

Juridical Review of Internal Control System Design in Regional Financial Management in Indonesia

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Abstract: *This study examines the design of an internal monitoring system for regional financial management at the regional level "Ius Constitutum". The design of an internal regional financial supervision system regulated in various regulations is expected to produce effective regional financial management. However, with the recent rise in acts of budget misuse and fraudulent regional financial reporting, this certainly leaves new work for policy makers to review the existing internal monitoring system. The main objective of this study is to find out whether the internal control system model that has been established is able to guarantee the implementation of effective regional financial administration, or is it the opposite. With various incidents occurring regarding irregularities in the implementation of regional budgets, this study then describes the weaknesses and efforts to optimize the regional financial internal monitoring system. This research uses a normative legal research method that relies on a statutory approach and a conceptual approach. The research results show that there are still weaknesses in the design of the internal supervision system in regional financial management. This can be seen from the regulation of the internal supervision system which is not yet optimal because it still opens up room for compromise between supervisory officials and regional heads. In addition, the design regarding the position of regional inspectorates in the applicable regulations does not allow Government Internal Audit Apparatus to act independently in carrying out their supervisory duties. This study is encouraging to make improvements to the position of the regional Inspectorate through revision of existing regulations. The position of the internal regional inspectorate implementation internal supervision must be interpreted within the scope of internal supervision in the sense broad.*

Keywords: *Financial Law; Regional Finance; Internal Supervision;*

A. Introduction

One important element for the implementation of regional government in an autonomous system is regional financial management. Government which accommodates the principle of decentralization will of course implement an integral pattern, where the central government and regional governments are part of a unitary state framework. Therefore, regional finance is also part of state finance.¹ When we rely on the provisions of Article 3 paragraph (1) of Law Number 17 of 2003 concerning State Finances, it has been stated that state finances must be managed in an orderly manner, in accordance with statutory regulations, effectively,

¹ Audi Helri Pondaag, Ollij Anneke Kereh, and Friend Henry Anis, 'Kajian Yuridis Pengelolaan Keuangan Daerah Berdasarkan Peraturan Pemerintah Nomor 12 Tahun 2019', *Jurnal Hukum To-Ra: Hukum Untuk Mengatur Dan Melindungi Masyarakat* 10, no. 1 (26 April 2024): 40–55, <https://doi.org/10.55809/tora.v10i1.282>, p 41-42.



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efficiently, economically, transparency and accountability by considering the principles of justice and fairness.²

This provision shows the necessity that regional financial management is indeed the most crucial thing in implementing the principle of decentralization. Regional financial management is a series of activities in regional financial management which includes planning, budgeting, implementation, administration, reporting, accountability and supervision processes.³ To create regional financial management that is in line with legal principles and provisions, the supervision system must be optimized.⁴ As stated by Purnama and Nadirsyah, regional financial supervision is closely related to regional government performance. Because success in achieving a work program requires maximum supervision in every implementation process, both at the planning, budgeting and implementation stages of activities that have been planned from the start. Therefore, the better the level of supervision of regional financial management, the better the performance results of the regional government.⁵

However, when looking at the reality of what has happened recently, the regional financial supervision system in Indonesia displays quite worrying conditions. We can look at the findings from Indonesia Corruption Watch (ICW), for example, which revealed that from 2021 to 2023 there were 61 regional heads involved in corruption cases. Where the majority of cases relate to cases of bribery and misuse of regional budgets for personal interests.⁶ Besides that, the findings of the Audit Board of the Republic of Indonesia about national losses and regions show that throughout the 2005-2023 period (semester 1 2023) the total state losses reached IDR 4.89 trillion. Of this amount, the largest value of state losses was found in regional governments, namely IDR 3,825.56 billion or 78.17%, compared to the central government of IDR 1,032.15 billion (21.09%), State-Owned Enterprises (BUMN) IDR 16.43 billion (0.34%), Other Institutions/Bodies IDR 8.39 billion (0.17%), and Band Regionally Owned Enterprises (BUMD) IDR 11.34 billion (0.23%).⁷

From this data it is clear how the internal supervision system implemented is still not effective in supervising regional finances. In fact, it is reasonable to say that the current design of internal supervision in regional government administration can be categorized as a design that is not very strong (weak system design). This can be seen from the position of the inspectorate led by the inspector in a dependent position, because it is responsible to the head of regional government (Governor and/or Regent/Mayor) through the regional

² Vide the provisions of Article 3 Paragraph (1) of Law of the Republic of Indonesia Number 17 of 2003 concerning State Finances.

³ Vide the provisions of Article 1 Number (1) Regulation of the Minister of Home Affairs of the Republic of Indonesia Number 77 of 2020 concerning Technical Guidelines for Regional Financial Management.

⁴ Baswir Revrisond, *Akuntansi Pemerintahan Indonesia*, 3rd ed. (Yogyakarta: BPFE, 1999)., p 129.

⁵ Fifit Purnama and Nadirsyah Nadirsyah, 'Pengaruh Pengawasan Keuangan Daerah, Akuntabilitas, dan Transparansi Pengelolaan Keuangan Daerah Terhadap Kinerja Pemerintah Daerah Pada Kabupaten Aceh Barat Daya', *Jurnal Ilmiah Mahasiswa Ekonomi Akuntansi* 1, no. 2 (1 November 2016)., p 3.

⁶ Amirullah, '61 Kepala Daerah Jadi Tersangka Korupsi Pada 2021-2023, ICW: Lingkaran Setan Sejak Awal', *Tempo*, 7 May 2024, <https://nasional.tempo.co/read/1865207/61-kepala-daerah-jadi-tersangka-korupsi-pada-2021-2023-icw-lingkaran-setan-sejak-awal>.

⁷ 'Kerugian Negara/Daerah Paling Banyak Terdapat Di Pemda – WARTA DIGITAL', *Wartapemeriksa.Bpk.Go.Id* (blog), 27 February 2024, <https://wartapemeriksa.bpk.go.id/?p=47833>., Accessed: 21 July 2024.

secretary.⁸ The appointment of regional inspectors is also carried out by the regional head, with the rules regarding appointment determined by each region through regional regulations.⁹ Conditions like this make the space for regional inspectorates to realize optimal and independent supervision very limited and vulnerable to intervention. What's more, the problem is related to the interests of the regional head himself. Moreover, regional inspectors are also assigned the task of coaching and supervising the implementation of regional government affairs. Even though this task is carried out by regional officials, what is carried out by regional officials in this case is part of the regional head's work program which is of course very much in line with political interests. As a result, the supervisory function tends not to be implemented optimally.

This reality also shows how important it is to strengthen the internal monitoring system in regional financial management so that everything related to leakage or misuse of regional finances can be minimized. The aim of strengthening internal supervision in this case is to prevent regional financial irregularities from occurring. Strong supervision will be able to prevent regional financial leaks or practices of regional financial irregularities which have implications for state losses. Therefore, as an effort to realize good and effective regional financial management, it is important to optimize the internal monitoring system. Thus, it would be relevant if this study reviewed the design of the internal monitoring system in regional financial management to identify existing weaknesses, then propose efforts to improve them.

B. Methodology

Method study which is used is to study normative law. The data collection process was carried out through a literature study of data sourced from primary, secondary and tertiary legal materials. *First*, the primary legal material in this study is in the form of statutory regulations (written law) which correlate directly with the legal issues discussed. *Second*, secondary legal materials in the form of book literature, journals or articles, research reports and others within the scope of secondary data. *Third*, while for tertiary data in this case it is in the form of a legal dictionary, Big Indonesian Dictionary (KBBI) or an encyclopedia, which serves to provide additional explanations on primary and secondary data.

The object of this research is a model of the regional financial internal supervision system regulated in Indonesian laws and regulations. To produce relevant images and conclusions, the data that has been collected will be analyzed descriptively-analytically by applying a statutory approach, case approach, and conceptual. A legal approach is used to study a model or accommodated legal system design. A case approach is used to study effectiveness application of a model of a system that becomes a legal issue. Meanwhile, a conceptual approach is used to recommend a new concept for legal issues which is studied.

⁸ This design constitutes the provisions of Article 11 Paragraph (2) and (3) of the Republic of Indonesia Government Regulation Number 18 of 2016 concerning Devices Area.

⁹Sejarah Inspektorat DIY', *Inspektorat Diy*, accessed 19 July 2024, <https://inspektorat.jogjaprovo.go.id/sejarah-inspektorat-diy/>.

C. Results and Discussion

Internal Control System Design in Regional Financial Management

As a form of strengthening the regional government financial fiscal system, the Indonesian government through Law Number 1 of 2022 concerning Financial Relations between the Central and Regional Governments has reorganized finances between the central and regional governments. This is also an embodiment of Law Number 23 of 2014 concerning Regional Government. Strengthening the regional fiscal system in this regulation is realized through balancing funds, namely the State Revenue and Expenditure Budget (APBN) allocated to regions to fund regional needs.¹⁰

In terms of managing the allocated budget by the regional government, it must really be done to support the welfare of the people in the region. Therefore, regional governments must be able to ensure that regional financial implementation is truly effective and on target in accordance with the program that has been planned together with the regional parliament. So strengthening the financial supervision system is one of the main keys. It needs to be agreed that a good monitoring system will produce good government performance. On the other hand, if the supervision system is bad, it will also affect the results of the regional government's performance in administering regional affairs.

The financial management monitoring system is certainly very important in government management, especially in terms of financial management. According to W.R Tjandra, the supervisory function in the financial management process is carried out in order of known level of achievement, both success and failure during the financial management process by an organization or work unit.¹¹ Meanwhile, by Stephen Robein, supervision is defined as a process monitoring activities to ensure that the implementation of these activities is completed according to plan and correcting all existing designs.¹²

Based on its scope, state/regional financial supervision consists of internal supervision and external supervision. Riawan Tjandra defines internal supervision as supervision carried out from within a government organization, where officials and supervisors are in the same department. Meanwhile, external supervision is carried out from outside an organization and is carried out by another, non-allied institution.¹³

Regarding internal supervisory duties in Indonesia, especially within the provincial, district and city government areas, these are carried out by the Provincial Inspectorate and/or Regency/City Inspectorate. Its task is to supervise all regional government administration activities funded by Regional Revenue and Expenditure Budget. This is in accordance with the provisions of Article 49 paragraphs (1), (2) and (6) of the Republic of Indonesia Government Regulation Number 60 of 2008 concerning the Government's Internal Control System.

One thing that needs to be understood is that internal control is an integral part of the system Control Internal (SPI) or Government Internal Control System (SPIP). In this case,

¹⁰ The Balancing Funds referred to above include Profit Sharing Funds (DBH), General Allocation Funds (DAU), and Special Allocation Funds (DAK)., See in: W. Riawan Tjandra, *Hukum Keuangan Negara: Pengertian, Ruang Lingkup, Pengelolaan, dan Penyelesaian Kerugian Negara* (Yogyakarta: PT Kanisius, 2023)., p 186-187.

¹¹ *Ibid.*, p 229.

¹² W. Riawan Tjandra, *Hukum Keuangan Negara* (Jakarta: Grasindo, 2006)., p 131.

¹³ Tjandra, *Hukum Keuangan Negara: Pengertian, ..., Op.Cit.*, p 239-240.

the Internal Control System is an integrated process of actions and activities that are carried out continuously by the leadership and all employees. The aim is to provide adequate confidence that the organization's objectives will be achieved through effective and efficient activities, reliable financial reporting, protection of state assets, and compliance with applicable regulations.

According to Mulyadi, internal control is a step taken by an organization to provide adequate confidence in achieving organizational goals. This internal control directs the organization towards efficient and effective operations, reliable reporting, and compliance with laws and regulations. With good internal control, The management of an organization will become more effective and efficient, because resource management based on good internal control can produce optimal output.¹⁴

Based on the provisions of Article 1 point (3) of Government Regulation Number 60 of 2008 concerning the Government's Internal Control system, it is stated that internal supervision is the activity of implementing organizational duties and functions which includes all processes such as auditing, reviewing, evaluating, monitoring and other supervisory activities. This aims to provide adequate confidence that activities have been carried out in accordance with established standards effectively and efficiently to support leaders in realizing good governance.

Mubarok and Usman (2024) explain that the form of internal supervision includes 2 (two) forms of activities, namely activities to ensure and consultation. Activity convincing activities consisting of audits, reviews, evaluations and monitoring. Meanwhile, activities consultation consists of technical guidance activities, assistance, socialization and so on. With this form, internal supervision is expected to ensure the realization of good governance.¹⁵

In line with that, Sururama and Amalia (2020) state that supervision in the context of embodiment good governance and public accountability is an effort to build and maintain people's legitimacy regarding government performance by creating an effective monitoring or supervision system, both in the form of internal supervision and external supervision. Supervision is also the most important thing in maintaining government functions so that they can run well. Therefore, supervision is as important as implementing governance and managing good government.¹⁶ The better the implementation of supervision in a government, the more it reflects good governance.

The target of supervision is findings that indicate deviations from a plan or target have occurred. So that actions that can be taken in implementing supervision include: 1) directing or providing recommendations for improvement; 2) suggest minimizing waste; and 3) optimizing work to achieve plan targets. The results of the implementation of supervision

¹⁴ Mulyadi, *Auditing Buku I.*, in: Nida Rihadatul Aisy and Haryanto Haryanto, 'Pengaruh Good Governance, Pengendalian Internal dan Sistem Akuntansi Keuangan Daerah Terhadap Kinerja Pemerintah Daerah (Studi pada OPD Kota Semarang)', *Diponegoro Journal of Accounting* 13, no. 3 (10 July 2024), <https://ejournal3.undip.ac.id/index.php/accounting/article/view/46156>., p 2.

¹⁵ Danang Andrian Mubarok and Fadlil Usman, 'Determinan Kualitas Hasil Pengawasan Di Badan Pengawasan Keuangan Dan Pembangunan', *Jurnalku* 4, no. 2 (28 April 2024): 193–209, <https://doi.org/10.54957/jurnalku.v4i2.791>., p 195.

¹⁶ Rahmawati Sururama and Rizki Amalia, *Pengawasan Pemerintahan* (Bandung: Cendekia Press, 2020)., p 18.

must be able to show the extent of conformity and nonconformity, as well as being able to find the causes of the nonconformities that occur. So that through supervision, potential obstacles can be minimized, and obstacles that have arisen can be immediately identified so that corrective action can then be taken.¹⁷

Regarding the management of state finances, supervision aims to prevent corruption, misuse and waste of budgets by civil servants or officials. With this supervision, it is hoped that the management and accountability of the state budget can proceed according to plan. Supervision of the implementation of the state budget is actually also directed at following up on the results of the supervision, so that legal sanctions can be applied if necessary.¹⁸

Juridically, the Law on State Finance (Law Number 17 of 2003) states that the management of state finances must be carried out in an orderly, law-abiding, efficient, economical, effective, open and responsible manner by paying attention to the principles of justice and propriety. Exactly in Article 6 paragraphs (1) and (2), and Article 7 paragraph (1) of the Law Finance The state stipulates that power over the management of state finances is vested in the President as head of government, through the Minister of Finance as financial manager and as representative of the central government in terms of separate ownership of state finances. Management power as intended, is then handed over to the governor, regent, mayor as head of regional government to represent the regional government in regional financial management and separate regional financial ownership. However, this does not include authority in the monetary sector, such as issuing and circulating money. Power over the management of state finances in this case is used to achieve state goals.

The power to manage regional finances is exercised by the head of the regional financial management work unit, who in this case is the official managing the Regional Revenue and Expenditure Budget as well as the user of regional finances or goods (See Article 10 paragraph (1) letters A and B of the Law on Regional Finance). Meanwhile, when referring to the provisions contained in the State Treasury Law, mention that the head of the work unit intended to carry out regional financial management is the Regional General Treasurer,¹⁹ which consists of a Revenue Treasurer and an Expenditure Treasurer. The Revenue Treasurer functions to carry out treasury duties in relation to the implementation of the regional revenue budget. Meanwhile, the Expenditure Treasurer functions to carry out treasury duties in implementing the regional budget. Both the Revenue Treasurer and the regional Expenditure Treasurer are Functional Officials who are appointed by the regional head according to their level.²⁰

Regional financial management and regional government administration are a unit that goes hand in hand. In the implementation of regional government affairs, it is carried out by regional apparatus which in this case is an assistant element to the governor and the regional people's representative council at the provincial level (for the provincial level) and/or an element helper regent or mayor and regional people's representative councils at Regency and City levels (for Regency/City level). In this regard, the position of regional heads, in this case governors, regents and mayors, is as an element of government administration that

¹⁷ *Ibid.*, p 17-18.

¹⁸ *Ibid.*, p 18-19.

¹⁹ Vide Article 9 paragraph (1) Law Number 1 of 2004 concerning State Treasury.

²⁰ Vide Article 10 paragraphs (1), (2), and (3) of the State Treasury Law.

leads the implementation of government affairs in regions that fall under the authority of autonomous regions.²¹

Regional apparatus at the provincial level consists of the regional secretariat, the secretariat of the Regional People's Representative Council, inspectorates, agencies and agencies. Meanwhile, regional apparatus at the district and city level consists of district and city regional secretariats, secretariats of district and city people's representative councils, inspectorates, agencies, agencies and sub-districts.²² Each regional apparatus has different duties and functions as regulated in Government Regulation Number 18 of 2016 and its amendments, namely Government Regulation Number 72 of 2019 concerning regional apparatus.

One of the elements of regional apparatus that carries out supervisory functions in the administration of regional government is the Regional Inspectorate. At the provincial level, for example, the Provincial Regional Inspectorate is led by an inspector, who in carrying out his duties is responsible to the governor (regional head) through the regional secretary. The task of the provincial inspectorate is to assist the governor in developing and supervising the implementation of regional government affairs, both those that fall under regional authority and assistance tasks by regional apparatus.²³

In carrying out its duties, the Provincial Regional Inspectorate has the following functions: 1) formulating technical policies in the field of supervision and supervision facilitation; 2) carry out internal supervision of performance and finances through audits, reviews, evaluations, monitoring and other supervisory activities; 3) carry out supervision for special purposes based on assignments from the governor and/or Minister; 4) prepare a report on the results of supervision; 5) coordinating the prevention of criminal acts of corruption; 6) supervise the implementation of the bureaucratic reform program; 7) carry out administration of the Provincial Regional Inspectorate; and 8) carrying out other functions given by the governor related to his duties and functions.²⁴

In connection with the internal control system, regulations that are *special law* regulating this matter is Government Regulation Number 60 of 2008 concerning the Government's Internal Control System. The Internal Control System (SPI) described in the Government Regulation includes two activities, namely: 1) internal supervision of the implementation of the duties and functions of Government Agencies, including state financial accountability; and 2) coaching in implementation Government Internal Control System.²⁵ The authority for internal supervision is carried out by the Internal Supervisory Apparatus which consists of the Agency Inspector Government Finance, Inspectorate General (or another name that functionally carries out internal supervision), provincial Inspectorate and District/City Inspectorate. The internal supervisory apparatus carries out its supervisory duties through

²¹ Vide Article 1 Numbers (1), (2), (3), and (6) Republic of Indonesia Government Regulation Number 18 of 2016 concerning Regional Apparatus.

²² Vide Article 5 Paragraph (1) and Paragraph (2) of Republic of Indonesia Government Regulation Number 18 of 2016 concerning Regional Apparatus.

²³ See Article 11 Paragraph (1) to Paragraph (4) of Government Regulation of the Republic of Indonesia Number 72 of 2019 concerning Amendments to Government Regulation Number 18 of 2016 concerning Regional Apparatus.

²⁴ Vide Article 11 Paragraph (5) Government regulations Number 72 of 2019 About Regional Apparatus.

²⁵ Vide Article 47 Paragraph (2) Government Regulation of the Republic of Indonesia Number 60 of 2008 concerning the Government's Internal Control System.

audits, reviews, evaluations, monitoring and various other supervisory activities within the scope of internal supervision.²⁶

Supervision within the provincial government is carried out by the Provincial Inspectorate, which monitors all activities related to the implementation of the tasks and functions of provincial regional work units financed by the provincial Regional Revenue and Expenditure Budget. Similar supervision is also carried out within the regional government at the district/city level by the district/city Inspectorate.²⁷ After completing the supervisory task, the government's internal supervision apparatus must prepare a report on the results of the supervision and submit it to the head of the government agency being supervised. Provincial Inspectorates and Regency/City Inspectorates also prepare and send summary reports of supervision results to governors, regents or mayors in accordance with their respective authorities and responsibilities, with copies to the state minister for Administrative Reform periodically.²⁸

The Provincial Inspectorate will later review the provincial government's financial reports before the governor submits them to the Financial Audit Agency. Likewise, the Regency/City Inspectorate reviews the financial reports of regency/city regional governments before the regent or mayor sends them to the Financial Audit Agency.²⁹ Based on the provisions of Article 56 of Government Regulation Number 60 of 2008 About System Government Internal Control, emphasized that the government's internal supervision apparatus must carry out its duties independently and objectively.

Optimizing the Internal Monitoring System in Regional Financial Management

Design of the internal monitoring system as described in the previous sub-discussion apparently displays several weaknesses in its implementation. As stated by Admaja W. and Probahudono in his study stated that there are weaknesses in the Internal Control System occurs because the officials responsible are less effective in carrying out the supervision and control of activities. Most of them haven't fully understood the existing rules and lack of coordination with related parties. This weakness is especially in the implementation control system Revenue and expenditure budgets certainly greatly hinder the achievement of opinions reasonable without exception (WTP) in the financial statements later. Apart from that, not yet Arrangement of systems and procedures for preparing the Revenue and Expenditure Budget Areas that show weaknesses in the internal control structure as well is one of the factors, so that the audit opinion decreases from the fairness opinion without exception (WDP) becomes no opinion (TMP).³⁰

Besides that, there are often weaknesses in the internal control system caused by the responsible officer or executor being less careful in planning and carrying out their duties.

²⁶ Vide Article 48 Paragraph (1) and Paragraph (2) *Juncto* Article 49 Paragraph (1) Government Regulation Number 60 of 2008 concerning Government Internal Control System.

²⁷ Article 49 Paragraph (5) and Paragraph (6) Government Regulation Number 60 of 2008 concerning Government Internal Control System.

²⁸ Article 54 Paragraph (1) and Paragraph (4) Government Regulation Number 60 of 2008 concerning Government Internal Control System.

²⁹ Article 57 Paragraph (2) and Paragraph (3) of Government Regulation Number 60 of 2008 about Government Internal Control System.

³⁰ RM Syah Arief Atmaja W and Agung Nur Probahudono, 'Analisis Audit BPK RI Terkait Kelemahan SPI, Temuan Ketidakpatuhan dan Kerugian Negara', *Integritas: Jurnal Antikorrupsi* 1, no. 1 (2015): 81–110, <https://doi.org/10.32697/integritas.v1i1.115>, p 85-86.

Non-compliance with Legislation is also a factor that worsens conditions this.³¹² This problem still continues today. Study by Billa et al (2024) show that internal supervision by the Regional Inspectorate is not running optimally. Reporting and accountability mechanisms there is still use of regional budgets down to the sub-district level weakness. The study displays the gap between budget allocations regions with regional development performance indicators still not achieved optimally in supporting development programs. Additionally, participation society's limited ability to manage regional finances has an impact low accountability and transparency in budget use.³²

Similar problem findings were also presented by Ulfa et al (2024) in research, that Government Complexity, Regional Original Income (PAD), Capital Expenditures and Special Allocation Funds (DAK) partially have significant influence on the weaknesses of the Internal Control System Government. That is, the increasing complexity of these factors is proportional straight with the increasing number of findings of internal control system weaknesses Local government.³³ Based on findings Financial Audit Agency, Weaknesses of the control system internal government usually occurs due to several things, namely: 1) negligence and the lack of accuracy of the officials (implementing) responsible in prepare financial reports; 2) implementation of duties and responsibilities less than optimal performance from the authorities; 3) minimal understanding of the rules take place; 4) supervision and control of the implementation of activities is still weak; 5) coordination with related parties has not yet been established; 6) system information/technology in the form of applications used is still weak; and 7) procedures recording (stock recording) which does not support, to problems regarding recording that is often not done or is done but is not accurate, such as assets that have not been recorded on the balance sheet or recording differences between values assets on the balance sheet with supporting records.³⁴

Some of the weaknesses shown are certainly very affecting regional financial management and implementation of regional government itself. Therefore, this study encourages efforts to improve or optimize the regional internal supervision system. The above research looks at problems at the implementation level, so this study is more focused on design improvements and supervision internally in the structural region. From the explanation regarding the design of the internal monitoring system as explained in the previous sub-discussion, this study found several fundamental problems that greatly influence the performance of internal control system officers in carrying out their duties and functions, namely as follows:

First, as we know, the position of the regional inspectorate as a supervisory element in regional government administration is under the regional head (governor, regent and mayor) and is responsible to the regional head. Meanwhile, regional inspectors are assigned supervisory and coaching functions. When we refer to Article 3 paragraph (2) of the Minister of Home Affairs Regulation Number 107 of 2017 concerning Guidelines for the

³¹ *Ibid.*, p 87-88.

³² Anandita Vivian Salsa Billa et al., 'Analisis Sistem Pengelolaan Keuangan Daerah Dalam Mencapai Kinerja Pembangunan Di Kelurahan Bandar Jaya Timur', *Jurnal Ekonomi, Akuntansi, Dan Perpajakan* 1, no. 3 (25 June 2024): 173–82, <https://doi.org/10.61132/jeap.v1i3.265>, p 179-180.

³³ Frisca Septiana Ulfa, Nelly Masnila, and Yuli Antina Aryani, 'Analisis Faktor-Faktor Yang Memengaruhi Kelemahan Sistem Pengendalian Internal Pemerintah Provinsi Di Sumatera Tahun 2017-2021', *Jurnal Kendali Akuntansi* 2, no. 2 (9 February 2024): 134–55, <https://doi.org/10.59581/jka-widyakarya.v2i2.2802>, p 134-155.

³⁴ *Ibid.*, p 136.

Nomenclature of Regional Inspectorates, it states that in carrying out its duties, the Regional Inspectorate carries out several functions, namely: 1) formulating technical policies in the field of supervision and supervision facilities; 2) carry out internal supervision of performance and finances through audits, reviews, evaluations, monitoring and other supervisory activities; 3) carry out supervision for a specific purpose based on the assignment of the regional head; 4) prepare a report on the results of supervision; 5) carrying out regional inspectorate administration; and 6) carrying out other functions of regional heads.³⁵

This is where there is confusion conceptual regarding the position, duties and functions of internal supervision by the regional Inspectorate. Because when we rely on the modern theory of power control, as stated by M.T. Osterhagen, that modern power control theory prioritizes legitimacy. This means that something that must be put forward and used as a theoretical basis by a supervisory institution is legitimacy. Husen (2019) articulates this theory as follows:

"That in democratic life which is based on the rule of law, all actions and decisions carried out by public authorities must meet the requirements that these actions must be reasonable (logical) and legal according to the law. In the sense that all inherent authority to carry out actions must be in accordance with certain values, be useful and effective, and be substantially or materially correct."³⁶

Based on this theory, if it relies on logical conditions and lawful as an indicator of a good institution, it is clear that the position, functions and duties attached to the regional inspectorate as a supervisory element that carries out internal supervision in the regional government environment can indeed be declared legally valid, because it is regulated by regulatory provisions. legislation-invitation. However, the design of this kind of monitoring element does not meet logical requirements. Because the position of the regional inspectorate is under the regional head, who in this case is also appointed and dismissed by the regional head, then the duties and functions of coaching and monitoring the performance of regional government are attached, which of course are the programs of the regional head himself. So it is difficult to guarantee that this function can run optimally.

If look several provisions such as Article 11 paragraph (3) *Juncto* Article 33 paragraph (3) of the Republic of Indonesia Government Regulation Number 72 of 2019 concerning regional apparatus, which states that regional inspectorates in carrying out their duties are responsible to the regional head, in this case means the governor at the provincial level and/or regent/mayor at the district/city level through the regional secretary.³⁷ Then other provisions as stated in Article 54 paragraph (1) and paragraph (4) *Juncto* Article 57 paragraphs (2) and (3) Government Regulation Number 60 of 2008 concerning the Government's Internal Control System, which requires that the results of supervision carried out by the regional Inspectorate must be reported to the regional head (governor/regent/mayor) first, after which the governor/regent/mayor submit the report to the

³⁵ Article 3 paragraph (2) Minister of Home Affairs Regulation Number 107 of 2017 concerning Guidelines for Regional Inspectorate Nomenclature.

³⁶ La Ode Husen, *Negara Hukum, Demokrasi dan Pemisahan Kekuasaan* (Makassar: CV. Social Politic Genius (SIGn), 2019)., p 84.

³⁷ Vide Article 11 Paragraph (3) and Article 33 Paragraph (3) of Government Regulation of the Republic of Indonesia Number 72 of 2019 concerning Amendments to Government Regulation Number 18 of 2016 concerning Regional Apparatus.

Financial Audit Agency.³⁸ From these provisions, we can see how the design of the internal monitoring system for the implementation of regional government is still weak (weak system design) and less than optimal. Because, this kind of design opens up quite a large space for compromise between supervisory officials and regional heads, so that the results of reports which will be forwarded to the Supreme Audit Agency are no longer objective and tend to accruals.³⁹

Under these conditions, it is not surprising that cases such as forgery or cheating occur in regional financial reports is becoming widespread in Indonesia. This was confirmed by the Financial Audit Agency's findings regarding the Summary of Audit Results for Semester I 2023 of 542 Regional Government Financial Reports in Indonesia for the 2022 Fiscal Year. From this audit, the Financial Audit Agency found weaknesses in internal control as well as non-compliance with statutory regulations. In the report, the Financial Audit Agency identified 7,661 audit findings covering 12,855 problems, consisting of 5,628 internal control problems and 7,227 problems of non-compliance with regulations, which caused state losses of IDR 3.07 trillion. The findings of this audit indicate that there are weaknesses, irregularities and irregularities in regional government financial reporting.⁴⁰

Second, if we look at the formulation of Article 56 of Government Regulation Number 60 of 2008 concerning the Government's internal control system, which states that government internal control apparatus in carrying out their duties must be independent and objective. In the explanation of the article it is stated that What is meant by independence in this case is that the internal control apparatus in carrying out its duties must be free from the influence of other parties.⁴¹ This provision is actually a counterproductive provision. Because in reality, the internal supervision apparatus whose position is under the regional head will certainly experience difficulties in creating space for independent and objective performance. With this kind of design, certainly not much to expect from the function supervision and construction attached to it.

Quoting an expression expressed by Budi Waluya as Director of Coordination and Supervision for Region V of the Corruption Eradication Commission, he stated that many corruption cases originate from regions (both provinces and districts/cities) based on data from the Corruption Eradication Commission in 2023, one of the causes is the weak internal monitoring system in the regions. The Corruption Eradication Commission found that the implementation of internal supervision carried out by the Government Internal Supervisory Apparatus still experienced several obstacles, namely in 3 (three) aspects, namely, budget, human resources, as well as independence and objectivity. In terms of budget, the Government Internal Supervisory Apparatus is deemed not to have received adequate budget support to carry out their duties. In addition, Government Internal Audit Officials do

³⁸ Vide Article 54 Paragraph (1) And (4), And Article 57 Paragraph (2) And (3) Government Regulation Number 60 of 2008 concerning Government Internal Control Systems.

³⁹ Accrual or Accrual Manipulation is a policy chosen by management to produce figures in regional government financial reports (LKPD) to suit certain objectives to be achieved., Vide in: Mirdaniati Putri et al., 'Manipulasi Akrua dalam Pelaporan Keuangan Pemerintah Daerah Di Indonesia: Apakah Government Size dan Kapasitas Fiskal Memiliki Efek?', *Jurnal Ilmiah Mahasiswa Ekonomi Akuntansi* 8, no. 4 (30 November 2023): 536–44, <https://doi.org/10.24815/jimeka.v8i4.24314>, p 538.

⁴⁰ Vide in Rizqy Arasiani Annisa, 'Analisis Rasio Keuangan Dalam Mendeteksi Kecenderungan Kecurangan Laporan Keuangan Pemerintah Daerah (Studi Pada Pemerintah Daerah Kabupaten/Kota Di Indonesia)' (Thesis, Universitas Islam Indonesia, 2024), p 3-4.

⁴¹ Article 56 and Explanation of the Article in Government Regulation Number 60 of 2008.

not receive special incentives to improve performance and integrity. In the aspect of human resources, there are still problems related to numbers and competence, so that the supervision carried out is still not effective in reducing corruption. Meanwhile, in the aspect of independence and objectivity, there are serious problems because the Government Internal Supervisory Apparatus is under the Regional Head as a Personnel Development Officer who is of course very vulnerable to intervention from audit results. Transfers and rotations of Government Internal Supervisory Officials pose a threat to weakening their position, so that this condition can indirectly reduce the quality of supervision.⁴²

The weaknesses found in the internal control system in this regard, especially on the internal control system, certainly has a very negative impact on determining opinions on regional government financial reports. Especially if combined with poor regional government performance and accountability. So will further worsen regional financial governance in implementation of government affairs. In fact, if regional financial management is carried out well, it will guarantee the realization of a greater degree of accountability in terms of meeting public interests in the region. However if performance or If regional financial management is bad, it will definitely have implications for the country.

In this regard, to optimize the system internal supervision in regional financial management, commitment from the head regions in realizing good governance must be realized through strengthening internal supervision. In implementing the control system internally, it should focus on strengthening existing control systems established and implemented by all parties in the organization. That matter includes policies, improving institutions or organizations, preparing budgets, provision of facilities and infrastructure, determining personnel who perform the task, establishment of procedures, as well as intensive reviews carried out at each stage.

Furthermore, related to the issue of independence and objectivity supervisory apparatus, improvements are needed regarding the position of the regional Inspectorate through regulatory revisions. Because when we rely on the concept of scope structural supervision of state finances, namely internal supervision in terms of the scope consists of internal supervision in the narrow sense and internal supervision in the broadest sense. Internal supervision in the narrow sense has characteristics where the relationship between the supervisory apparatus and the supervised official exists within the same department or organization. Whereas Internal supervision in a broad sense, namely where the supervisory apparatus and supervised officials do not have a direct relationship in one line organization or department.⁴³

In this context, design the position of regional inspectorates in regulations currently available, it can be categorized as a surveillance design with scope in the narrow sense. A design like this apparently does not guarantee improvement independence from the regional inspectorate itself. As ever revealed by Tarigan et al (2023), that one of the factors is an obstacle To increase the independence of regional inspectorates, namely the existence of

⁴² Humas KPK 2, 'KPK Dorong Penguatan APIP untuk Akselerasi Pencegahan Korupsi di Daerah', [kpk.go.id/](https://www.kpk.go.id/id/berita/berita-kpk/3420-kpk-dorong-penguatan-apip-untuk-akselerasi-pencegahan-korupsi-di-daerah), Accessed on 8 May 2024, <https://www.kpk.go.id/id/berita/berita-kpk/3420-kpk-dorong-penguatan-apip-untuk-akselerasi-pencegahan-korupsi-di-daerah>.

⁴³ Tjandra, *Hukum Keuangan Negara: Pengertian, ..., Op.Cit.*, p 239.

regulations place the regional inspectorate under the regional head.⁴⁴ Therefore, as efforts to increase independence in the field of government supervision regions, it is necessary to revise the regulations governing internal control system and regional inspectorates, where the substance of the formulation regarding the position of regional inspectorates in future regulations must be places the scope of the position, functions and duties of the regional inspectorate on the scope of internal control in a broad sense.

This study offers 2 (two) options that can be done for this, namely as follows: 1) making regional inspectorates a supervisory element independent internal responsible to the House of Representatives Regional (DPRD), in this case includes the process of appointment and dismissal the supervision of supervisory officers is handled by the Regional People's Representative Council; or 2) make Financial and Development Supervisory Agency (BPKP) as guarantor structural responsibility for the internal supervision apparatus in charge inspectorate general including provincial inspectorates and district/city inspectorates, so Regional inspectorates will be responsible to the Audit Agency Government Finance. This stems from the view that the finance area is part of state finances, so it becomes relevant if it makes the Financial and Development Supervisory Agency as the person responsible for supervision of internal state and regional finances.

D. Conclusion

Based on the results of the discussion as described above, this study found that there are still weaknesses in the design of the internal supervision system in current regional financial management. This can be seen from the regulation of the internal supervision system which is not yet optimal, because it still opens up a space for compromise between supervisory officials and regional heads which is large enough to have implications for the quality of reporting results. Besides that, there are also problems relating to independence and objectivity apparatus internal supervision which until now has not been resolved. Design regarding the position of the Regional Inspectorate whose position is below the regional head not in line with the duties and functions attached to it. This situation creates vulnerability to intervention. Mutations and rotations of supervisory officers pose a threat to weakening their position, so that this condition can indirectly reduce the quality of the supervisory function.

In connection with this, as an effort to overcome existing problems, this study encourages improvements regarding the position of regional Inspectorates through regulatory revisions. Position of inner provincial inspectorate implementation Internal supervision must be interpreted as the scope of internal control in a broad sense. So as *ius constituendum*, this study proposes several position design models regional inspectorates, namely: *First*, making the district inspectorate an element independent internal oversight accountable to the board regional people's representatives, or *Second* make Financial Supervisory Agency and Development (BPKP) as the person with structural responsibility for the supervisory apparatus intern in charge inspectorate general including provincial inspectorates and district/city inspectorate, so that the regional inspectorate will later responsible to Financial and Development Supervisory Agency.

⁴⁴ Iskandar Julkarnain Tarigan, Jaminuddin Marbun, and Mhd Taufiqurrahman, 'Analisis Yuridis Tentang Independensi Inspektorat Daerah Di Kabupaten Karo', *JURNAL RETENTUM* 5, no. 2 (24 September 2023): 255–63, <https://doi.org/10.46930/retentum.v5i2.1366>, p 261-263.

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