

WHEN LOCAL WISDOM BECOMES SOCIAL CONTROL: INSIGHTS ON FRAUD PREVENTION FROM TRADITIONAL VILLAGES IN BALI

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Abstract: *This study examines how governance actors in Balinese desa adat (traditional villages) interpret and experience local wisdom as a form of social control in relation to fraud prevention. Using a qualitative phenomenological-hermeneutic approach, the study explores how culturally embedded values are internalized and understood in shaping ethical conduct, accountability, and community trust. Fieldwork was conducted in three desa adat located in Denpasar City, Badung Regency, and Karangasem Regency, involving eight informants representing customary leadership, village administration, community and spiritual leadership, traditional security, civil society, and cultural expertise. Data were collected through in-depth interviews, participant observation, and document analysis. The findings indicate that participants interpreted iseng (shame), menyama braya (social solidarity and collective responsibility), and karma phala (moral consequences) as culturally embedded moral reference points that shape their understanding of appropriate conduct. Awig-awig (customary law), pararem, community deliberation, and horizontal social monitoring were similarly perceived as important sources of informal accountability. Through the lens of Ethical Climate Theory, these practices reflect interacting caring, rules, independence, and law-and-code orientations, while instrumental orientations represent potential tensions when individual or group interests override shared ethical expectations. Participants also described challenges in reconciling customary accountability practices with formal state requirements. This study contributes to fraud and governance literature by integrating local wisdom, Ethical Climate Theory, and fraud frameworks to show how fraud-related conditions acquire culturally situated social, moral, and spiritual meanings within traditional village governance.*

Keywords: Customary Law, Fraud Prevention, Local Wisdom, Social Control, Village Governance

INTRODUCTION

The phenomenon of fraud in government remains a significant challenge to achieve clean and accountable governance. While public and academic attention has predominantly focused on corruption at the central and provincial levels, fraudulent practices are also increasingly prevalent at the

local level, particularly within village governance structures ([Ceschel et al. 2022](#)). Recent evidence confirms that fraud remains a significant concern in Indonesia's public sector. The [ACFE Indonesia Chapter \(2025\)](#) reports that corruption remains the most prevalent form of occupational fraud in Indonesia (47.6%), followed by asset misappropriation (40.2%) and

financial statement fraud (12.2%). The report further identifies both central and local government institutions as among the organizations most frequently affected by occupational fraud, indicating that fraud risk remains substantial across different levels of government ([Association of Certified Fraud Examiners Indonesia Chapter 2025](#)).

This growing prevalence of fraud at the village level underscores the urgent need for innovative and culturally relevant anti-fraud strategies. Conventional approaches that rely solely on formal mechanisms such as audits, internal controls, and legal sanctions—have shown limited effectiveness in addressing fraud in rural and culturally unique settings ([Maulidi & Ansell 2020](#)). This research is therefore urgent in its attempt to address a pressing governance vulnerability that, if left unexamined, may continue to erode public trust, weaken accountability, and hamper development at the grassroots level.

Considering Indonesia's vast cultural diversity and the heterogeneity of its local governance systems, adopting locally grounded approaches in fraud prevention is imperative, particularly in regions such as Bali, where social and cultural structures are deeply embedded in everyday community life ([Adiputra and Werastuti 2024](#)). Bali is renowned not only as a world-class tourist destination but also as a region rich in enduring local wisdom and values. Desa adat (traditional villages) in Bali function as religious-social communities with governance systems that coexist alongside state-recognized desa dinas (administrative villages). These traditional villages carry not only administrative roles but also moral, cultural, and spiritual responsibilities, governed primarily by customary norms known as "awig-awig".

Values such as iseng (shame), menyama braya (social solidarity), and the application of customary sanctions have long operated as powerful informal mechanisms of social control within Balinese society ([Putri et al. 2019](#)). Despite the

strength of these traditional values, fraud cases continue to surface even within desa adat, indicating potential shifts in the internalization of ethical norms or weaknesses in the current integration between customary and formal governance systems ([Munafi et al. 2020](#)). This research is driven by the need to understand how local wisdom becomes a form of social control that effectively prevents fraudulent behavior in traditional village governance. Formal governance systems typically rely on internal control mechanisms, standardized regulations, audits, and legal sanctions ([Rahmarta et al. 2024](#)). However, these mechanisms are not always sufficient in contexts where cultural norms and informal rules strongly influence community behavior. Therefore, integrating formal systems with locally embedded values provides a more holistic and sustainable approach to strengthening accountability and integrity in traditional governance.

Previous studies have shown that local culture can reinforce anti-corruption measures. For instance, [Atmaja \(2018\)](#) demonstrated that local wisdom can strengthen internal control systems within village governance. [Arcana et al. \(2021\)](#) found that cultural values upheld by the community significantly influence the effectiveness of village fund management. Research by [Saputra et al. \(2023\)](#) further emphasized the moral authority of "awig-awig" in regulating deviant behavior. Studies by [Krismayanti and Atmadja \(2020\)](#) and [Komang and Utami \(2023\)](#) also highlighted how pararem (supplementary customary rules) help resolve internal disputes and maintain distributive justice within traditional village contexts.

Nevertheless, these prior studies have not deeply examined how customary values are personally and collectively internalized as moral obligations that act as informal yet powerful ethical controls. No existing research has yet integrated fraud theory with Ethical Climate Theory ([Victor and Cullen 1988](#)) in the context of

desa adat, particularly through an in-depth qualitative approach. This study addresses this gap by examining how internalized customary values shape the moral dynamics guiding fraud-related decision-making in Balinese traditional village governance. It contributes to the public sector accounting and governance literature by integrating fraud theory with Ethical Climate Theory to explain culturally embedded mechanisms of fraud prevention beyond formal control systems.

Fraud Theories in the Context of Public Sector Organizations

Fraud theories, particularly the Fraud Triangle Theory proposed by [Clnard and Cressey \(1954\)](#), are important in this study because they explain how fraudulent behavior is shaped by ethical environments and social conditions, rather than individual intent alone. The elements of pressure, opportunity, and rationalization highlight the role of social control and moral norms in influencing unethical behavior. In the context of Balinese traditional villages, communal values, customary rules (awig-awig), and social sanctions function as informal control mechanisms that reduce opportunities for fraud and weaken rationalization, thereby reinforcing ethical behavior in local governance ([Albrecht 2019](#)).

Building on this foundation, [Wolfe and Hermanson \(2004\)](#) introduced the Fraud Diamond Theory, which adds capability as a fourth element. This extension emphasizes that, beyond motive and opportunity, perpetrators must possess the traits, intelligence, confidence, and position of authority necessary to exploit system vulnerabilities and commit fraud. The addition of capability is particularly useful in explaining fraud committed by individuals in leadership or technical roles who are able to override controls or conceal their actions effectively ([Suryani and Gaol 2025](#)).

In the context of public sector institutions, particularly village-level administration (desa), fraud theories help

identify structural weaknesses and behavioral patterns that may contribute to fraudulent practices. Financial mismanagement in rural or semi-autonomous governance units is often enabled by limited segregation of duties, low transparency, insufficient monitoring mechanisms, and restricted public access to financial information ([Albrecht 2019](#)). These structural conditions reflect the “opportunity” element of the Fraud Triangle and are further intensified when village officials hold concentrated authority and possess the capability to override controls. Behaviorally, fraud in village governance is frequently characterized by collective rationalization, strong kinship ties, and reluctance to question community leaders, where misconduct may be justified as serving communal or cultural interests rather than personal gain ([Suryani et al. 2023](#)). This distinguishes fraud in traditional village contexts from fraud in formal public institutions, which is typically more individualistic, procedural, and governed by formal audit and legal enforcement mechanisms ([Purwanto et al. 2024](#)). In Balinese traditional villages, fraud-related decisions are often shaped by social legitimacy and moral narratives, making ethical norms and social control central to understanding how fraud is enabled or constrained.

Ethical Climate and Organizational Behavior

While fraud theories explain how and why individuals commit fraud, they do not fully account for organizational culture and ethical environments, which play a pivotal role in shaping individual behavior. The Ethical Climate Theory developed by [Victor and Cullen \(1988\)](#) provides a framework to analyze how organizational values, shared norms, and ethical reference points influence decision-making processes within institutions. In Balinese traditional villages, ethical climate is largely implemented through informal customary practices rather than formalized ethical codes, for example through menyama braya, which

reflects a caring ethical climate, *awig-awig*, which embodies a rules-based climate, and beliefs in *karma phala*, which reinforce individual moral responsibility. However, these ethical climates are not fully institutionalized through standardized procedures, relying instead on socialization, moral authority, and communal sanctions. Ethical decision-making is therefore guided not only by legal considerations but also by moral and spiritual principles rooted in Hindu Dharma, particularly *Tri Hita Karana*, which emphasizes harmony with fellow humans (*pawongan*), the natural environment (*palemahan*), and the divine (*parahyangan*), shaping ethical awareness and social accountability in village governance.

This complex cultural backdrop can act as both a deterrent and an enabler of fraudulent behavior. On one hand, strong community ties and spiritual accountability may promote integrity and discourage dishonesty. On the other hand, these same structures can be exploited to rationalize unethical behavior, particularly when leaders or officials invoke adat-based obligations—such as communal, ritual, or customary responsibilities—as moral justifications for actions that bypass formal accountability and mask personal or group interests. When such rationalization aligns with widely accepted cultural narratives, for example framing misconduct as being “for the benefit of the community” or “necessary to maintain social harmony,” fraudulent practices may be normalized or overlooked by the community. This condition creates an ethical climate that tolerates deviation under the guise of tradition or collective benefit ([Rahmawati et al. 2021](#)).

Governance and Fraud Risk in Village-Level Institutions

Research on fraud in village financial management in Indonesia reveals consistent patterns: low transparency, weak accounting literacy among officials, minimal community oversight, and political patronage ([Harun and Kamase 2012](#); [BPKP 2021](#)). In Bali, although

village governance is formally regulated under national law (Law No. 6 of 2014 on Villages), the dualism between village administration and traditional village administration creates additional complexity. These dual systems can lead to overlaps in authority, inconsistencies in control mechanisms, and blurred accountability, particularly in the management of village funds. The capability component of the Fraud Diamond becomes highly relevant here. Village heads (*perbekel*), treasurers, and other officials in strategic positions have access to village financial systems while also being deeply embedded in the cultural and spiritual structures of their communities. This grants them both authority and trust—making fraud more difficult to detect, as community members may be reluctant to question traditional leaders or fear social consequences ([Suryani et al. 2023](#)). Moreover, ethical climate in these villages may be shaped by loyalty, kinship, and communal harmony rather than objective professional standards. As a result, ethical violations are sometimes internalized as acceptable trade-offs to maintain social order or fulfill cultural expectations, particularly when actions are justified as serving collective interests or preserving social cohesion ([Rahmawati et al. 2021](#); [Yusa and Dharmawan 2019](#)). This condition points to the need for a nuanced understanding of fraud risk that combines technical control mechanisms with ethical and cultural insights, especially in regions characterized by strong traditional governance systems.

Local Wisdom as a Mechanism of Social Control

Local wisdom refers to a system of values internalized within a community's way of life, guiding individual and collective behavior, including in the governance of public resources. [Sibarani \(2015\)](#) defines local wisdom as a set of noble values that emerge and evolve within a specific society and are passed down through generations as part of cultural identity. [Moore](#)

(1986) emphasizes the symbolic and interpretive role of local culture in shaping the structure of social action.

In the Balinese context, local wisdom manifests in value systems such as Tri Hita Karana, “awig-awig”, and karma phala. Tri Hita Karana underscores the importance of maintaining harmony among humans, between humans and nature, and with the divine. “Awig-awig” functions as a customary constitution that regulates all aspects of community life, while karma phala reinforces moral awareness of the consequences of one’s actions.

Research by [Yusa and Dharmawan \(2019\)](#) found that social and religious sanctions attached to violations of customary norms are more effective in preventing deviant behavior than formal legal sanctions. Other studies by [Trisnawati et al. \(2020\)](#) and [Pancawati \(2024\)](#) show that values such as menyama braya (social solidarity) and iseng (sense of shame) significantly contribute to the development of individual integrity in managing public funds.

Governance of Traditional Villages in Bali

Traditional villages (desa adat) are customary legal entities granted autonomy to regulate community life through customary law. Each village is led by a bendesa adat (customary leader) and governed by an institutional structure known as prajuru adat. Formal customary rules, comprising “awig-awig” and pararem, are developed through community consensus and function as binding legal frameworks ([Saputra et al. 2023](#)). Governance in traditional villages emphasizes principles of deliberation, collective participation, and social sanctions grounded in spiritual values. Important decisions are made through sangkep—a deliberative forum that embodies participatory democracy within a traditional structure. The presence of banjar-based social organizations further strengthens horizontal control mechanisms among community members.

The increasing disbursement of village funds has created new governance challenges

for traditional villages, particularly in aligning customary value systems with formal accountability standards ([Medan et al. 2025](#)). In this context, local wisdom is crucial as a form of social control because it regulates behavior through internalized moral obligations, communal oversight, and social sanctions that operate continuously within village life. Ethical behavior is therefore shaped not only by formal rules but also by shared values and moral expectations rooted in customary law and spiritual beliefs, making an understanding of local wisdom essential for developing governance models that are both contextually appropriate and sustainable.

Ethical Climate Theory: Victor and Cullen (1988)

Understanding fraud prevention within organizations requires more than analyzing structural controls or individual motivations. Ethical behavior is deeply influenced by the social and moral environment in which individuals operate. One of the most widely accepted frameworks for examining these ethical environments is the Ethical Climate Theory (ECT) developed by [Victor and Cullen \(1988\)](#). This theory proposes that ethical decision-making in organizations is shaped by the shared perceptions of what constitutes ethically appropriate behavior, which is known as the ethical climate.

Victor and Cullen define ethical climate as a psychological and cultural characteristic of an organization that shapes how ethical issues are interpreted and resolved by its members, reflecting shared understandings of “what is right” and “how things ought to be done.” In Balinese traditional villages, this ethical climate is closely connected to local wisdom, where customary values, social norms, and spiritual beliefs serve as shared moral reference points guiding behavior. Ethical climate is crucial for fraud prevention in these settings because it influences how village actors perceive misconduct—either as unacceptable moral

violations or as justifiable actions—thereby shaping opportunities and rationalization for fraud ([Malloy and Agarwal 2003](#)). Rather than relying solely on formal rules, ethical behavior is reinforced through communal expectations, moral obligations, and social sanctions embedded in local wisdom. The theory draws from sociological and philosophical foundations, particularly ethical reasoning based on egoism, benevolence, and principle-based moral philosophies.

In their typology, Victor and Cullen outlined five major types of ethical climates, each representing a distinct way in which organizations define and reinforce ethical conduct:

1. Instrumental Climate: In this climate, individuals are guided primarily by self-interest or organizational gain. Decisions are evaluated based on their outcomes or benefits to the actor or organization, regardless of broader ethical norms. In such climates, unethical behavior may be justified if it leads to personal or institutional success. The danger of this climate lies in its tendency to rationalize corruption, favoritism, or fraud as a means to achieve goals.
2. Caring Climate: Here, decision-making is driven by concern for the well-being of others. Members of the organization consider how their actions affect colleagues, stakeholders, or the wider community. Ethical behavior is encouraged through empathy, solidarity, and a shared commitment to mutual support. This climate tends to discourage unethical actions by promoting collective responsibility and moral sensitivity.
3. Rules Climate: In this type, individuals base their decisions on adherence to internal organizational rules and procedures. The organization is seen as the primary source of ethical guidance,

and ethical behavior is equated with rule-following. This climate is often effective in promoting compliance and discouraging deviance, provided that the rules themselves are clear, fair, and consistently enforced.

4. Law and Code Climate: Ethical decisions are made based on external codes, such as laws, professional standards, or national regulations. This climate promotes accountability and conformity with societal norms and legal frameworks. It can serve as a safeguard against arbitrary decision-making and internal corruption, particularly when internal policies are weak or ambiguous.
5. Independence Climate: Individuals in this climate rely on personal moral beliefs to guide their ethical behavior. Decision-making is autonomous and grounded in internalized principles rather than external authority. This climate encourages personal responsibility and moral reasoning, although it may sometimes lead to inconsistency if individual moral values differ significantly.

These five climate types exist along two dimensions: the ethical criteria (egoism, benevolence, principle) and the locus of analysis (individual, local, cosmopolitan). The resulting typology provides a nuanced understanding of how different organizational settings foster different ethical attitudes and behaviors. While Victor and Cullen's model was originally developed in corporate and bureaucratic settings, its application has been extended to a variety of organizational contexts, including public sector institutions, healthcare, education, and increasingly, community-based governance structures. In the context of traditional villages in Bali, Ethical Climate Theory offers a valuable framework for analyzing how culturally rooted norms shape ethical behavior and decision-making in financial governance. This unique governance structure

fosters a strong caring climate, where decisions are made with a deep concern for community harmony and collective well-being. The principle of *menyama braya* (social solidarity and kinship) encourages village leaders to act in ways that preserve trust, balance, and cohesion among members. Ethical misconduct, including fraud, is not merely a legal violation—it is considered a moral transgression that disrupts spiritual and social balance ([Murphy et al. 2012](#)).

Additionally, *desa adat* often demonstrate characteristics of a rules-based climate, though the "rules" in question are not bureaucratic policies but customary laws derived from ancestral tradition. These rules are collectively agreed upon and maintained through communal ceremonies and collective memory. Violations of "*awig-awig*" or *pararem* (supplementary customary regulations) can result in customary sanctions, such as fines, public shaming, or exclusion from community rituals. These sanctions operate as informal yet effective deterrents to unethical behavior ([Saputra et al. 2023](#)). In some cases, a law and code climate may also be present, especially where *desa adat* functions overlap with formal government programs, such as the management of village funds (*Dana Desa*) or development projects funded by the state ([Andayani and Widhiastuti 2022](#)). In these situations, leaders must navigate both customary expectations and state regulations, aligning their ethical judgments with both spiritual norms and statutory obligations. The independence climate is also relevant in the Balinese context, particularly due to the influence of Hindu religious philosophy, which emphasizes *karma phala* (the moral consequence of action). Individuals are socialized from a young age to understand that unethical behavior, even if undetected by society, will have spiritual consequences ([Saputra et al. 2023](#)). This belief system fosters internalized moral reasoning and a sense of ethical accountability that transcends external surveillance. However, the presence of

an instrumental climate cannot be ruled out, especially in situations where traditional authority is manipulated for personal or political gain. In some cases, loyalty to family, caste, or political allies may override ethical considerations, leading to favoritism or fraudulent practices justified in the name of group loyalty. When leaders perceive that ethical behavior does not yield recognition or reward, they may resort to opportunistic behavior, weakening the moral fabric of the institution. Thus, the ethical climate within *desa adat* is neither fixed nor monolithic. It is dynamic, influenced by leadership, social expectations, cultural rituals, and the interaction between formal and informal governance structures. Applying Ethical Climate Theory allows researchers and policymakers to analyze these moral environments more systematically, identifying both the strengths and potential risks inherent in traditional governance models.

The novelty of this study lies in its application of a phenomenological-hermeneutic approach to explore how governance actors in Balinese traditional villages (*desa adat*) interpret, experience, and internalize customary values such as *iseng* (shame), *menyama braya* (social solidarity), and *karma phala* (moral consequences) as moral instruments for fraud prevention. Unlike previous research that tends to employ normative, structural, or quantitative frameworks, this study emphasizes subjective meaningmaking, revealing how local actors construct ethical behavior through culturally embedded belief systems. This study also offers a unique contribution by integrating two theoretical domains that have rarely been connected in the context of traditional governance: fraud theory (e.g., Fraud Triangle, Fraud Diamond) and Ethical Climate Theory ([Victor and Cullen 1988](#)). To date, no known studies have examined the interplay between ethical climates and fraud risks within the cultural governance systems of *desa adat*, particularly through the lens of internalized values rather than formal compliance. By grounding fraud

prevention in local wisdom and indigenous moral frameworks, this research introduces a new perspective to the discourse on culturally embedded governance and integrity systems. The findings are expected to contribute both to academic literature on ethics and fraud in public administration and to practical frameworks for policy making, especially in regions where customary and formal systems coexist.

Based on this theoretical framework, the study develops three interpretive propositions:

Proposition 1 (P₁): Internalized Customary Values as Moral Control

Governance actors in Balinese *desa adat* interpret and internalize customary values—particularly *iseng*, *menyama braya*, and *karma phala*—as moral reference points that shape ethical judgment and perceived constraints on fraudulent behavior.

Proposition 2 (P₂): Local Wisdom and Culturally Embedded Ethical Climate

The shared meanings attached to customary values, communal expectations, and customary rules such as *awig-awig* and *pararem* contribute to a culturally embedded ethical climate through which governance actors interpret appropriate conduct and fraud-related behavior.

Proposition 3 (P₃): Culturally Embedded Social Control and Fraud Risk

Governance actors perceive culturally embedded social controls as interacting with the conditions represented in the Fraud Triangle and Fraud Diamond—particularly opportunity, rationalization, and capability—thereby complementing formal mechanisms of fraud prevention within *desa adat* governance.

These propositions are interpretive rather than hypotheses intended for statistical testing. Consistent with the phenomenological-hermeneutic orientation of the study, they provide theoretical reference points for

interpreting participants' lived experiences and the meanings they attribute to customary values, ethical environments, and fraud-related behavior. The Results and Discussion section therefore revisits each proposition to examine how participants' narratives, observations, and documentary evidence support, refine, or complicate the proposed relationships among local wisdom, ethical climate, social control, and fraud prevention.

METHOD

This study employs a qualitative approach using a phenomenological-hermeneutic method ([Manen 2016](#)). This approach was chosen to capture the subjective meanings and social experiences of actors within traditional village governance in understanding and applying customary values in the context of fraud prevention. The phenomenological approach enables the researcher to explore the direct lived experiences of participants ([Moleong 2021](#)), while the hermeneutic method is used to interpret the meaning of these experiences within cultural and social theoretical frameworks ([Amiril 2022](#)).

Research Site and Participants

The study was conducted in three *desa adat* (traditional villages) located in three different administrative areas of Bali Province: Denpasar City, Badung Regency, and Karangasem Regency. To preserve anonymity, the research sites are referred to as Village X, Village Y, and Village Z. The sites were selected purposively based on three eligibility criteria: (1) the presence of a well-established customary governance structure, (2) active implementation of *awig-awig* (customary law), and (3) involvement in the management of village funds and communal resources.

Beyond these common criteria, the three villages were deliberately selected from different administrative areas to incorporate contextual variation within Bali's traditional

governance system. This cross-regional selection enabled the study to examine the phenomenon across different local settings while maintaining the institutional characteristics central to the research: the coexistence of customary authority, community-based social control, and formal administrative accountability. The selection therefore followed a purposive maximum-variation logic, allowing the study to identify both recurring and context-specific meanings in how local wisdom, ethical conduct, and social control are experienced and interpreted in relation to fraud prevention.

A total of eight informants participated in the study. They were purposively selected based on their roles, relevant experience, and knowledge of customary governance, local values, financial or communal resource management, and community-based oversight. The informants ranged in age from 42 to 56 years and had between four and eight years of relevant experience or involvement in traditional village governance and related practices. They represented customary leadership, village administration and financial management, community and spiritual leadership, traditional security, civil society, and cultural expertise. Detailed characteristics of the informants are presented in Table 1.

Data Collection Techniques

Data were collected using three main techniques ([Moleong 2021](#); [Raco 2018](#)):

1. In-depth Interviews: Semi-structured interviews were conducted to explore informants' understandings and perceptions of customary values and social control practices in fraud prevention. Questions were developed flexibly to capture both personal and collective narratives.
2. Participant Observation: The researcher was directly involved in customary activities such as sangkep (village meetings), traditional ceremonies, and deliberation forums to observe the

dynamics of decision-making and the role of local values in social monitoring.

3. Document Analysis: This included reviewing "awig-awig", *pararem* (supplementary customary regulations), meeting minutes, and relevant financial documents. These sources were used to understand the formal structures of customary law and their relationship to local resource governance.

Research Trustworthiness and Rigor

To ensure the trustworthiness and rigor of the study, several procedures were employed throughout the data collection and interpretation process. First, data triangulation was conducted by comparing evidence from in-depth interviews, participant observations, and document analysis. This process enabled participants' narratives to be interpreted alongside observed practices and documentary evidence, including *awig-awig*, *pararem*, village meeting minutes, and relevant financial documents. Second, member checking was conducted by clarifying key statements and emerging interpretations with informants to ensure that the researchers' interpretations remained consistent with the meanings intended by participants. Third, peer debriefing was undertaken among the research team to critically discuss coding decisions, emerging themes, and alternative interpretations, thereby minimizing reliance on a single researcher's perspective. Finally, an audit trail was maintained throughout the research process, including interview transcripts, observation notes, documentary records, coding materials, thematic development, and interpretive notes. Collectively, these procedures enhanced the credibility, dependability, confirmability, and transparency of the phenomenological-hermeneutic inquiry.

Data Analysis Techniques

The data were analyzed interpretively using thematic analysis. The steps included:

1. Transcription and Open Coding: All interviews were transcribed verbatim, and initial emerging themes were identified.
2. Axial Coding: Initial themes were grouped based on relationships between meanings and sociocultural contexts.
3. Hermeneutic Interpretation: Interpretation was conducted through a cyclical process (hermeneutic circle) in which specific data segments—such as interview excerpts, observations, and customary documents—were repeatedly interpreted in relation to the broader cultural and value context of Balinese traditional villages. This iterative process enabled meanings to be refined through continuous comparison between individual narratives and overall communal

practices until a coherent interpretation was reached.

The interpretation process was guided by relevant theoretical frameworks, including the Fraud Triangle, Fraud Diamond, and local wisdom concepts as articulated by [Moore \(1986\)](#) and [Effendi \(2015\)](#). The aim was to produce a contextual and theoretical understanding of the role of customary values in shaping governance integrity.

RESULTS

The findings of this study are based on data obtained from eight informants associated with the three research sites in Denpasar City, Badung Regency, and Karangasem Regency. The informants represented diverse roles within and around desa adat governance, including customary leadership, village administration and financial management, community and spiritual leadership, traditional security, civil society, and cultural expertise.

Table 1. Informant Description

Code	Age	Informant's Role/Position	Years of Relevant Experience/Involvement	Role in the Research Context
Informant 1	45	Bendesa Adat (Traditional Village Chief)	4 years	Customary leadership, enforcement of awig-awig, and maintenance of village harmony.
Informant 2	52	Prajuru Adat (Customary Officials)	7 years	Implementation of customary law, management of village affairs, and monitoring of community compliance.
Informant 3	53	Community Elder (Krama Tua)	5 years	Moral and cultural guidance and preservation of customary values.
Informant 4	42	Village Treasurer (Petajuh)	4 years	Financial administration, transparency, and accountability in the management of customary village funds.
Informant 5	56	Jero Mangku (Village Priest)	8 years	Spiritual guidance and reinforcement of culturally embedded moral values.
Informant 6	44	Pecalang (Traditional Security Officer)	5 years	Maintenance of social order and community-based monitoring.
Informant 7	45	NGO/Community-Based Organization Representative	5 years	External perspective on the interaction between customary practices and formal governance.
Informant 8	48	Cultural Scholar/Researcher	6 years	Cultural and academic perspective on local wisdom, social control, and dual governance.

Table 2. Document Analysis Sources

No.	Document Type	Document Description
1	“awig-awig” Desa Adat	The fundamental customary law governing community behavior, conflict resolution, and sanctions within the desa adat.
2	Perarem Desa Adat	Additional customary agreements made through community consensus to adapt or complement the “awig-awig”.
3	Paruman Desa (Meeting Minutes)	Records of traditional village assemblies that document collective decisions on financial management and community oversight.
4	Village Financial Report	Detailed records of the income and expenditure of customary village funds to demonstrate transparency and accountability.
5	Law No. 6 Year 2014 on Villages	Provides the legal basis for village autonomy and governance, including recognition of traditional villages.
6	Minister of Home Affairs Regulation No. 111 Year 2014	Guidelines for the structuring and coordination of desa adat alongside desa dinas.
7	Regional Regulation of Bali Province on Traditional Villages	Legal recognition and protection of desa adat in preserving local wisdom and social control functions.
8	Village Code of Ethics	A moral framework agreed upon by community members to guide leaders and residents in maintaining integrity.

As presented in Table 1, the informants ranged in age from 42 to 56 years and had between four and eight years of relevant experience or involvement in traditional village governance and related practices. This diversity of roles and experience provided multiple perspectives for interpreting how local wisdom, ethical values, and social control are understood and experienced in relation to fraud prevention.

In addition to the interview data, participant observations and documentary

evidence were incorporated into the analysis to contextualize and triangulate the informants' accounts. As summarized in Table 2, the documents examined included awig-awig, pararem, village meeting minutes, financial reports, and relevant regulatory documents. The integration of interview, observational, and documentary evidence provided the empirical basis for the thematic and hermeneutic interpretation presented in the following sections.

Conceptual Model of Local Wisdom–Based Social Control in Fraud Prevention



Figure 1. Conceptual Model

As illustrated in Figure 1, local wisdom constitutes the foundational input shaping social control mechanisms through the internalization of ethical values and continuous communal monitoring. These mechanisms directly influence key elements of fraud risk—pressure, opportunity, rationalization, and capability—thereby reinforcing fraud prevention in traditional village governance. The model highlights that fraud deterrence in *desa adat* is achieved not primarily through formal audits, but through culturally embedded ethical climates and social legitimacy.

Based on the field observations, it is found that traditional villages (*desa adat*) in Bali demonstrate a unique combination of strong customary governance structures, vibrant local wisdom, and community-based oversight that collectively discourage fraudulent practices. The observation aimed to address research questions concerning how local values and communal norms work as informal mechanisms that complement formal fraud prevention frameworks.

In practice, “awig-awig”, *pararem*, and regular *paruman desa* play a central role in regulating financial management and community conduct. Values such as *iseng* (shame) and *karma phala* (moral consequences) are deeply internalized and become everyday deterrents. The physical layout of the villages, with close-knit *banjar* communities, also facilitates horizontal monitoring.

However, observations revealed that although customary social controls were strongly embedded in everyday village governance, participants also experienced practical tensions in their implementation. Informants described variations in the consistency of customary sanctions and difficulties in reconciling customary reporting practices with national financial accountability requirements. These experiences suggest that the ethical environment of *desa adat* is not homogeneous but reflects the interaction of

different moral reference points. During axial coding and hermeneutic interpretation, the five ethical climate types proposed by [Victor and Cullen \(1988\)](#)—caring, rules, law and code, independence, and instrumental—were therefore used as interpretive lenses rather than predetermined coding categories. The following themes illustrate how these ethical orientations emerged, overlapped, and occasionally came into tension in participants lived experiences of customary governance.

Interpretation of Customary Values as Behavioral Control: Caring and Independence Climates

Values such as *iseng* (shame), *menyama braya* (collective responsibility), and *karma phala* (belief in moral consequences) consistently emerged in informants’ narratives as moral reference points for interpreting appropriate conduct in village governance. One *bendesa adat* explained:

“If someone misuses village funds, they’re not just subject to state law, but also social exclusion. We fear our neighbors’ judgment more than the police.” (Interview, *Bendesa Adat*, Village X, 2024)

Participants’ accounts suggest that *iseng* was experienced not simply as an individual feeling of shame, but as a moral response embedded in relationships with family, neighbors, and the wider customary community. Another *prajuru* emphasized:

“We fear the elders more than the inspectorate. Mismanaging funds could lead to a customary trial, which brings shame upon the entire family.” (Interview, *Prajuru*, Village Y, 2024)

A *desa adat* secretary elaborated further:

“In traditional villages, responsibility is not just individual—it involves your family and banjar. One person’s mistake can bring shame to everyone.” (Interview, Village Secretary, Village Z, 2024)

Through the lens of Ethical Climate Theory, these narratives reflect a caring climate, in which ethical judgments are interpreted in relation to the welfare, expectations, and social relationships of the wider community. *Menyama braya* situates responsibility beyond individual interests and within reciprocal obligations among community members. At the same time, participants’ references to *karma phala* indicate an independence climate, because moral responsibility is also experienced as internally grounded: an individual remains accountable for the moral consequences of an action even when misconduct is not detected through formal supervision. The coexistence of caring and independence orientations indicates that customary behavioral control operates through both communal expectations and personally internalized moral beliefs. This interpretation is consistent with [Yusa and Dharmawan \(2019\)](#), who emphasize the significance of social and religious sanctions in Balinese customary governance. More importantly, the findings extend this understanding by showing how participants themselves interpret these cultural values as interconnected social and internal moral reference points in everyday governance.

“Awig-awig” and Pararem as Instruments of Accountability: Rules Climate

Nearly all studied *desa adat* had *awig-awig* and *pararem* containing provisions concerning financial management, transparency, and decision-making mechanisms. These documents were developed through community deliberation (*musyawarah krama*) and could be adapted to changing community needs and governance requirements.

“Our “*awig-awig*” requires every official to openly report financial matters at the banjar. Those who fail to do so are subject to customary sanctions.” (Interview, Prajuru, Village Y, 2024)

Another *bendesa adat* emphasized that transparency was interpreted not merely as an administrative obligation, but as part of maintaining the trust granted by the community:

“We can’t hide anything because everyone has the right to know. If the *bendesa* is not transparent, public trust will vanish.” (Interview, *Bendesa Adat*, Village X, 2024)

A member of the *pararem* drafting committee explained:

“*Pararem* can be drafted when there’s an urgent need, such as price changes or new government regulations, but it must be ratified through *sangkep* (community deliberation).” (Interview, *Pararem Committee*, Village Z, 2024)

These accounts were interpreted through Victor and Cullen’s rules climate, in which appropriate conduct is guided by adherence to established organizational rules and procedures. In *desa adat*, however, the relevant rules are culturally embedded customary institutions rather than solely bureaucratic procedures. Participants described *awig-awig* and *pararem* as collectively legitimate reference points that define expected conduct and provide the basis for accountability and customary sanctions.

This finding is consistent with [Saputra et al. \(2023\)](#) and [Putri et al. \(2018\)](#), who identify *awig-awig* as an important customary mechanism of governance and accountability. The present findings further suggest that its ethical significance lies not simply in the existence of customary rules, but in the meanings of collective legitimacy, obligation, and accountability attached to those rules by governance actors.

Social Monitoring by Community Members and Traditional Leaders: Caring Climate with Rules-Based Reinforcement

Participants described fraud-related oversight in desa adat as strongly embedded in everyday community relationships rather than dependent exclusively on formal audit mechanisms. Monitoring by krama adat (customary community members), elders, and traditional leaders was experienced as part of communal responsibility, with reputation and social recognition playing important roles in ethical conduct.

"If a prajuru commits fraud, the community will know even before the state does. Customary gossip travels faster than official letters." (Interview, Community Leader, Village Z, 2024)

Another prajuru explained that monitoring was rooted in proximity, mutual trust, and the practice of reminding one another:

"We live side by side. If something is off in financial management, it's discussed immediately at the balai banjar. No need to wait for the inspectorate." (Interview, Prajuru, Village Y, 2024)

A senior traditional leader described the moral dimension of this oversight:

"We have a moral obligation to give reminders. Sometimes without anger—just symbols or gentle words—are enough to make someone reflect." (Interview, Traditional Elder, Village X, 2024).

These narratives primarily reflect a caring climate, because monitoring is understood as a collective responsibility arising from relationships, mutual concern, and the preservation of community trust. However, this caring orientation is reinforced by a rules climate when community monitoring is connected to

awig-awig, customary sanctions, and collectively agreed expectations of conduct. The findings therefore indicate that ethical climates in desa adat are not mutually exclusive; communal care and rule-based accountability may operate simultaneously within the same governance practices.

This interpretation extends Ethical Climate Theory [Victor and Cullen \(1988\)](#) by illustrating how ethical climates in a customary governance setting can be culturally constituted through everyday social relationships, moral leadership, customary rules, and communal oversight rather than solely through formal organizational structures.

Challenges in Integrating Customary and State Governance Systems: Law-and-Code Climate and Potential Instrumental Tensions

Despite the importance participants attached to customary social control, they also described difficulties in reconciling customary governance practices with formal state accountability requirements. One recurring issue concerned differences between customary and government financial reporting systems:

"We are required to use the government's reporting system, but ours is different. Sometimes we end up doing it twice or creating overlapping records." (Interview, Desa Dinas Official, 2024)

A bendesa adat similarly described tension surrounding the formal recognition of customary reporting practices:

"We have our own system, but it's not formally recognized. Sometimes our customary financial reports are deemed invalid because they don't follow the national format." (Interview, Bendesa Adat, Village X, 2024)

These experiences can be interpreted through a law-and-code climate, in which ethical and accountable conduct is referenced against

external laws, regulations, and formal administrative standards ([Victor and Cullen 1988](#)). Participants' narratives suggest that governance actors simultaneously encounter a rules climate grounded in awig-awig and pararem and a law-and-code climate grounded in state accountability requirements. The resulting tension is therefore not experienced merely as a technical reporting problem, but also as an encounter between different sources of ethical and institutional authority. This interpretation is consistent with [Widyastuty and Dwiarta \(2021\)](#), who argue that the coexistence of customary and formal governance structures may generate ambiguities and policy overlaps, particularly when coordination between the two systems is weak.

The instrumental climate provides a contrasting interpretive lens for understanding circumstances in which personal or group interests may take precedence over customary or formal accountability expectations ([Victor and Cullen 1988](#)). Although an instrumental orientation did not emerge as the dominant ethical climate in participants' narratives, it remains relevant for interpreting potential vulnerabilities within the dual governance structure. In particular, customary authority, group loyalty, or appeals to collective interests may, under certain circumstances, provide narratives through which actions benefiting particular actors or groups are justified. Viewed alongside the Fraud Triangle, such circumstances are especially relevant to the process of rationalization, in which actors construct justifications for conduct that might otherwise conflict with accepted ethical standards ([Clinard and Cressey 1954](#)).

Accordingly, participants' experiences suggest that the ethical climate of desa adat is neither singular nor static. Caring, rules, independence, and law-and-code orientations coexist and interact within customary governance, while an instrumental orientation represents a potential countervailing condition when individual or group interests take

precedence over shared ethical expectations. The interaction among these ethical orientations provides a more nuanced understanding of how governance actors interpret local wisdom, accountability, and fraud-related behavior within the dual customary–state governance system ([Victor and Cullen 1988](#); [Widyastuty and Dwiarta 2021](#)).

The findings further indicate that participants interpreted local wisdom as an informal control mechanism that interacts with the conditions represented in the Fraud Triangle and Fraud Diamond ([Clinard and Cressey 1954](#); [Wolfe and Hermanson 2004](#)). Rather than understanding fraud prevention solely through formal controls, informants described how communal expectations, customary rules, moral beliefs, and social legitimacy entered into their understanding of pressure, opportunity, rationalization, and capability in everyday governance.

With regard to pressure, participants described a strong sense of collective responsibility in which individual conduct was closely connected to family reputation, community trust, and communal accountability. Rather than demonstrating that customary values objectively reduce pressure to engage in fraud, participants' narratives indicate that social and moral considerations become part of how governance actors experience situations involving potentially inappropriate conduct. The anticipated consequences for family reputation and community relationships were described as important considerations in ethical decision-making. This interpretation is consistent with [Yusa and Dharmawan \(2019\)](#), who emphasize the significance of social and religious sanctions in shaping conduct within Balinese customary communities.

In relation to opportunity, informants described awig-awig, pararem, community deliberation, and horizontal monitoring as mechanisms through which financial conduct becomes visible to other members of the community. Participants perceived regular

interaction within the banjar and community forums as making irregularities more difficult to conceal. From their perspective, collectively agreed rules, expectations of financial disclosure, and everyday community oversight constituted layers of informal accountability alongside formal administrative controls. This interpretation supports [\(Saputra et al. 2023\)](#), who highlight the role of Balinese customary institutions and local values in strengthening community-based governance and accountability.

Regarding rationalization, participants interpreted *iseng* (shame) and *karma phala* (moral consequences) as internal moral reference points through which potentially unethical behavior was evaluated. Their narratives described how anticipated social judgment and spiritual consequences entered into personal reflections concerning appropriate and inappropriate conduct. From a phenomenological-hermeneutic perspective, these values can therefore be understood as culturally embedded meanings through which governance actors make sense of, and question, possible justifications for misconduct. This interpretation extends the conventional understanding of rationalization in the Fraud Triangle [Clinard and Cressey \(1954\)](#) by demonstrating how the process of justification may be culturally situated within social, moral, and spiritual systems of meaning.

Finally, in relation to capability, participants described authority in *desa adat* as dependent not only on formal position but also on moral legitimacy, community acceptance, and adherence to customary expectations. This interpretation can be related to [Wolfe and Hermanson \(2004\)](#) Fraud Diamond, in which capability concerns the personal position and capacity that may enable an individual to exploit opportunities for fraud. Within the *desa adat* context, however, participants' accounts suggest that the meaning of capability is intertwined with the social legitimacy required to exercise authority. A *bendesa adat*, for example,

described leadership as becoming difficult to exercise once community trust is lost, while a *prajuru adat* associated misuse of communal resources with social rejection and diminished acceptance in collective decision-making. These interpretations are consistent with [Saputra et al. \(2023\)](#) and [Yusa and Dharmawan \(2019\)](#), who emphasize the importance of customary norms, community relationships, and moral legitimacy in Balinese governance.

Taken together, these findings suggest that the Fraud Triangle and Fraud Diamond provide useful theoretical reference points for interpreting participants' lived experiences, but their elements acquire culturally specific meanings within *desa adat* governance [\(Clinard and Cressey 1954; Wolfe and Hermanson 2004\)](#). Pressure is interpreted through communal responsibility and reputational considerations; opportunity through perceived visibility, customary rules, and horizontal oversight; rationalization through shame and spiritual-moral consequences; and capability through the relationship between formal authority, community acceptance, and moral legitimacy. In this sense, local wisdom is not interpreted as objectively eliminating or reducing the conditions associated with fraud. Rather, participants described culturally embedded values and social controls as shaping how such conditions are experienced, understood, and morally evaluated. This interpretation supports the broader argument that local wisdom can provide a contextually grounded form of social control in village governance [\(Dewi et al. 2021\)](#), while extending existing fraud frameworks by foregrounding the social, cultural, and spiritual meanings through which fraud-related conditions are understood in traditional governance settings.

CONCLUSION

This study provides an interpretive understanding of how governance actors in Balinese *desa adat* experience and make sense of local wisdom in relation to ethical conduct and

fraud prevention. Participants described *iseng* (shame), *menyama braya* (social solidarity and collective responsibility), and *karma phala* (moral consequences) as culturally embedded moral reference points that shape their understanding of appropriate conduct. Customary institutions such as *awig-awig* and *pararem*, together with community deliberation and horizontal social monitoring, were similarly interpreted as important sources of accountability within everyday village governance. These findings support the study's propositions by showing how internalized customary values, culturally embedded ethical climates, and community-based social controls intersect in participants' experiences of fraud-related governance.

Theoretically, the study extends the interpretation of the Fraud Triangle and Fraud Diamond by demonstrating how pressure, opportunity, rationalization, and capability acquire culturally situated meanings within *desa adat*. Participants understood communal responsibility and reputation as relevant to pressure; customary rules and social visibility to opportunity; *iseng* and *karma phala* to rationalization; and moral legitimacy and community acceptance to capability. Ethical Climate Theory further helps explain these meanings through the coexistence of caring, rules, independence, and law-and-code orientations, while an instrumental orientation represents a potential tension when individual or group interests take precedence over shared ethical expectations. These findings suggest that fraud-related conditions in customary governance cannot be understood solely through individual or formal organizational perspectives, but should also be interpreted within their social, cultural, and spiritual contexts. Practically, the findings highlight the importance of recognizing customary governance

institutions as potential partners in strengthening accountability, transparency, and ethical governance. Rather than replacing formal controls, culturally embedded mechanisms may complement state accountability systems when customary and formal governance arrangements are appropriately aligned. The tensions reported by participants regarding financial reporting and institutional recognition also indicate the need for greater coordination between *desa adat* and formal government institutions, particularly in developing accountability arrangements that accommodate customary practices while maintaining formal standards of financial governance.

This study has several limitations. The research involved eight informants associated with three *desa adat* settings in Denpasar City, Badung Regency, and Karangasem Regency; therefore, the findings are context-specific and are not intended for statistical generalization to all traditional communities. The sensitivity of fraud-related issues may also have influenced the extent to which participants disclosed their experiences, while the phenomenological-hermeneutic approach necessarily relies on participants' subjective accounts and researchers' interpretation of those accounts. Moreover, the study does not quantitatively assess the effectiveness of customary values in preventing fraud. Future research could examine similar mechanisms across different customary governance contexts, employ comparative or mixed-method designs, and investigate how culturally embedded ethical climates interact with formal accountability systems over time. Such research would further clarify the conditions under which local wisdom can complement formal governance mechanisms without overlooking the potential tensions, inconsistencies, or vulnerabilities inherent in customary systems.

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