. 19 of 2007. To strengthen these achievements, the good corporate governance that have been implemented by the LPD Pecatu also supported by the *awig-awig* and *pararem* of *Desa Adat Pecatu* which is rule that binding in behavioral aspects *Tri Kaya Parisudha* (three guidelines in the pattern live in a society that is consists of think, say, and act the best) for each member of *Desa Adat Pecatu* in order to support a harmonious life for the welfare and happiness.

4.3.2. *Catur Purusha Artha*

Catur Purusha Artha is a cultural values form the basis for LPD Pecatu in business. In carrying out its operations, the values of *Dharma* shown in the form of good governance based on the Bali Provincial Laws and Local Regulation Badung regency. In addition to the level of *Desa Adat Pecatu*, the presence of *Awig-Awig* and *Pararem* of *Desa Adat Pecatu* take part in underlies and makes guidelines for all administrators, regulatory agency, and staff personnel in organizing and managing the business LPD of Pecatu.

In this context, the *Dharma* is positioned as the foundation of law or truth that must be adhered by all members of *Desa Adat Pecatu*. Good governance is able to ensure the business risks that arise can be reduced to a minimal level of risk management. This has an impact on the achievement of performance (profit) that increasing and continuous. In this context, the concept of *Artha* become an important part and has been used as the foundation in the management of LPD Pecatu. All management, regulatory agency, staff employees and other stakeholders are deployed to achieve performance in accordance with the work program that has been previously set. Achievement of performance (profit) is increasing and continuing to make work programs that have been prepared by the management and regulatory agency can be carried out using funds (*Artha*) that obtained with hard work and enthusiastic spirit (*dharma*). In this context, the concept of *Kama* (good desire) in the form of LPD work programs and work programs of *Desa Adat Pecatu* as the embodiment of *Tri Hita Karana* is able to be realized because the LPD have managed to achieve the optimal performance (*Artha*) with the foundation of *Dharma*. With the implementation of the work plan on the basis of governance based on the teachings of *Dharma*, performance (*Artha*) obtained to realize the plans and work programs to be real. Of course, the achievement of performance and fulfillment of all the good wishes (*Kama*) in accordance with the work plan affect happiness (moksha) that envelop the entire board, regulatory agency, all staff employees and other interested parties with LPD.

With the concept of *Tri Hita Karana* and *Catur Purusha Artha*, harmony and happiness that achieved by LPD *Desa Adat Pecatu* are sustainable in the long term, and facilitated with early risk management actively implemented by LPD Pecatu. Cultural concept of *Tri Hita Karana* and *Catur Purusha Artha* has successfully manifested by LPD *Desa Adat Pecatu*. Therefore, continuous risk management conducted by Board of

Supervisors LPD as an internal auditor can not be separated from the cultural elements that are used as guidelines and a foundation in order to support the governance of LPD towards the sustainable and maximum performance to achieve harmony and happiness.

5. Conclusions and Recommendations

5.1. Conclusions

Based on the above subject matter, concepts and theories of the discussion that has been described above, the conclusion can be drawn:

- 1) Governance of LPD *Desa Adat Pecatu* has implemented its role and responsibilities of Board of Supervisors of LPD as an internal auditor in carrying out the supervision and control of the business involving the risk management to maximize performance. The type of risk that has been managed by the LPD *Desa Adat Pecatu* are credit risk, operational risk, market risk, liquidity risk, legal risk, strategic risk, and reputation risk.
- 2) *Tri Hita Karana* and *Catur Purusha Artha*, as an element of culture becomes the operational basis in the management of business risks of LPD *Desa Adat Pecatu*. This is confirmed by the presence of *Awig-Awig* and *Pararem* of *Desa Adat Pecatu* as the basis for managing the risk based on culture.

5.2. Recommendations

The suggestions that can be recommended are:

- 1) The implementation of corporate governance, especially at the LPD involving the LPD's Board of Supervisors active role as an internal auditor needs to include the elements of business risk management to minimize the biased adverse effects faced by LPD in the future.
- 2) The culture concept of *Tri Hita Karana* and *Catur Purusha Artha* should be used as guidelines in the management of LPD to improve overall performance and sustainable in order to create harmony and happiness of human beings and the surrounding environment. Therefore it is necessary to affirm the concept of culture and incorporated in *awig awig* and *pararem* of local LPD.

5.3. The Limitations of Research

The sample used in this research is a case study that has been done on the developed LPD which allows less able to be adopted by the undeveloped LPD and the LPD that experiencing different environmental influence and the governance of LPD has not been developed.

References

- Ali, H. Masyhud. (2006). *Manajemen Risiko: Strategi Perbankan dan Dunia Usaha menghadapi Tantangan Globalisasi Bisnis*. Jakarta: Rajawali Press.
- Astawa, I Putu; Made Sudarma, Siti Aisjah and Djumahir. (2012). *Journal of Business and Management*. Vol. 6, issue 4 (Nov-Dec), pp: 16-20.
- Doherty, Neil. (2000). *Integrated Risk Management*. New York: McGraw Hill.
- Hadi, Agus Purbathin. (2014). Eksistensi Desa Adat Dan Kelembagaan Lokal: Kasus Bali. [Online] Available: <http://suniscome.50webs.com/data/download/35%20DESA%20ADAT%20BALI.pdf>. (June 2, 2014).
- Johnstone, Karla M. (2000). Client-Acceptance Decisions: Simultaneous Effects of Clients Business Risk, Audit Risk, Audit Business Risk, and Risk Adaptation. *Auditing A Journal of Practice & Theory*, Vol. 19, No. 1, Spring.
- Johnstone, Karla M. and Jean C. Bedard. (2003). Risk Management in Client Acceptance Decisions. *The Accounting Review Journal*, Vol. 78, No.4, pp: 1003-1025.
- Koentjaraningrat. (1993). *Kebudayaan, Mentalitas dan Pembangunan*. Jakarta: Gramedia Pustaka Utama.
- Koroy, Tri Ramaraya. (2008). *Management Audit: Enterprise Risk Management*. Working Paper.

- Kotchetova, Natalia; Thomas M. Kozloski dan William F. Messier, Jr. (2010). *Linkages between Auditors Risk Assessments in A Risk-Based Audit*. Working Paper [Online] Available: http://business.illinois.edu/files/accy/Proceedings/Audit_2006/KKM_BPA.pdf. (May 2, 2010)
- Pancadana, Dewa Made and AA Gde Oka Parwata. (2013). Catur Purusha Artha sebagai Dasar Kegiatan Usaha LPD di Desa Pakraman Kikian. *Kertha Semaya Journal*, Vol. 01, No. 02, February 2013.
- PT BPD Bali. (2012). Data and LPD Growth.
- Bali Provincial Regulation No. 8 of 2002 on Lembaga Perkreditan Desa (LPD).
- Bali Provincial Regulation No. 3 of 2007 on Amendment to the Bali Provincial Regulation No. 8 of 2002 on Lembaga Perkreditan Desa.
- Bali Governor Regulation No. 16 of 2008 on the Internal Supervisory and Board of Lembaga Perkreditan Desa.
- Saputra, Komang Adi Kurniawan. (2013). Analisis Pengaruh Locus of Control terhadap Kinerja dan Kepuasan Kerja Internal Auditor dengan Kultur Lokal Tri Hita Karana sebagai Variabel Moderasi (Penelitian terhadap Internal Auditor Hotel Berbintang di Bali) [Online]. Available: www.undiksha.ac.id (January 13, 2013)
- Ramos, Michael. (2009). Risk-Based Audit Best Practices. *Journal of Accountancy*. December. p.32.
- Suartana, I Wayan. (2009). *Arsitektur Pengelolaan Risiko pada Lembaga Perkreditan Desa (LPD)*. Udayana University Press
- _____. (2013), *Speech Submitted in the Inauguration of Title Professors in The Field of Accounting Sciences at the Faculty of Economics and Business, University of Udayana, Friday, September 20th, 2013*, not published.
- Suartana, I Wayan and Dodik Ariyanto. (2012). Analisis Kinerja Internal, Balance Scorecard, dan Pengembangan Keuangan Mikro Berkelanjutan (Studi Pada Lembaga Perkreditan Desa di Provinsi Bali). *Jurnal Akuntansi & Auditing*, Vol. 09, No.1, November 2012, pp: 56-69.
- Windia, Wayan and Ratna Komala Dewi. (2011). *Analisis Bisnis Berlandaskan Tri Hita Karana*. Udayana University Press.