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Local Wisdom and Financial Accountability in Traditional Village Governance: An Institutional Theory Approach

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Abstract

Growing demands for accountability and transparency in public financial management have driven institutions to adapt formal governance systems while preserving local cultural values. This study examines financial management in Alapsari Traditional Village through the lens of institutional theory, focusing on the integration of *Sad Kerthi* values within formal governance systems. It aims to explore the implementation of *Sad Kerthi* values in financial management practices. A qualitative case study approach was employed, using in-depth interviews, observations, and NVivo-based thematic analysis. The findings show that financial management operates within a hybrid institutional model, where regulative, normative, and cultural-cognitive pillars interact dynamically. *Sad Kerthi* values are not merely symbolic but are operationalized across planning, implementation, and accountability processes through participatory mechanisms such as *paruman*, resulting in holistic accountability that encompasses administrative, social, and spiritual dimensions, supported by strong social control and high integrity in financial practices. The study concludes that integrating local wisdom with formal governance enhances transparency, legitimacy, and sustainability, although challenges related to human resource capacity and regulatory adaptation persist. These findings contribute to the development of culturally grounded public sector accounting and provide practical insights for improving financial governance in traditional communities.

Keywords

Accountability, Financial Management Practices, Institutional Theory, Local Wisdom, *Sad Kerthi*, Traditional Village Finance.

1. Introduction

Financial management in Balinese customary villages (*desa adat*) is a fundamental pillar in maintaining socio-religious structures and cultural sustainability, as these autonomous legal entities independently govern financial resources from community contributions, village-owned enterprises, and government assistance, including managing customary land and local resources that require professional financial governance systems (Kurniawan, 2016; Purnama & Dewi, 2019). However, this complexity is reinforced by increasing demands for accountability, transparency, and good governance, particularly since *desa adat* receive financial support through Special Financial Assistance (*Bantuan Keuangan Khusus/BKK*) and Village Revenue and Expenditure Budget (*Anggaran Pendapatan dan Belanja Desa/APBD*) Semesta Berencana schemes, which must comply with principles of accountability, transparency, participation, and efficiency as regulated in Governor Regulation of Bali Number 2 of 2023, yet in practice, the implementation of these principles remains inconsistent across financial planning, budgeting, execution, reporting, and accountability processes.

Empirical evidence shows that financial governance problems in *desa adat* are recurring issues, as reflected in several corruption cases across Bali, including alleged misuse of BKK funds in Sekumpul Traditional Village with losses reaching hundreds of millions of rupiah, corruption in Tista Traditional Village amounting to IDR 437 million, investigations in Lokapaksa Traditional Village related to misuse of government assistance funds, and more severe cases such as corruption in Gulingan Traditional Village reaching IDR 30.9 billion and financial irregularities in Village Credit Institution (*Lembaga Perkreditan Desa/LPD*) Ngis Traditional Village with losses of around IDR 10 billion, indicating systemic weaknesses in internal control mechanisms (Saputra et al., 2018b; Nurdiantoro, 2023). The persistence of such cases highlights that despite formal regulatory frameworks, financial misconduct continues, revealing a gap between policy design and implementation and suggesting that regulatory compliance alone is insufficient without strong accountability systems, a concern reinforced by studies showing that although *desa adat* governance is normatively based on trust and cultural legitimacy, weak accountability mechanisms increase vulnerability to mismanagement and corruption, whereas ideally participatory mechanisms engaging *krama desa* in planning, implementation, and reporting processes should be in place (Pramana, 2020; Andriani & Atmadja, 2022).

The implementation gap of Governor Regulation Number 2 of 2023 further emphasizes the urgency of this issue, as prior studies confirm that *desa adat* financial management still faces serious challenges in transparency and accountability where formal regulations have not been fully effective in practice, indicating that a purely regulatory approach is insufficient and a more contextual and culturally embedded governance model is required (Nurhakim & Yudianto, 2018; Matana & Hapsari, 2022). To address this gap, integrating local wisdom into financial governance has been proposed as an alternative mechanism, with previous research showing that cultural values such as *Tri Hita Karana* can function as informal control systems that strengthen accountability and reduce fraud, while *Sad Kerthi* offers a more comprehensive Balinese philosophical framework consisting of six dimensions, *Atma Kerthi*, *Jana Kerthi*, *Segara Kerthi*, *Danu Kerthi*, *Wana Kerthi*, and *Jagat Kerthi*, emphasizing holistic purification of spiritual, human, environmental, and ecological dimensions, and further demonstrating relevance in shaping sustainable and responsible economic behavior (Saputra et al., 2018a).

However, the application of *Sad Kerthi* in public financial management remains limited, as existing studies by Pujaastawa and Sudana (2022), Adyatma et al. (2023), and Arsha et al. (2024) have largely concentrated on tourism sustainability,

community empowerment, and broader economic development, while research on *desa adat* financial management has been dominated by *Tri Hita Karana* frameworks with limited integration of *Sad Kerthi* as a structured governance model, thereby creating a significant research gap in developing culturally grounded and operational financial governance frameworks (Dharmawan & Yudantara, 2020; Saputra et al., 2018b). From a theoretical perspective, institutional theory provides a strong foundation for analyzing this phenomenon, as organizational behavior is shaped by coercive, normative, and cognitive-cultural pressures that collectively construct institutional legitimacy, and in *desa adat* financial governance, these pressures come not only from formal regulations but also from professional norms and deeply embedded cultural values such as *Sad Kerthi*, with recent studies confirming that institutional pressures significantly influence public sector accounting practices and policy implementation (Scott, 2014; Zaitul et al., 2023; Adam et al., 2024; Roberto et al., 2025).

The novelty of this study lies in the systematic integration of *Sad Kerthi* values into *desa adat* financial management within an institutional theory framework. Unlike previous studies, this research operationalizes *Sad Kerthi* as a structured and applicable governance framework aligned with Governor Regulation Number 2 of 2023. This approach is expected to bridge the gap between formal regulatory compliance and culturally legitimate governance practices, thereby strengthening accountability, transparency, and sustainability in *desa adat* financial management.

Based on the identified problems and research gap, this study aims to analyze financial management practices in Alapsari Traditional Village using NVivo to identify key themes and patterns. The analysis focuses on the institutional implementation of *Sad Kerthi*-based financial management, including how these values are integrated into governance practices and reflected in accountability mechanisms toward both government and community. Furthermore, the study examines the opportunities and challenges encountered in its implementation, as well as the role of customary institutional actors in shaping financial governance. These findings are then interpreted through the lens of institutional theory to understand the interaction between traditional values and formal financial systems.

2. Literature Review

2.1. Institutional Theory

Institutional theory explains how organizations are shaped not only by technical and economic considerations but also by social, normative, and cultural pressures. Scott (2014) defines institutions as stable and legitimate social structures that guide behavior through three pillars: regulative, normative, and cognitive-cultural. This perspective emphasizes that organizational behavior is driven by the search for legitimacy within an institutional environment. Its continued relevance is shown in modern public administration, where institutions not only provide stability but also experience both incremental and radical change (Silva et al., 2024). Thus, organizational practices are shaped by formal rules, shared norms, and taken-for-granted cultural understandings.

In *desa adat* financial management, institutional theory explains how governance is shaped by multiple pressures: coercive regulations, normative professional standards, and cognitive-cultural values rooted in *Sad Kerthi*. Scott's (2014) framework integrates these dimensions, while Atmadja and Saputra (2018) highlight competence (cognitive-cultural) and assistance and supervision (regulative and normative) as key drivers of accountability. This reflects the need to balance formal compliance with local values.

The regulative pillar emphasizes formal rules and sanctions enforcing compliance. In *desa adat* governance, this is reflected in Governor Regulation of Bali

Number 2 of 2023, which sets standards, reporting obligations, and enforces compliance through monitoring, audits, and sanctions. The normative pillar focuses on values and professional standards guiding appropriate behavior. In *desa adat* financial management, it appears in principles of accountability, transparency, and professionalism, internalized through training and professional socialization rather than coercion. The cognitive-cultural pillar reflects shared meanings and taken-for-granted assumptions that shape legitimate behavior (Scott, 2014). In this study, it is represented by *Sad Kerthi*, a Balinese local wisdom recognized in Law Number 15 of 2023, integrating spiritual, social, and environmental values. Religiosity is shown to reduce unethical behavior under pressure, while *Sad Kerthi* functions as a holistic framework guiding behavior (Prayudi & Dharmawan, 2018). Compliance arises naturally from internalized beliefs rather than external enforcement.

2.2. Financial Management

Financial management in Balinese customary villages (*desa adat*) is a central governance function shaped by unique institutional and cultural characteristics. Governor Regulation of Bali Number 2 of 2023 defines it as a comprehensive process covering planning, implementation, administration, reporting, and accountability, carried out in an orderly, efficient, effective, transparent, and responsible manner while ensuring fairness and benefits for *krama desa adat*. This regulation strengthens the legal position and autonomy of *desa adat* in managing resources for sustainable development and embeds the philosophical vision of “*Nangun Sat Kerthi Loka Bali*” (Karismawati, 2015). Compared to general public financial management, governance in *desa adat* is more complex due to the integration of formal systems with customary institutions and local wisdom.

The principles of *desa adat* financial management include orderliness, efficiency, economy, effectiveness, transparency, accountability, and fairness. These principles ensure compliance with regulations and *arwig-arwig*, optimal resource use, goal achievement, openness, responsibility, and welfare distribution for *krama desa adat*. Hala et al. (2022) emphasize value-for-money principles (economy, efficiency, effectiveness), which must be integrated with local wisdom to ensure cultural legitimacy.

The financial management cycle consists of four stages. Planning is conducted participatively through *Paruman desa* involving *prajuru*, *Sabha Desa*, and *krama* to identify needs aligned with “*Nangun Sat Kerthi Loka Bali*,” as regulated in Pergub Bali Number 34 of 2019. Budgeting translates plans into *APBDesa Adat* by allocating revenues such as grants and asset income under regulatory compliance, functioning as budgetary control. Implementation involves executing budgets through structured financial administration, documentation, and separation of duties, while prioritizing *Parahyangan*, *Parwongan*, and *Palemahan*, and integrating *Sad Kerthi* values. Reporting and accountability involve comparing realization with budgets and reporting outcomes to both the government and *krama desa adat* through *Paruman desa*, reflecting public and social accountability in accordance with customary values (Rahmayani, 2022).

2.3. Accountability

Accountability in the public sector refers to a relationship in which actors are obliged to explain and justify their actions and use of resources to authorized forums that can evaluate and impose consequences (Bovens, 2007; Romzek & Dubnick, 2018). It is a multidimensional concept encompassing vertical and horizontal accountability, including honesty and legal, process, program, and policy dimensions oriented toward the public interest (Mardiasmo, 2021). More broadly, accountability is a social relation requiring not only legal but also moral justification, covering legal, political, professional, and administrative dimensions and functioning as a mechanism to prevent misuse of power (Mulgan, 2000). It is also a key element of

good governance and reflects a commitment to transparent resource management (Mahmudi, 2013; Atmadja et al., 2013).

In *desa adat*, accountability is more complex because it is shaped by both formal regulations and cultural-spiritual values. Financial practices are embedded in collective trust, moral norms, and local wisdom, extending beyond bureaucratic standards (Atmadja & Saputra, 2018; Purnamawati, 2018). Its effectiveness depends not only on reporting systems but also on supervision, where gaps may arise between normative expectations and actual capacity (Prayudi et al., 2018). Thus, accountability involves both formal responsibility to the government and moral responsibility to *krama desa*, emphasizing transparency and openness (Andriani & Atmadja, 2022).

This dual accountability is reflected in several dimensions. Honesty and legal accountability emphasize integrity and compliance with regulations (Mahmudi, 2013; Mardiasmo, 2021). Process accountability highlights transparent procedures and participation, often implemented through *Paruman*, though gaps may occur due to institutional and informal factors (Mahmudi, 2011; Andrews et al., 2017; Atmadja & Saputra, 2018). Program accountability focuses on achieving objectives and evaluating impacts beyond financial indicators, while policy accountability requires justification of decisions and their broader consequences (Dye & Dye, 1972; Andriani & Atmadja, 2022).

2.4. Local Wisdom

Local wisdom refers to a worldview, knowledge system, and set of life strategies manifested in community practices to address local problems and fulfill needs. It includes values, norms, beliefs, and customary rules that guide behavior in both human-human and human-nature relations (Shaleh et al., 2020). Studies on local participation as part of good governance principles show that community involvement based on traditional values strengthens public governance mechanisms (Widiyanti, 2017). This confirms that local wisdom does not contradict modern governance principles but rather reinforces them (Aditya & Hapsari, 2020). Similarly, Hanifah et al. (2024) argue that inclusive governance that accommodates diverse values and perspectives improves governmental effectiveness, suggesting that integrating local wisdom with modern principles can enhance legitimacy and effectiveness in institutional management, including financial governance in *desa adat*.

Furthermore, strengthening local wisdom and customary ethics plays a critical role in preventing financial mismanagement in *desa adat*, as customary values function as social control mechanisms complementing formal supervision systems (Wiguna et al., 2022). This highlights that deeply rooted traditional values within communities serve as effective informal control instruments in minimizing the risk of public fund misuse. *Sad Kerthi* is a form of local wisdom that functions as a normative framework guiding how communities interpret development and responsibility. Culture reflects shared values and beliefs that shape collective behavior and support sustainable community life (Purnamawati et al., 2022). In this sense, *Sad Kerthi* acts as a moral compass, aligning human activities with balance, harmony, and sustainability.

It integrates spiritual, social, and environmental values into a unified system. The Parahyangan (*Atma Kerthi*) dimension emphasizes spiritual responsibility and ethical behavior, while Pawongan (*Jana Kerthi*) highlights welfare, solidarity, and social harmony (Pujaastawa & Sudana, 2022; Adyatma et al., 2023). The *Palemahan* dimension *Segara Kerthi*, *Danu Kerthi*, *Wana Kerthi*, and *Jagat Kerthi* focuses on ecological responsibility and sustainable resource management. Together, these dimensions position *Sad Kerthi* as a holistic framework for sustainable governance.

3. Methods

This study employs a qualitative approach with an interpretive paradigm and a case study design, focusing on Alapsari Traditional Village as a single unit of analysis, which is appropriate because the village represents a unique and complex case in implementing *Sad Kerthi* values within financial governance, allowing for analytical generalization to other *desa adat* with similar characteristics (Creswell & Poth, 2016). A qualitative design is selected because the research seeks to understand the complex social phenomenon of how Balinese local wisdom is integrated into modern financial management systems while capturing the meanings and subjective experiences of the actors involved, and in line with case study methodology, data are collected using multiple techniques including in-depth interviews, participatory observation, and document analysis to ensure a comprehensive understanding of the phenomenon under study (Flick, 2008; Tisdell et al., 2025).

The research is conducted in Alapsari Traditional Village, located in Buleleng District, Buleleng Regency. The selection of this site is based on strategic considerations, particularly that the village has demonstrated relatively good financial reporting practices, as evidenced by prior research. However, existing practices are still limited to managing internal village contributions (*peturunan*) and have not fully encompassed government-funded financial management, making it a relevant case for further investigation.

Informants are selected using purposive sampling based on their roles within the organizational structure and their involvement in the financial management cycle. Four levels of informants are identified. The first level consists of strategic decision-makers, including top village leaders responsible for setting policies and strategic directions. The second level includes operational management, namely, *prajuru*, who are directly responsible for implementing financial management practices. The third level comprises the implementation level, involving *krama* (community members) who act as beneficiaries and contribute to social control based on traditional values. The fourth level represents the traditional-cultural sphere, including *adat* leaders and elders who play a key role in preserving, interpreting, and enforcing customary norms. In total, this study involves approximately 6–8 key informants.

Data collection employs three complementary methods: participatory observation, in-depth interviews, and document analysis. These methods are chosen to capture what is practiced (observable actions), why it is practiced (meanings and motivations), and what evidence supports it (documented data). To ensure data validity, this study applies triangulation techniques, including credibility, transferability, dependability, and confirmability. Data analysis is conducted using NVivo, a qualitative data analysis software that facilitates the organization, coding, and interpretation of non-numerical data such as interview transcripts, field notes, and documents (Jackson & Bazeley, 2019). NVivo supports systematic theme development and pattern identification, enabling a more structured and rigorous analysis process.

4. Results

4.1. Institutional Implementation of Financial Management

The thematic analysis of interview transcripts, field notes, and relevant documents using NVivo software generated three overarching themes that capture the essence of *Sad Kerthi*-based financial management in Alapsari Traditional Village. As summarized in Table 1, these themes encompass: understanding and internalization of *Sad Kerthi* values, implementation in traditional village financial management, and impacts and challenges of implementation. Each theme is further elaborated into sub-themes that reflect the depth and complexity of how local wisdom is embedded within formal financial governance practices.

Table 1. Grouping of Themes and Sub-Themes

Theme	Subtheme	Keywords (NVivo Nodes)
1. Understanding and Internalization of <i>Sad Kerthi</i> Values	Understanding the Concept of <i>Sad Kerthi</i>	<i>Sad Kerthi</i> values, customary philosophy, balance, harmony, and ancestral teachings
	Relevance to Village Finance	moral foundation, decision-making basis, spiritual values in budgeting
	Commitment of <i>Prajuru</i> and Community (<i>Krama</i>)	customary awareness, responsibility, participation, cultural loyalty
2. Implementation in Traditional Village Financial Management	Financial Planning and Budgeting	village meetings (<i>paruman</i>), deliberation, priority setting, community participation, budget preparation
	Implementation and Use of Funds	Ceremonial funding, environmental preservation, social activities, village development, and community welfare
	Supervision and Accountability	financial reports, transparency, accountability, customary law (<i>awig-awig</i>), customary sanctions
3. Impacts and Challenges of Implementation	Impact on Welfare	economic benefits, community welfare, equity, sustainability
	Social and Cultural Impact	social harmony, cultural preservation, solidarity, public trust
	Constraints and Solutions	limited human resources, government regulations, conflicts of interest, and resolution strategies

Table 1 shows that *Sad Kerthi*-based financial management in a traditional village is rooted in cultural and spiritual values that shape decision-making and governance. These values are applied across planning, implementation, and accountability through participatory mechanisms like *paruman* and supported by formal and customary regulations (Andriani & Atmadja, 2022). The approach produces positive impacts such as improved welfare, social harmony, and cultural preservation, but still faces challenges, including limited human resources, regulatory pressure, and potential conflicts of interest. It reflects an integrated governance model combining institutional systems and local wisdom.

Based on Figure 1, financial management in Alapsari Traditional Village demonstrates a systematic process that integrates spiritual values into managerial practices, beginning with the understanding and internalization of *Sad Kerthi* values as the central foundation, which builds commitment between *Prajuru* (administrators) and *Krama* (residents) as crucial social capital, and is then concretely implemented through the financial management cycle encompassing planning, implementation/use of funds, and monitoring and accountability stages, not merely as an administrative process, but as a manifestation of *Sad Kerthi's* philosophy of balance in resource allocation. These activities culminate in positive contributions to community welfare and the strengthening of social and cultural aspects, confirming that *Sad Kerthi* values serve as a moral compass that ensures financial management remains aligned with the goals of preserving customs and community harmony, despite the obstacles encountered (Andriani & Atmadja, 2022).

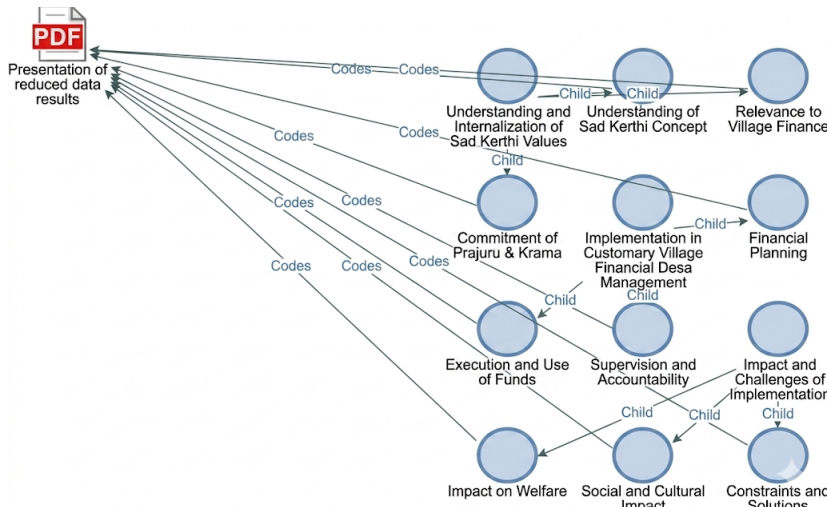


Figure 1. Relationships Between Themes

Figure 2 illustrates a word cloud highlighting the dominant narratives in financial management research within the Alapsari Traditional Village. Prominent terms such as “Desa,” “Adat,” “Keuangan,” and “Pengelola” indicate a primary focus on financial governance in customary law communities. The appearance of “Sad” and “Kerthi” underscores their role as core philosophical values guiding financial policies. Meanwhile, operational terms like “Paruman,” “Krama,” “Anggaran,” and “Program” reflect that these values are implemented through deliberation and active community participation. The visualization demonstrates the integration of financial administration with local wisdom to support the village’s sustainability.



Figure 2. Word Cloud Visualization

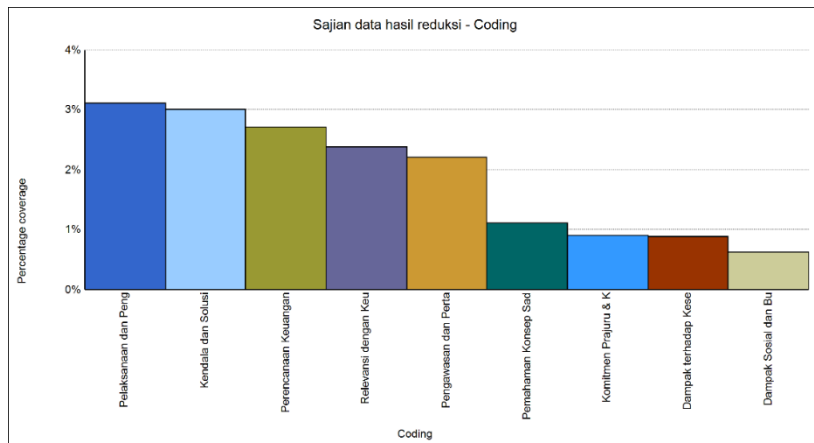


Figure 3. Chart Visualization

Figure 3 shows a clear hierarchy of themes from the data reduction and coding results on financial management in the Alapsari Traditional Village. The dominant theme, “Implementation and Use of Funds” (above 3%), indicates a strong focus on how budgets are practically allocated for customary and communal needs. The relatively high proportion of “Obstacles and Solutions” (around 3%) highlights ongoing technical and regulatory challenges in applying *Sad Kerthi* values. Meanwhile, “Financial Planning” and “Relevance to Finance” occupy a middle position, reflecting efforts to align spiritual principles with managerial practices. Although “Social and Cultural Impact” appears lowest (below 1%), this suggests the study prioritizes implementation and problem-solving over long-term impact evaluation. The chart emphasizes the transition from ideal values to concrete financial practices.

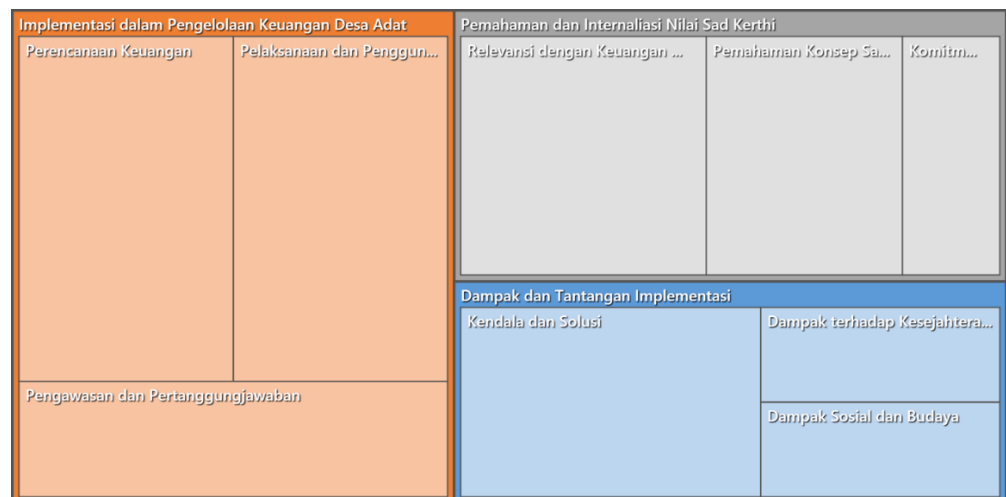


Figure 4. Hierarchy Chart Visualization

The hierarchy chart in Figure 4 shows that financial management in Alapsari Traditional Village is dominated by the “Implementation in Traditional Village Financial Management” cluster, particularly in planning, budgeting, execution, and accountability, with balanced emphasis between planning and implementation stages. Smaller yet significant portions are represented by “Understanding and Internalization of *Sad Kerthi* Values” and “Implementation Impacts and Challenges,” indicating that while philosophical values and evaluation are considered, the primary focus remains on practical governance processes. Within the challenges cluster, “Obstacles and Solutions” is more prominent than “Impacts,” highlighting greater

attention to addressing difficulties in aligning modern financial practices with local *Sad Kerthi* values (Prayudi & Dharmawan, 2018).

The findings show that financial management in Alapsari Traditional Village reflects an integration of formal regulatory demands, institutional norms, and *Sad Kerthi* local wisdom across planning, implementation, and accountability processes. In the planning stage, the village applies a dual budgeting system consisting of an *adat*-based APBD and the BKK *APBD Semesta Berencana* scheme, reflecting adaptation to Governor Regulation Number 2 of 2023 while maintaining customary autonomy through participatory mechanisms involving various *adat* institutions such as *pecalang*, *serati banten*, *sabha desa*, and youth groups, thereby ensuring regulative compliance and strengthening organizational legitimacy. From a normative perspective, this participatory process enhances transparency, accountability, and social consensus, while the cognitive-cultural dimension is reflected in the prioritization of *Sad Kerthi* values, particularly *Jagat Kerthi* and *Jana Kerthi*, which guide budget allocation toward human resource development and social harmony, consistent with findings that higher religiosity discourages deviant behavior (Prayudi & Dharmawan, 2018). Furthermore, environmental and ritual-related allocations demonstrate that budgeting functions not only as a financial instrument but also as a mechanism to sustain spiritual, social, and ecological balance, reinforcing the role of taken-for-granted cultural beliefs in organizational decision-making (Scott, 2014).

Financial practices in Alapsari Traditional Village reflect a hybrid institutional model. The village complies with formal procedures through structured recording using the Customary Village Financial Information System (*Sistem Informasi Keuangan Desa Adat* /SIKUAT) application and complete documentation aligned with Governor Regulation Number 2 of 2023, representing the regulative pillar, while normatively emphasizing capacity building, coordination, and role clarity among *adat* institutions. At the cognitive-cultural level, *Sad Kerthi* values guide implementation beyond budgeting, reflected in educational (*Jana Kerthi*) and environmental programs (*Wana* and *Danu Kerthi*). In reporting, the village ensures compliance through timely SIKUAT-based reporting and audit readiness, while adapting practices via simplified information and digital platforms (Mahardika et al., 2022; Dewi et al., 2024). Accountability is reinforced through *paruman* forums, embedding financial reporting within social and spiritual practices.

4.2. Accountability in *Sad Kerthi*-Based Financial Management

Accountability in the financial management of Alapsari Traditional Village reflects a multidimensional construct that integrates formal legal compliance with moral, cultural, and spiritual values rooted in *Sad Kerthi*. In terms of honesty and legal accountability, financial practices demonstrate compliance through transaction evidence such as receipts, invoices, purchase notes, and photographic documentation, as well as systematic recording through the SIKUAT financial application, indicating adherence to principles of legality, orderliness, and accountability. However, accountability extends beyond formal compliance, reinforced by a strong spiritual dimension in which financial activities are preceded by collective prayers as a form of accountability to *Ida Sang Hyang Widhi Wasa* before being reported to the community, reflecting the role of *Atma Kerthi* in shaping individual moral awareness, where honesty is not merely an administrative obligation but also a spiritual responsibility. These findings align with Pujaastawa and Sudana (2022), who emphasize that the *Parahyangan* dimension provides moral legitimacy in economic activities.

Process accountability in Alapsari Traditional Village is reflected in transparent, structured, and participatory financial management practices across all stages, from planning to reporting. Financial planning is conducted through participatory *paruman* forums involving various customary institutions, ensuring

community aspirations are accommodated through staged deliberations culminating in the formal determination of the village budget, while clear task distribution during implementation ensures procedural clarity and responsibility. These findings indicate that financial management processes are conducted openly and systematically, with strong community involvement serving as a mechanism of social control (Mardiasmo, 2021; Pudjianto et al., 2023). The participatory nature of *paruman* also reflects cultural values of togetherness and harmony, which are influenced by organizational culture and community participation (Atmadja & Saputra, 2018). Within the *Sad Kerthi* framework, this practice represents *Jana Kerthi*, emphasizing harmonious human relations through collective decision-making.

Program accountability in Alapsari Traditional Village is demonstrated through the alignment between planned programs and their implementation, as well as their tangible benefits for the community. Programs primarily focus on social, religious, and human resource development activities, such as continuous *pasraman* education to strengthen community capacity and religious activities funded to reduce financial burdens on community members, indicating responsiveness to the needs of the *adat* community in maintaining cultural sustainability, strengthening spirituality, and improving human capital. This reflects outcome-oriented accountability, where programs not only achieve administrative realization but also deliver meaningful social benefits. In the context of *Sad Kerthi*, these programs reflect *Jana Kerthi* through education and human development, and *Atma Kerthi* through religious activities, indicating that program success is assessed not only materially but also socially and spiritually. However, the absence of systematic and measurable performance indicators suggests that program evaluation remains perception-based (Prayudi & Dharmawan, 2018).

Policy accountability in Alapsari Traditional Village is characterized by participatory and consensus-based decision-making processes conducted through *paruman* forums involving the broader *adat* community, where financial policies are formulated through collective deliberation rather than top-down mandates, ensuring that decisions reflect community needs, institutional inputs, and ongoing *adat* activities. This participatory approach enhances transparency and strengthens social legitimacy, as policies are collectively agreed upon and widely accepted. Within the *Sad Kerthi* framework, such policies reflect *Jagat Kerthi* in maintaining social harmony and *Jana Kerthi* in promoting collective welfare and participation, indicating that financial governance is not solely efficiency-driven but also oriented toward sustaining cultural and spiritual balance. From an institutional theory perspective, this condition illustrates how normative and cultural-cognitive pillars shape policy legitimacy through shared values and social acceptance (Scott, 2014).

4.3. Opportunities and Challenges in Financial Management

The financial management in Alapsari Traditional Village follows an organized cycle that includes planning, budgeting, implementation, reporting, and supervision. This process not only complies with regional government regulations but also embeds *Sad Kerthi* values as the normative basis for financial decisions (Prayudi & Dharmawan, 2018). Planning is conducted through customary deliberation forums (*paruman* or *sangkep*) involving *prajuru*, *Sabha Desa*, *Kertha Desa*, *adat* institutions, and the wider community (*krama*). The *Bendesa* works together with various village elements such as *pecalang*, *serati banten*, *pasikian pakis jero mangku*, and *yowana* to gather aspirations and set program priorities. This process is structured into three stages, namely, *Paruman Alit*, *Paruman Madia*, and *Paruman Agung*, ensuring that planning is participatory and reflects collective agreement rather than top-down decisions.

Following planning, budgeting is carried out by the *Patengen* (treasurer), who prepares the Annual Budget Plan (*Rancangan Anggaran Tahunan/RAT*) one year prior to implementation as the basis for applying for BKK from the Provincial Government of Bali, with budget allocation organized into three main expenditure categories, *Parahyangan*, *Parwongan*, and *Palemahan*, reflecting the integration of *Sad Kerthi* values including *Atma Kerthi*, *Jana Kerthi*, and environmental dimensions such as *Wana Kerthi*, *Segara Kerthi*, *Danu Kerthi*, and *Jagat Kerthi*, thereby ensuring that financial allocation represents not merely administrative priorities but also spiritual, social, and environmental commitments (Nor & Aslamiah, 2025).

The implementation stage represents the operational realization of planned programs and budgets, executed by the *Patengen* in coordination with other *prajuru*, where strict adherence to approved plans, strong communication, and coordination among village officials are key factors ensuring smooth implementation, each activity managed by a designated team with expenditures requiring prior leadership approval and verification of supporting documents such as purchase orders, receipts, invoices, and photographic evidence, demonstrating internal control mechanisms that ensure alignment with approved plans (Nor & Aslamiah, 2025; Atmadja et al., 2025).

Administrative record-keeping is conducted systematically with all transactions documented by the *Patengen* using the SIKUAT application, indicating the integration of modern administrative practices into traditional governance structures. The reporting and accountability stage represents the final phase, ensuring transparency, accountability, and social legitimacy through a socio-institutional process involving layered customary deliberation structures, beginning with internal verification through *Pra Paruman*, followed by discussion in *Paruman Madia*, and culminating in *Paruman Agung*, where reports are presented to the entire community, thereby ensuring financial accountability is collectively validated and socially legitimized. From an administrative perspective, accountability reports are supported by complete documentation, including transaction records, partner registration, and proof of goods receipt, and must be submitted annually within the deadline to the relevant government authority (Mardiasmo, 2021).

Financial information is simplified to improve public understanding, supported by digital platforms and participatory supervision involving *adat* institutions, which strengthens accountability. The absence of financial mismanagement reflects strong integrity, coordination, and collective responsibility, indicating that accountability is both administrative and culturally embedded. *Sad Kerthi*-based financial management enhances governance through culturally legitimate, participatory forums (*Pra Paruman*, *Paruman Madia*, *Paruman Agung*) that ensure both formal validity and social acceptance. Simplified reporting and platforms like “*Alapsari Channel*” bridge modern systems with traditional practices, reinforcing the integration of cultural-cognitive, regulative, and normative governance pillars (Ladewi et al., 2020).

Another key opportunity lies in the enhancement of community participation and social control, where the implementation of *Sad Kerthi* encourages active involvement of *adat* institutions such as *Pecalang*, *Serati Banten*, and *Jero Mangku* in financial planning and decision-making. Meanwhile, supervisory bodies such as *Sabha Desa* regularly evaluate financial management and emphasize deliberation through *paruman* before financial decisions are executed, creating a governance environment where deviations are minimized due to strong moral and communal oversight. Furthermore, *Sad Kerthi* provides a holistic framework for sustainable development that integrates spiritual, social, and environmental dimensions, with financial allocations reflecting this orientation through funding for religious activities (such as Purnama Tilem, Nyepi, and Piodalan), human resource development programs (such as pasraman), and environmental conservation efforts

(such as maintaining water sources and tree planting) (Andriani & Atmadja, 2022). Strengthening human resources is viewed as a foundational strategy that positively influences all other dimensions, spiritual (Parahyangan), social (Pawongan), and environmental (Palemahan), ensuring that financial management is oriented toward cultural preservation, social welfare, and ecological sustainability, in line with the broader vision of "Nangun Sat *Kerthi Loka Bali*."

Despite these opportunities, several challenges remain, particularly gaps in human resource capacity in adapting to modern financial management systems. Technical understanding related to timely reporting, procedural compliance, and proper documentation still needs improvement, and this is further complicated by differences between traditional community perspectives and the technical demands of digital systems such as SIKUAT (Dewi et al., 2024). These conditions place pressure on both the normative pillar (professional standards) and the regulative pillar (technical compliance). Financial constraints also pose a significant challenge, as Alapsari Traditional Village has limited natural and economic resources, resulting in relatively small village assets and restricted financial capacity, with the village remaining dependent on external funding, particularly the BKK from the provincial government, indicating limited financial independence, and although there is awareness of the need to increase locally generated revenue and learn from other *adat* villages that have implemented alternative funding mechanisms, this limitation reduces flexibility in implementing *Sad Kerthi*-based programs sustainably and independently.

Another challenge is the harmonization of formal regulations with local wisdom. Despite commitment to complying with Governor Regulation Number 2 of 2023, integration remains complex, as seen in the need to simplify financial reporting language to match the community's cognitive context, creating tension in maintaining *Sad Kerthi* as a socio-spiritual control while meeting modern accountability standards. Balancing these elements is essential so formal systems strengthen rather than erode local values. Continuous training and capacity-building for *prajuru adat* are therefore critical. *Sad Kerthi*-based financial management shows strong potential for accountable and sustainable governance, but challenges in human resources, financial capacity, and regulatory alignment require ongoing strategic efforts (Nurhakim & Yudianto, 2018).

4.4. Institutional Theory Implications in Desa Adat Financial Governance

The analysis of *Sad Kerthi*-based financial management in Alapsari Traditional Village provides significant implications for Institutional Theory, particularly within public sector organizations operating in strong cultural contexts. The findings demonstrate that the three institutional pillars, regulative, normative, and cultural-cognitive, do not operate independently but interact dynamically to form a unique hybrid institutional logic. The case of Alapsari Traditional Village illustrates a clear coexistence between the regulative and cultural-cognitive pillars, where formal government regulations, such as Bali Governor Regulation Number 2 of 2023, are not merely adopted but are adapted and internalized through the lens of *Sad Kerthi* values. While the regulative pillar imposes coercive pressures through requirements such as financial reporting and audit readiness, the cultural-cognitive pillar acts as an interpretive framework that enables local actors to align these external demands with their own value system. This is evident in practices such as simplifying financial report nomenclature to match the community's level of understanding, indicating that local values function as a mediator that enhances the legitimacy and acceptability of formal regulations (Nurim, 2019).

Furthermore, the normative pillar plays a bridging role between formal regulatory demands and the local cultural context by embedding principles such as transparency, accountability, and collective responsibility into financial management

practices. These norms are reflected in participatory mechanisms like *paruman* forums, open communication channels, and efforts to strengthen institutional capacity among *adat* actors. Such practices demonstrate that accountability is not only a technical requirement but also a moral and social obligation toward the community (Scott, 2014). At a deeper level, *Sad Kerthi* emerges as a cohesive hybrid institutional logic that integrates all three pillars into a unified system. It directly influences budget allocation toward spiritual, social, and environmental priorities, while also reinforcing accountability through layered deliberative mechanisms and strong social control.

The absence of significant financial irregularities further indicates that cultural-cognitive values effectively suppress opportunistic behavior. This finding aligns with the view that deeply internalized cultural norms serve as informal control mechanisms that complement formal regulatory systems (Scott, 2014). Alapsari Traditional Village exemplifies how local wisdom can actively shape and strengthen modern governance systems. Ultimately, this integration results in financial management practices that are not only compliant with formal regulations but also socially legitimate, culturally grounded, and sustainable.

5. Discussion

The findings of this study demonstrate that financial management in Alapsari Traditional Village operates through a hybrid governance model that integrates formal regulatory frameworks with local cultural values rooted in *Sad Kerthi*. The results indicate that financial practices are not merely administrative processes but are socially embedded, participatory, and guided by spiritual and cultural principles. This supports the view that accountability in traditional communities extends beyond formal compliance toward moral and social legitimacy. For instance, Dewi et al. (2024) emphasize that financial accountability in Balinese traditional villages is strongly shaped by cultural perspectives, where communal values influence how accountability is practiced. Similarly, the findings in Alapsari show that accountability is realized through *paruman* forums, which function not only as administrative mechanisms but also as arenas for collective validation and social legitimacy.

Furthermore, the study reveals that *Sad Kerthi* values play a central role in shaping financial decision-making, particularly in planning and budgeting processes. The classification of expenditures into *Parahyangan*, *Parwongan*, and *Palemahan* reflects a holistic approach that integrates spiritual, social, and environmental dimensions. This finding is consistent with research on Tri Hita Karana by Saputra et al. (2018b) and Dharmawan and Yudiantara (2020), which highlight that local philosophical values serve as the foundation for balanced and sustainable financial governance. Both studies argue that financial accountability in Balinese contexts is inseparable from cultural harmony, reinforcing the idea that local wisdom functions as a guiding framework rather than a complementary element. In this study, *Sad Kerthi* similarly operates as a moral compass that directs resource allocation toward community welfare, cultural preservation, and environmental sustainability.

The participatory nature of financial management observed in Alapsari also supports prior findings that emphasize the importance of community involvement in achieving good governance. Studies such as Widiyanti (2017) and Matana and Hapsari (2022) demonstrate that participatory mechanisms enhance transparency and accountability by ensuring that decision-making reflects collective interests. In Alapsari, the structured *paruman* system, ranging from *Paruman Alit* to *Paruman Agung*, ensures that financial decisions are collectively agreed upon, thereby strengthening social control and minimizing the risk of financial misconduct. This finding is further supported by Kurniawan (2016), who argues that *adat* traditions

play a significant role in promoting transparency and accountability through customary norms and sanctions.

However, the study also identifies several challenges, particularly related to human resource capacity, financial limitations, and regulatory adaptation. The gap in technical understanding of modern financial systems, such as SIKUAT, reflects a common issue in village financial management, as noted by Nurhakim and Yudianto (2018), who highlight that limited administrative capacity often hinders the effective implementation of financial systems. Additionally, financial dependency on external funding sources indicates limited village autonomy, which is consistent with Haryati et al. (2024), emphasizing that financial independence remains a key challenge in rural governance.

From an institutional perspective, these findings confirm that financial management in Alapsari Traditional Village reflects the interaction of regulative, normative, and cultural-cognitive elements. The coexistence of formal regulations and local values supports the argument by Silva et al. (2024) that institutional practices are shaped by both formal structures and embedded cultural beliefs. This study contributes to the literature by demonstrating that integrating local wisdom, such as *Sad Kerthi*, into financial governance not only enhances accountability and transparency but also creates a more holistic and sustainable model of village financial management. This study provides insight into how *Sad Kerthi* values are integrated into traditional village financial management alongside formal regulations, highlights key opportunities and challenges to inform policy and capacity building, and contributes to institutional theory while offering practical guidance for culturally grounded public sector financial management.

6. Conclusion

Based on the findings and discussion, financial management in Alapsari Traditional Village reflects a hybrid institutional model in which the regulative, normative, and cultural-cognitive pillars are integrated in practice. Compliance with formal regulations, particularly Governor Regulation Number 2 of 2023, is evident in structured planning, implementation, and reporting systems supported by proper documentation and timely accountability. At the same time, normative values such as transparency, participation, and responsibility are embedded through collective decision-making in *paruman* forums, while *Sad Kerthi* values function as a cultural-cognitive foundation that guides financial allocation toward spiritual, social, and environmental balance. Consequently, financial governance is not only administrative but also socially and spiritually grounded, resulting in a more holistic form of accountability that includes legal, process, program, and policy dimensions.

The study implies that integrating local wisdom into formal governance systems can strengthen accountability, legitimacy, and sustainability in public sector financial management, particularly in traditional institutions. However, several limitations remain, including the limited administrative capacity of village officials, the absence of detailed technical guidelines, and the gap between formal regulatory requirements and local practices. These challenges indicate that regulatory approaches alone are insufficient without contextual adaptation and capacity-building support. Future research is recommended to adopt quantitative or mixed-method approaches to enhance generalizability, as well as comparative studies across multiple traditional villages to examine variations in the implementation of *Sad Kerthi* values. Further development of culturally grounded accountability models that integrate financial, social, cultural, and spiritual dimensions is also essential to advance both theory and practice in public sector accounting.

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Data Disclosure Statement

The data that support the findings of this study are available from the corresponding author upon reasonable request.



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