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Normative Criticism of the Local Government Internal Control System based on the Principles of State Financial Management to realize Good Governance

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Abstract

The high weakness of the Local Government Internal Control System (SPI) as identified in the 2023 Local Government Financial Report (LKPD), which shows 5,426 findings of structural, procedural and functional weaknesses. This research examines SPI normatively within the framework of the principles of state financial management, in order to assess the extent to which SPI is able to guarantee the principles of good governance which include legality, accountability, transparency, efficiency, and effectiveness. The research method is normative legal research with statutory and conceptual approaches, using qualitative analysis methods based on systematic, grammatical, and teleological interpretations as developed by Peter Mahmud Marzuki. The results show that SPI weaknesses not only have administrative impacts, but are also a form of violation of imperative legal norms governing public financial management. SPI that fails to perform the internal control function substantively has implications for systemic damage to fiscal governance and violations of constitutional principles. The novelty of this research lies in the meaning of SPI as a legal instrument guarding principles, not just an administrative tool, and its contribution in formulating a value-based internal control model based on legal principles to build a legal, accountable and democratic regional financial system.

Keywords: Good Governance, Internal Control System (SPI), State Financial Management Principles.

INTRODUCTION

State financial management is one of the main pillars in clean and responsible government practices. To ensure financial management in accordance with the principles of legality, efficiency, and accountability, the internal control system (SPI) acts as a preventive and corrective instrument that must be implemented by every local government entity (Suharti & Rumsari, 2021). SPI is not just an administrative instrument, but an integral part of the principles of good governance mandated in various regulations, including Law Number 17 of 2003 concerning State Finance and Government Regulation Number 60 of 2008 concerning Government Internal Control Systems. However, the reality of SPI implementation still leaves various weaknesses that are structural and systemic in nature. Based on data on SPI weaknesses in the Local Government Financial Reports (LKPD) in 2023, there were 5,426 findings of weaknesses spread across various types of controls (Badan Pemeriksa Keuangan Republik Indonesia, 2024), ranging from accounting controls, budget execution, to the control structure itself. This figure shows that the implementation of SPI has not guaranteed the implementation of the principles of state financial management as it should.

Table 1. List of Groups and Types of Findings of Internal Control System (SPI) Weaknesses on Local Government Financial Reports (LKPD) in 2023

No.	Group and Type of Findings	Problems		Occurring to the Entity
		Total	Percentage	
I	Accounting and Reporting Control System Weaknesses	1.573	29%	504
1	Recording has not been done or is inaccurate	834		453
2	The report preparation process is not in accordance with the provisions	422		241
3	Entity submits report late	3		3
4	Inadequate accounting and reporting information systems	295		225
5	Accounting and reporting information systems are not yet supported by adequate human resources	17		15
6	Miscellaneous	2		2
II	Weaknesses in the Budget Implementation Control System	2.953	54%	527
1	Inadequate activity planning	651		402
2	The regional revenue management mechanism is not in accordance with the provisions	170		129
3	Deviations from revenue and expenditure regulations	727		344
4	Implementation of expenditure outside the Regional Budget (APBD) mechanism	11		11
5	Improper policy implementation results in loss of potential revenue	699		399
6	Improper policy implementation results in increased costs	588		307
7	Miscellaneous	107		95
III	Internal Control Structure Weaknesses	900	17%	395
1	SOPs/policies/regulations not yet developed/incomplete	356		223
2	SOPs/policies/regulations have not run optimally or are not adhered to	471		308
3	Internal Supervisory Unit is not optimal	61		42
4	No adequate separation of duties and functions	10		10
5	Miscellaneous	2		2
	Total Weaknesses of the Internal Control System	5.426	100%	544

Source: Financial Audit Agency (BPK)

The main weakness in SPI over LKPD 2023 is reflected in the weak budget implementation control system which includes 2,953 findings or 54% of the total findings (Badan Pemeriksa Keuangan Republik Indonesia, 2024). Problems such as inadequate activity planning, deviations from budget regulations, and the implementation of expenditures outside the Regional Budget (APBD) mechanism are concrete evidence of SPI's inaccuracy in ensuring compliance with the principles of legality and budget effectiveness. In addition, 699 findings showed that the implementation of regional policies led to a loss of potential revenue, which directly contradicts the principles of efficiency and the value of public benefits. This lack of control creates ample room for abuse of authority, mismanagement of budgets, and neglect of the principle of public accountability. In the context of financial governance law, violations of the principles of legality and efficiency are not only administrative defects, but can be qualified as a form of fiscal maladministration (AR et al., 2024). In other words, SPIs that fail to fulfill their basic functions have the potential to undermine the legitimacy of regional finances from the perspective of constitutional law and state administrative law.

In addition to aspects of budget execution, SPI weaknesses also included accounting and reporting controls with 1,573 findings or 29% of the overall weaknesses (Badan Pemeriksa Keuangan Republik Indonesia, 2024). The most dominant problems in this category were records that had not been made or were done inaccurately (834 findings), as well as discrepancies in the process of preparing reports with applicable regulations (422 findings). Both of these problems impair the principles of transparency and accountability, which are prerequisites for reliable public financial reporting. When the accounting information system is inadequate and not supported by qualified human resources, the reliability of the financial statements becomes substantively doubtful. In the context of state financial law, this indicates negligence in fulfilling the normative principles of budget preparation and accountability (Rahmaningsih & Satrya, 2025). Therefore, the existence of SPI is not only judged by its formal existence, but also by its ability to ensure the fulfillment of normative principles of state finance. In this case, it is necessary to question whether the weakness is merely a procedural defect or a form of non-compliance with the legal norms governing regional financial management.

Furthermore, weaknesses in the internal control structure were also highlighted with 900 findings or around 17% of the total weaknesses (Badan Pemeriksa Keuangan Republik Indonesia, 2024). The absence or incompleteness of SOP (Standard Operating Procedures) and policies (356 findings), as well as disobedience to SOP (Standard Operating Procedures) that have been prepared (471 findings), indicate problems in the internal control institutional mechanism. From a legal perspective, the absence of technical regulations and disobedience to internal provisions reflect a violation of the principles of legal certainty and bureaucratic accountability. The weak position of the Internal Supervisory Unit (61 findings) and the absence of separation of duties and functions (10 findings) further emphasize that supervision does not run independently or professionally. This situation creates a condition where supervision is only symbolic and has no coercive power against local government organizers. Therefore, it is necessary to examine normatively whether the supervisory institution is in accordance with the principles of administrative law and public governance law. This is the basis for examining SPI as part of the checks and balances system at the local government level.

Based on the data and problems above, there is an urgency to criticize the internal control system not only from a managerial perspective, but also from a deeper legal perspective. SPI must be placed within the framework of the principles of state financial management as a compelling legal norm (*dwingendrecht*), not just as administrative guidelines (Mashudi, 2024). The failure of the SPI to ensure the implementation of the principles of transparency, accountability, efficiency and legal compliance signifies the failure of the state to fulfill its constitutional function in public financial management. Therefore, normative analysis is a relevant approach to uncover the relationship between SPI weaknesses and the non-fulfillment of good governance principles in the local government environment. This legal research will examine the extent to which the SPI has or has not substantially guaranteed the implementation of these principles. In addition, this research will identify the legal consequences of SPI weaknesses on democratic and law-based governance. Thus, the focus of analysis will be on the normative and juridical aspects of SPI as a prerequisite for achieving legal, accountable and constitutional local financial governance.

LITERATURE REVIEW

Theory and Principles of State Financial Management

The principles of state financial management are fundamental norms in the public legal system that contain the principles of legitimate and responsible fiscal management (Abdul Halim, 2020). The normative provisions regarding these principles are explicitly stipulated in Law Number 17 of 2003 concerning State Finance, Law Number 1 of 2004 concerning State Treasury, and Government Regulation Number 12 of 2019 concerning Regional Financial Management. These principles include, among others, the principles of legality, accountability, efficiency, effectiveness, transparency, and fiscal prudence. These principles are not merely declarative in nature but also serve as legal norms of an imperative nature (*dwingendrecht*), thereby binding every action taken by public financial managers (Mashudi, 2024). In practice, these principles serve as a measure of the legality of financial management actions by public officials, whether in the preparation, implementation, or accountability of the budget. Non-compliance with these principles may serve as grounds for the annulment of administrative actions or the imposition of legal liability. Therefore, the principles of state financial management have concrete legal force within the public legal system.

From the perspective of the Rechtsstaat theory as developed by Friedrich Julius Stahl and Hans Kelsen, the existence of the principle of state financial management is a manifestation of the principle of the rule of law, which requires that all forms of state expenditure and revenue be subject to the law (Mecke, 2019). Within this framework, the principle acts as a guarantee of fiscal compliance, whereby every state financial action can only be justified if it is in accordance with applicable legal norms. This approach is also in line with the concept of Public Law Finance, which places the budget as a manifestation of legal will, not the will of power (Neslihan & Basa, 2023). The principles of state financial management limit the fiscal discretion of public officials so that they do not stray from the rails of legality, accountability, and fiscal policy rationality. Thus, principles are not merely ethical guidelines for bureaucracy, but also a bridge that structures the relationship between fiscal power and the legal system and the legitimacy of public budgets (Islam, 2025). In a democratic legal state, fiscal legitimacy is not only determined by political consent, but also by compliance with principles that guarantee the integrity and validity of budget use. Therefore, the principles of state financial management must be positioned as constitutive norms in the administration of legitimate public finances.

Government Internal Control System (SPI)

The Government Internal Control System (SPI) is an integral mechanism in state financial management that aims to provide reasonable assurance regarding the effectiveness and efficiency of operations, the reliability of financial reporting, the security of state assets, and compliance with laws and regulations (Sri Mulyati et al., 2020). Based on Government Regulation No. 60 of 2008 concerning the Government Internal Control System, the SPI consists of five main elements, namely the control environment, risk assessment, control activities, information and communication, and internal monitoring. Further provisions on the technical implementation of SPI in the context of local government are regulated in Ministry of Home Affairs Regulation (*Permendagri*) No. 77 of 2020, which emphasizes the obligation of every regional head to develop and implement SPI comprehensively. The main functions of SPI include the ability to prevent, detect, and correct irregularities in the public financial management process (Sri Mulyati et al., 2020). Through this system, local governments are expected to ensure that every stage of budget management is carried out in an orderly manner and in accordance with the principles of state financial management. However, in practice, SPI is often not implemented optimally due to various structural and functional obstacles. Therefore, an understanding of SPI regulations needs to be aligned with the reality of its implementation within the institutional framework.

From an institutional perspective, the existence of the Government Internal Oversight Apparatus (APIP), which is tasked with carrying out SPI functions in various local government entities, faces serious challenges in the implementation of supervision (Syamsuwir, 2020). Structurally, the APIP is often subordinate to the head of the local government, thereby reducing its independence in supervising budget implementation. In addition, limited human resources, low technical capacity, and high bureaucratic resistance to oversight are also obstacles to effective control. An evaluative study conducted by the Financial Audit Agency (BPK) in its Audit Report (LHP) on Local Government Financial Reports (LKPD) shows that weaknesses in SPI consistently account for the largest portion of audit findings from year to year (Badan Pemeriksa Keuangan Republik Indonesia, 2024). These weaknesses include inadequate activity planning, expenditure control that deviates from the APBD mechanism, and accounting recording discrepancies. From a legal perspective, the failure of SPI to detect and correct these deviations not only reflects administrative dysfunction but also signifies a failure to fulfill the principles of legality and public accountability. Therefore, a normative review of the SPI must consider not only its normative framework but also the institutional dimensions that determine its success in ensuring legitimate and accountable financial management.

Principles of Good Governance and Fiscal Accountability

The main principles of good governance as formulated by the United Nations Development Programme (UNDP) (1997) include accountability, transparency, responsiveness, and rule of law as the foundations of democratic and law-based governance (Adejumo-Ayibiowu, 2015). These four principles require responsible, open, and responsive governance that is subject to legal norms. In the context of local government, these principles are closely related to integrity in public financial management, which reflects the quality of fiscal leadership and institutional capacity. Failure to substantively realize these principles often stems from poor financial management that is unaccountable, closed, and not legally structured. Financial management that deviates from the principles of good governance tends to generate public distrust and weaken the democratic legitimacy of local governments. Within the framework of administrative law, these principles are not merely moral values, but public norms that must be fulfilled by every state administrator (Abdul Halim, 2020). Therefore, the principle of good governance must be used as a benchmark in assessing the compatibility between fiscal policy and the constitutional obligations of local governments.

To understand the relationship between fiscal accountability and the principle of good governance, the theoretical approaches of Mark Bovens in accountability frameworks and public fiduciary theory are highly relevant. According to Bovens, accountability does not only mean reporting, but also involves institutional mechanisms that guarantee oversight and correction of the exercise of public authority (Lipski, 2015). Meanwhile, public fiduciary theory emphasizes that public officials are trustees of state finances who are obliged to manage fiscal resources for the public interest, not for personal or political interests. In this context, the Government Internal Control System (SPI) is positioned as an internal control instrument that supports the creation of legitimate, democratic, and law-based fiscal governance. The SPI plays a role not only in detecting administrative irregularities but also in ensuring that public finances are managed in accordance with the principles of the rule of law and substantive accountability (Sri Mulyati et al., 2020). Therefore, the effectiveness of the SPI reflects the success or failure of local governments in implementing the principles of good governance in practice. By placing the SPI within a legal governance framework, fiscal oversight can be directed toward compliance with norms, rather than merely formalistic reporting.

RESEARCH METHOD

The research method used in this study is normative legal research that focuses on analyzing positive legal norms governing the internal control system (SPI) and the principles of state financial management in order to realize the principles of good governance at the local government level. The research approach used is a statutory approach and conceptual approach, by examining the normative provisions in Law Number 17 of 2003, Government Regulation Number 60 of 2008, and other related legal instruments and general principles of good governance. Data collection techniques are carried out through library research on laws and regulations, Financial Audit Agency (BPK) audit reports (LHP), 2023 Local Government Financial Reports (LKPD) documents, as well as relevant academic literature in state financial law and state administrative law. The collected data were analyzed qualitatively with systematic, grammatical, and teleological interpretation methods, to assess the suitability between the implementation of SPI and binding legal principles in public financial management. The analysis procedure is carried out structurally on legal norms and substantively on the function of SPI as a guardian of the principles of legality, efficiency, effectiveness, and accountability. This research is based on the normative legal method as developed by Peter Mahmud Marzuki, which emphasizes that the law is understood as a living norm in the system and must be analyzed based on its relevance to the reality of legitimate governance (Marzuki, 2017). Thus, the main focus of this method is to explore the meaning and legal power of the SPI in carrying out the constitutional mandate of state financial management.

RESULTS AND DISCUSSION

Internal Control System as a Regional Financial Management Instrument

The Government Internal Control System (SPI) is a normative instrument that is expressly regulated in Government Regulation Number 60 of 2008 concerning the Government Internal Control System, which states that every government agency is required to develop and implement SPI in order to achieve organizational goals. This regulation is strengthened by Ministry of Home Affairs Regulation (*Permendagri*) Number 77 of 2020 concerning Technical Guidelines for Regional Financial Management which regulates the implementation of regional financial management, including the affirmation of SPI as an integral part of the system. SPI in these regulations is not a policy choice, but a legal obligation for local government entities. In this context, neglecting the implementation of SPI not only reflects administrative negligence, but can also be qualified as a violation of positive legal provisions. These provisions emphasize that SPI must be built thoroughly, attached to all financial management activities, and institutionalized. Thus, the legal basis of SPI places this instrument as part of the legalistic system of public financial management. Understanding the legal position of SPI is a prerequisite for assessing the extent to which local governments comply with the legal framework for fiscal governance.

In the regional financial management system, SPI has a position as the main safeguard that ensures the implementation of the budget in accordance with the principles of legality, efficiency, and accountability (Sri Mulyati et al., 2020). SPI does not stand apart from the budgeting and financial reporting system, but is integrated as an internal mechanism that detects, prevents, and corrects potential irregularities. Within this scope, SPI is a controlling organ that connects budget planning, program implementation, and reporting of activity results to the public and external oversight institutions such as the Financial Audit Agency (BPK) (Sri Mulyati et al., 2020). This role is strategic because SPI is the first bastion in guarding the integrity and fiscal effectiveness of local governments. The existence of SPI is also an embodiment of the principle of responsible regional autonomy, as mandated in Law Number 23 of 2014 concerning Regional Government. Without adequate SPI, the financial management function will lose a credible internal accountability system.

SPI is designed to carry out the main functions of internal control, which include preventing irregularities, strengthening the effectiveness of public spending, and upholding the accountability of the fiscal bureaucracy (Irianto et al., 2024). Through this system, local government entities can identify operational risks and risks of compliance with laws and regulations early on. By taking control measures over budget planning and realization activities, SPI can minimize the potential for state financial losses. In addition, SPI also carries out the function of controlling the efficiency of regional program implementation (Irianto et al., 2024), so that every rupiah spent has rationality and legal validity.

Moreover, SPI creates a strong basis for transparent financial reporting that can be audited objectively by external auditors. Thus, the existence of SPI determines how financial accountability can be maintained systemically. These functions show that SPI is a prerequisite in building public trust in local governance.

However, the implementation of SPI in various regions is still often understood solely within an administrative framework, not as part of a binding legal mechanism. The administrative approach to SPI only emphasizes the fulfillment of procedural formalities, such as the existence of SOP documents or internal control structures. In fact, as part of the legal system of state finance, SPI has normative implications for public accountability. SPI is not just a technocratic tool, but a legal instrument that has consequences for violations of the principles of legality and accountability if it is not substantially implemented (Anggraeni, 2021). The approach that places SPI as a legal mechanism opens up space to assess its effectiveness not only from administrative compliance, but also from compliance with the legal principles of financial management. It also shows that SPI must be subject to legal principles of public governance that are not only procedural, but also substantive.

Within the framework of democratic local government, the SPI serves as part of the control function in a system of internal checks and balances (Titus et al., 2020). This mechanism ensures that the fiscal powers granted to regional heads and their officials are not exercised arbitrarily or without oversight. SPI becomes a tool that maintains alignment between financial authority and responsibility, and avoids budget abuse by local bureaucratic actors. At the operational level, this checks and balances function is manifested in inherent supervision by Government Internal Oversight Apparatus (APIP), as well as process control through budgeting documents and information technology. SPI's control function also aims to ensure that the implementation of the Regional Budget (APBD) is in line with legal mandates and public needs. By internalizing the value of control in the design of the financial bureaucracy, SPI strengthens the fiscal resilience of local governments against structural irregularities.

Theoretically, the internal control system can be explained through the theory of supervision in state administrative law, which emphasizes the importance of internal mechanisms to ensure the legality and rationality of the actions of public officials. In this perspective, supervision is not only vertical from the outside, but also horizontal and internal, which is inherent in the structure of government organizations (Wardiana & Prastiti, 2016). SPI becomes an institutionalized administrative law tool and is preventive, corrective, as well as repressive in the context of financial violations. This theory also assumes that effective supervision must be supported by a clear legal structure, the integrity of the apparatus, and an accountable information system. In practice, internal control must be proactive and risk-based, not merely reactive to the findings of external auditors. Therefore, SPI does not only function at a normative level, but also as a functional tool that shapes administrative ethics in financial management. The relevance of SPI as an instrument of administrative law confirms that internal control is an inherent part of a legitimate and responsible government process.

Principles of State Financial Management in the Perspective of Positive Law

Regulations regarding the principles of state financial management in Indonesia have a strong normative basis in various laws and regulations. These provisions are explicitly stated in Law Number 17 of 2003 concerning State Finance, which states that every state financial management must be carried out in an orderly manner, obedient to laws and regulations, efficient, economical, effective, transparent, and responsible. The strengthening of this arrangement is then further elaborated in Government Regulation Number 12 of 2019 concerning Regional Financial Management, which expands the scope of principles into the realm of regional government. In addition, the technical guidelines for the Government Internal Oversight Apparatus (APIP) also make these principles a reference in evaluating budget implementation. In this context, the principles of financial management are not only conceptual, but also normatively binding as positive law that must be obeyed. These provisions show that the administration of state finances must not be separated from the basic principles that serve as the moral and legal foundation of every public budget management action. The application of these principles is comprehensive and must be integrated in the entire financial cycle, from planning to accountability.

The five main principles that form the normative structure of state financial management consist of legality, accountability, transparency, efficiency and effectiveness, each of which contains binding juridical content. The principle of legality emphasizes that every use of the state budget must have a clear and legal basis, as is the principle of the rule of law (*rechtstaat*) (Parlindungan, 2017). The principle of accountability requires every financial management official to be responsible for the financial results and processes carried out, including in the form of reporting and auditing (Rongiyati, 2016). Transparency demands the disclosure of information throughout the budget process so that it can be accessed and monitored by the public objectively (Pabubung, 2021). The principle of efficiency demands the economical use of state financial resources, while effectiveness directs that budgets produce outputs that are relevant to development objectives (Shofwah & Handayani, 2019). These principles have the position of norms that must be referenced in the financial policy-making process and cannot be overridden in the name of discretionary policy. The placement of these principles in the public finance system becomes a parameter for assessing the feasibility, compliance and legitimacy of state financial management.

In the framework of positive law, these principles have an imperative nature, namely legal norms that are binding by force and cannot be negotiated by the will of officials or sectoral interests. This imperative position makes the principles the benchmark for the legal validity of financial management actions, both in the form of fiscal policies and administrative decisions. Thinkers such as Friedrich Julius Stahl in the Rechtsstaat doctrine emphasized that state power, including fiscal, must be limited by law and general principles of good governance (Mecke, 2019). In the norm system approach developed by Hans Kelsen, these principles are part of the structure of basic norms (*Grundnorm*) that determine the validity of the norms below them (Raj & Noorani, 2020). This means that if a financial policy contradicts the principles, it can be considered contrary to higher legal norms. Adherence to principles is not just a form of technical compliance, but a manifestation of a rational and responsible state administrative law system. Ignoring this principle creates a legal loophole that opens up space for constitutional violations of the management of public resources.

The main function of the principles of state financial management is to direct fiscal actions so as not to go off the rails of the law and the principles of good governance (Blanton et al., 2021). In the practice of regional financial management, the principle of legality determines the scope of authority of officials in preparing and implementing the APBD in accordance with statutory provisions. Meanwhile, the principle of accountability requires a normatively measurable system of reporting and evaluating budget performance. Transparency opens up public participation in the oversight of local budgets and ensures social control over financial administration. The principles of efficiency and effectiveness limit the possibility of misuse of expenditure allocations that do not favor the public interest. All of these principles serve not only as ethical guidelines, but also as normative means of control over public officials. Thus, financial decision-making must always be within a legal framework bound by explicitly defined principles.

The elaboration of the principles of state financial management also has a basis in the theory of legal principles as the forming structure of the legal system, as explained by Gustav Radbruch through the basic values of law: justice, certainty, and expediency (Kristhy et al., 2023). The principle of legality reflects the value of legal certainty, accountability and transparency symbolize the value of procedural justice, while efficiency and effectiveness correlate with the principle of public benefit. These principles are not merely declarative, but form a value system that is the basis for rational and legal considerations in fiscal policy. Therefore, consistent implementation of the principles will strengthen public confidence in the state financial system and local government. When the public sees that finances are managed based on legal principles, fiscal legitimacy will increase systemically. In the long term, the implementation of principles substantially establishes a healthy relationship between public financial institutions and the people who are the subject beneficiaries. The existence of principles is not just a doctrinal ornament, but also the substance of forming institutional trust in the legal system of state finance.

Violations of the principles of state financial management cannot be underestimated because they carry concrete legal consequences in various domains. In administrative law, violations of the principles of legality or accountability can be the basis for canceling administrative actions and imposing disciplinary sanctions on financial management officials. In the civil context, violations of the principle can lead to state losses, which are the basis for claims for compensation through the state lawsuit mechanism. Meanwhile, in the criminal realm, deviations from the principles that cause state financial losses can fulfill the elements of the offense in the criminal act of corruption. The provisions of Article 3 of Law Number 31 of 1999 in conjunction with Law Number 20 of 2001 concerning the Eradication of Corruption Crimes states that abuse of authority in public office that harms state finances is a criminal offense. Therefore, the principles of financial management are not only ethical standards, but also juridical instruments that have forced power in the protection of state finances. With this character, these principles must be consistently implemented and embedded in every fiscal policy-making process within the local government.

Weaknesses in the Local Government Internal Control System in the Financial Statements

Based on the Audit Report (LHP) of the Financial Audit Agency (BPK) on the 2023 Local Government Financial Reports (LKPD), there were 5,426 findings of weaknesses that indicated the ineffective implementation of the Internal Control System (SPI) within the local government (Badan Pemeriksa Keuangan Republik Indonesia, 2024). The findings are divided into three main groups, namely weaknesses in the accounting and reporting control system (1,573 findings), the control system for implementing the Regional Budget (APBD) (2,953 findings), and weaknesses in the internal control structure (900 findings). The largest group of findings was in the aspect of APBD implementation, which reflected weak supervision of regional expenditure and revenue. In this group, various violations were found, such as the implementation of policies that were not in accordance with the provisions, as well as budget expenditures outside the authorized mechanism. In the accounting aspect, many financial reports were found to be prepared without accurate recording and inadequate information systems. Structurally, the weak role of the internal control unit and the unavailability of SOP or written policies indicate institutional dysfunction. These three groups of weaknesses illustrate that SPI does not operate as a unified and institutionalized system in regional financial management.

When explored further, these three groups of weaknesses are intertwined with the failure to apply the principles of state financial management as stated in Law Number 17 of 2003 concerning State

Finances. Inaccurate recording or preparation of reports results in uncertainty of financial information which is contrary to the principles of accountability and transparency. Deviations in the implementation of expenditure and the preparation of activities without a valid legal basis reflect a violation of the principle of legality. The dysfunction of the internal control structure shows the absence of the implementation of the principle of effectiveness in control. In Friedrich Hayek's perspective on the rule of law, a fiscal system that is not built on legal principles will open up space for administrative disorder and chaos (Rissy, 2022). This situation shows the disparity between the legal norms of state finance and the practice of management at the regional level. An evaluation of SPI weaknesses in relation to the principle of law is relevant to understand the extent to which the internal control structure operates in accordance with the normative mandate.

The problem of SPI weaknesses spread across local government entities cannot be separated from a number of structural and instrumental causes. Human resources who carry out SPI functions often do not have technical competence or normative understanding of financial risk control. In addition, Standard Operating Procedures (SOP) that should serve as work references are not prepared, or if prepared, are not consistently implemented. Non-integrated financial information systems exacerbate data accuracy and orderliness, and hinder effective monitoring. Internal monitoring from regional apparatus leaders is often an administrative formality without risk-based evaluative substance. Douglass North's institutional theory explains that weak formal institutions will result in inefficient and unaccountable organizational performance (Faundez, 2016). In the context of SPI, these weaknesses stem not only from technical deficiencies, but also from the failure to build a law-abiding organizational culture. This shows that the root of the problem is systemic and needs to be analyzed from an institutional governance perspective.

When viewed from an administrative law perspective, SPI weaknesses that are repeated and allowed to occur systematically can be interpreted as maladministration. Law Number 37 of 2008 concerning the Ombudsman of the Republic of Indonesia provides a definition of maladministration as behavior or actions against the law, procedural irregularities, abuse of authority, and neglect of legal obligations in public services. The unavailability of SOP, financial reporting that is not based on valid evidence, and the malfunctioning of internal controls are clear forms of neglect of legal obligations by state administrative officials. In the ultra vires doctrine, any action or omission of an official that is not in accordance with the limits of his authority is a form of administrative violation that has an impact on state losses (Aritonang, 2021). Therefore, it is not enough for SPI irregularities to be responded to as ordinary administrative errors, but must be qualified as structural negligence in carrying out legal mandates. Inadequate internal controls lead to system dysfunction in financial management. This situation requires a stricter legal approach to internal control as part of legitimate governance.

Within the framework of state finance law, SPI cannot be positioned solely as an administrative tool, because its failure has concrete legal consequences. Law No. 17 of 2003 on State Finance requires every financial management official to be responsible for the use of state finances in accordance with the legal principles of management. If SPI is unable to prevent, detect, or correct irregularities, then the authorized official can be held accountable, both administratively and criminally. The provisions of Article 3 of Law Number 31 Year 1999 jo. Law Number 20 of 2001 concerning the Eradication of Corruption Crimes states that abuse of authority that harms state finances is a criminal act of corruption. In this context, weak SPI opens space for systemic corruption hidden in the regional financial administration process. The theory of administrative public responsibility put forward by Jerry Mashaw emphasizes that public officials must be held accountable for institutional negligence that occurs under their supervision (Strauss, 2015). Thus, SPI must be seen as a legal instrument to safeguard state finances, not just a technical internal tool in the management of regional bureaucracy.

Correlation between SPI Weaknesses and Failure to Implement the Principles of State Financial Management

The Internal Control System (SPI) has a strategic position in bridging the implementation of state financial management norms with the achievement of good governance . To understand this functional relationship, an evaluative model can be used that describes the normative correlation: *SPI → State Financial Management Principles → Governance Outcome*. In this model, SPI is positioned as an instrument to ensure that all public financial activities are carried out in accordance with the principles of legality, accountability, efficiency, effectiveness and transparency. When SPI fails to function optimally, the implementation of the principles becomes flawed, which has direct implications for the disruption of governance. Thus, this model provides a logical framework to assess the failure of principle implementation not as a mere procedural error, but as a direct result of weak internal controls. From an administrative law perspective, this kind of systemic failure can be qualified as a form of structural negligence by government organs. This correlation is the basis for testing the validity of SPI not only as a technical tool, but as a guarantor of normative principles in the legal system of state finances.

The weakness of SPI in accounting and reporting practices is one clear example that causes the accountability principle not to be fulfilled. When SPI is unable to detect financial recording inaccuracies, the information submitted to the public and oversight institutions becomes unreliable and misleading. This results in state administrators not being able to account for budget use objectively and transparently. The theory of public accountability developed by Mark Bovens emphasizes that accountability requires an accountability mechanism based on valid and verifiable data (Schillemans & Bovens, 2019). In the context of SPI weaknesses, the absence of control mechanisms over the validity of transaction documents makes accountability pseudo. Failure to fulfill this principle not only undermines public trust, but also violates the legal obligation to administer state finances responsibly.

A similar situation occurred when the SPI failed to detect violations of regional expenditure or revenue procedures. In many cases, SPI failed to identify activities that had no legal basis or were carried out outside the APBD mechanism. This has direct implications for violations of the principle of legality, which is the principle that all government actions must be based on valid laws. In addition, expenditure activities that are not in accordance with program objectives or cause waste show neglect of the principle of effectiveness. In Friedrich Julius Stahl's theory of the rule of law (Rechtsstaat), budget execution without a legal basis and without control of effectiveness is a form of abuse of authority by the state apparatus (Mecke, 2019). An SPI that is powerless to oversee this is failing to fulfill its constitutional role as a fiscal safeguard system. This makes it clear that violations of the principle of law do not stand alone, but are a consequence of the absence of a normative internal control function.

The discrepancy between normative provisions in laws and regulations and factual implementation in the field is one of the root causes of SPI weaknesses. On paper, SPI has a strong legal framework, among others in PP No. 60 of 2008 and Ministry of Home Affairs Regulation (*Permendagri*) No. 77 of 2020, which requires the implementation of controls over each regional financial activity. However, in practice, many local governments do not fully implement SPI, either due to limited technical capacity or a lack of commitment to principles-based governance. This gap shows that regulations do not necessarily guarantee normative implementation if they are not followed by a strong supervisory structure. In Luhmann's legal system theory, the imbalance between norms and operational reality can lead to legal dysfunction, where norms are ineffective because they are not internalized in the system. This imbalance should be a focus in the institutional evaluation of SPI as a legal instrument, not just an administrative instrument.

The relationship between the supervisory system and the fulfillment of governance principles can be explained through the theory of administrative control developed by Jerry L. Mashaw. According to Mashaw, supervision in the public bureaucratic system not only functions as a correction mechanism, but also as a form of legal accountability for the use of authority (J. L. Mashaw & Berke, 2018). In the context of SPI, internal supervision becomes a control tool against the use of budgets that deviate from legal principles and fiscal policies. If this supervision does not work properly, the state's function in ensuring the implementation of good governance principles is eroded. The failure of SPI to perform its control function creates a vacuum in the state financial legal system at the implementation level. This is an indication that internal control reform cannot be delayed and must be aligned with the normative structure governing the principles of financial management. Thus, the supervisory function must be understood as the fulfillment of legal obligations, not just administrative responsibilities.

Table 2. Principles of State Financial Management that are violated from several types of findings of weaknesses in the Internal Control System over Local Government Financial Statements in 2023

No.	Type of SPI Weakness	Explanation of Weakness	Principles of State Financial Management Violated	Governance Implications
1	Inaccurate financial records	Financial data is not recorded correctly or is not supported by valid documents	Accountability, Transparency	Financial statements cannot be objectively accounted for
2	Financial statements prepared not in accordance with the provisions	The preparation process does not refer to government accounting standards	Accountability, Efficiency	Financial information is misleading, policy making is wrong
3	Inadequate activity planning	Activities are designed without needs analysis or not in accordance with regional priorities	Efficiency, Effectiveness	Waste of budget, program implementation is not on target
4	Expenditures made outside the APBD mechanism	Expenditures made without approval or legal basis in the budget document	Legality, Accountability	Abuse of authority, potential state financial losses
5	SOPs have not been developed or not implemented	There are no written guidelines, or the implementation of activities deviates from official procedures	Legal certainty, Effectiveness	Implementation of activities is uncontrolled and prone to administrative irregularities
6	Government Internal Oversight Apparatus (APIP) does not function optimally	The internal audit function is not functioning or is symbolic	Efficiency, Accountability, Transparency	Supervision is weak, control over violations is ineffective
7	SPI does not detect violations of budget use	No early detection of deviation in use of funds	Legality, Accountability	Actions outside the authority are not corrected, the principle of the rule of law is ignored
8	Inadequate accounting information system	Financial data management technology is not yet fully integrated	Effectiveness, Transparency	Data-driven decision-making weakened, potential for data manipulation increased
9	No monitoring of follow-up on audit findings	BPK or APIP recommendations are not followed up by	Accountability, Legality	Repeated irregularities, correction mechanisms in the financial system are not working

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	regional financial management entities	

Source: Author

Violation of the principles of state financial management due to weak SPI must be interpreted as a violation of positive legal obligations. In the perspective of administrative law, the implementation of principles is not only a moral or ethical obligation, but a normative order that binds all government organs. Failure to fulfill the principles of legality, accountability, or efficiency can be the basis for canceling administrative actions or even incurring legal liability. The public fiduciary duty doctrine developed in common law states that public officials have a legal obligation to act in the public interest in accordance with the principle of legality (Leib & Kent, 2020). If this obligation is violated, the state has the legitimacy to take action against the official through available legal mechanisms. An SPI that is not substantively implemented opens room for violations of principles, which has an impact on the integrity of fiscal governance. Therefore, any weaknesses in SPI need to be assessed from a legal perspective as a form of institutional default against the normative mandate of state financial management.

In practice, internal and external audits that have been carried out have not fully touched on the principle or constitutional dimensions of internal control. Audits more often focus on aspects of compliance with administrative procedures and achievement of outputs, rather than on the substance of compliance with the legal principles of financial management. This indicates a methodological weakness in the SPI's performance evaluation approach, which has not placed principles as the main benchmark. In fact, ideal supervision should also measure the extent to which internal mechanisms ensure the implementation of legal norms, not just technical achievements. In the normative evaluative approach as developed by jurist Norberto Bobbio, public policy evaluation must be based on the fulfillment of legal principles governing state actions (Salman, 2017). Thus, if the audit does not reach the principles aspect, the SPI's failure to realize law-based governance will not be systematically detected. Therefore, the reform of audit methods and financial supervision must be directed at strengthening the normative dimension as the basis for assessing the effectiveness of SPI.

Normative Implications of SPI Weaknesses on Good Governance Principles

The universally recognized principles of good governance include accountability, transparency, rule of law, and responsiveness (Keping, 2018). These four principles are the foundation in building a democratic, participatory, and accountable government for the use of authority and public resources. In the context of local government, these principles are elaborated in various regulations, including Law No. 23 of 2014 on Local Government and various technical provisions on financial governance. SPI as an internal control system should function to ensure the implementation of these principles through transparent supervision, internal audit and reporting mechanisms. If SPI fails to detect or prevent administrative irregularities, the quality of implementation of good governance principles is compromised. Thus, any weaknesses in the SPI not only have administrative implications, but also have the potential to hinder the realization of governance based on legal principles. Analyzing the normative function of the SPI is important to assess the effectiveness of internal control in supporting a clean and authoritative government.

SPI weaknesses stemming from procedural inefficiencies, recording inaccuracies, and weak inherent supervision indicate that the control system function has not been carried out optimally. When the budget planning and implementation process does not run according to normative rules, the entire financial system becomes vulnerable to abuse. This condition hampers the fulfillment of the principles of efficiency and effectiveness as stated in the State Finance Law, which is also an integral part of the principle of accountability in good governance. According to Mark Bovens, public accountability requires a monitoring system that can verify administrative actions in a clear and data-based manner (Schillemans & Bovens, 2019). The failure of SPI to create data accuracy and control effectiveness means that the financial information available cannot be tested objectively. Within this framework, SPI weaknesses create an impasse in the chain of accountability that should be carried out by public officials. It is inevitable, then, that the limitations of internal control become a structural impediment to the achievement of good financial governance.

Violation of the principles of state financial management, such as the principles of legality, transparency and efficiency, is essentially a form of violation of the principles of good governance itself. In Norberto Bobbio's perspective, governance principles must be operational and internalized into the practice of state administration, not just as an ethical slogan (Salman, 2017). If the principle of legality is ignored because the SPI fails to detect procedural violations, then the principle of rule of law becomes a sham. Similarly, when financial information is not submitted openly due to weak internal reporting, the principle of transparency cannot be substantively fulfilled. Thus, weaknesses in internal control create a domino effect that extends to all joints of regional financial governance. At this point, the SPI is no longer simply failing to carry out administrative functions, but has created systemic violations of good governance principles. Therefore, the normative function of SPI must be reviewed in direct relation to the principles of good governance mandated by the constitution and laws and regulations.

The weak condition of SPI is also an indicator of the failure of public institutional integrity in carrying out the legal mandate and public service ethics. Institutional integrity is not only seen from physical performance or achievement of program targets, but also from compliance with normative principles inherent in the duties and functions of government agencies. When the SPI is unable to ensure conformity between the budget and its implementation, the image of public institutions as organizers of the public interest is also eroded. In this case, the concept of institutional integrity introduced by Huberts & Six emphasizes the importance of internal control as a determinant of institutional credibility in ensuring the legitimate use of power. Without a reliable control mechanism, local government institutions do not have the tools to consistently enforce financial norms (Huberts, 2018). This situation places SPI weaknesses as a reflection of weak value structures and compliance within the fiscal bureaucracy. The implications of this lead to a decline in the capability of public institutions to manage finances legally and responsibly.

The relationship between internal control systems and the quality of fiscal governance is close and causal. SPI is a fundamental component in ensuring that budgets are designed, implemented and accounted for in accordance with applicable legal provisions. In the theory of fiscal governance developed by the Organisation for Economic Co-operation and Development (OECD), internal control is part of the fiscal cycle that maintains consistency between policy objectives and budget realization (Canton, 2021). Without adequate controls, budget performance cannot be properly evaluated, and potential irregularities cannot be prevented early. In the context of local government, SPI should serve as a pillar of integration between fiscal policy and public accountability mechanisms. When SPI weaknesses are left unchecked, every effort to strengthen financial management will lose its normative foundation.

The weakness of SPI in the long run has implications for reducing public trust in local governments, because people no longer have confidence that public finances are managed transparently and accountably. Public trust is a basic element in realizing the democratic legitimacy of a government, as proposed by David Beetham in the concept of legitimation through accountability. When local financial reports do not reflect real conditions, and internal controls are unable to detect policy deviations, the space for public participation becomes useless (Ramdani, 2022). Under these conditions, public accountability is symbolic, while budget abuse continues to take place in an unmonitored space. Weak SPI widens the gap between public expectations and governance practices that should be based on participation and social control. As trust in government institutions declines, local democratic processes are delegitimized.

The weakness of the SPI should not be positioned as a purely administrative procedural issue, because its substance touches the legal and ethical foundations of government. SPI should be a core governance mechanism within the state's institutional structure, not just a complement to budget management procedures. In modern governance theory, internal control mechanisms are internal safeguards that ensure that all fiscal actions can be controlled in accordance with legal principles and development objectives. This view is in line with Michel Crozier's thinking in The Bureaucratic Phenomenon, that bureaucratic institutions must have internal control mechanisms to prevent deviations from their normative objectives (Borraz, 2024). Thus, when SPI is seen only as a technical reporting tool, its strategic role in maintaining governance will be eroded by rigid procedures. SPI must be repositioned as a substantive control system that shapes and oversees overall organizational behavior. Such an approach is urgent to build a public finance structure that is not only orderly, but also compliant and lawful.

Reformulating the position of SPI in the framework of good governance requires a reinterpretation of the functions and objectives of the internal control system in the state financial legal system. SPI must be interpreted as an instrument to fulfill the principles of the rule of law and public accountability, not just as a technical tool to fulfill audit requirements. In the context of constitutional law and public administration law, the inherent supervisory system is an extension of the state's obligation to ensure the legitimate and responsible administration of public finances. Therefore, any weaknesses in the SPI must be read as a violation of the normative structure of governance, not just an error in the administrative process. The implementation of good governance principles cannot be separated from the functioning of SPI substantially and systematically. By adopting a normative approach to SPI, local governments can strengthen the position of internal control as the main guardian of public financial integrity. This strategy is important to realize a clean, democratic, and law-based government system in state financial management.

Reformulation of the Internal Control System in the Perspective of State Finance Law

The Internal Control System (SPI) in the context of regional financial management is still narrowly understood at a procedural and administrative level. SPI tends to be considered as a formal complement to the internal audit process, which emphasizes the fulfillment of documentation and completeness of files. This approach causes SPI to function only as an instrument of bureaucratic compliance, not as a substantive control tool for the implementation of public finance. This has implications for the SPI's lack of corrective power against irregularities in budget use and violations of basic principles of state financial management. When SPI is reduced to technical checks and formal checks, its effectiveness as an instrument of legal control is blunted. In the legal system of state finance, internal control should not only ensure compliance with procedures, but also ensure the implementation of the principles of legitimate management and integrity.

A paradigm shift towards a value-based internal control model is an urgent need. SPI should not only detect administrative discrepancies, but must be able to evaluate the substance of financial actions based on the principles of legality, accountability, efficiency, and effectiveness. These basic values are normative content that cannot be ignored in the legal system of state finance which is based on the principle of the rule of law. Niklas Luhmann's open legal system theory emphasizes that the legal system must dynamically relate to social reality, including in aspects of fiscal governance (Nielsen, 2024). In this approach, SPI should function as a mechanism that bridges financial legal norms with bureaucratic actions in the reality of local government. A legal principles-based model will allow SPI to assess the implementation of the Regional Budget (APBD) not only from the administrative side, but also in terms of whether the actions are legal, appropriate, and in line with the public interest. Thus, the internal control system can have normative corrective power, not merely procedural.

In the institutional context, the role of the Government Internal Oversight Apparatus (APIP) has not fully reflected the principles of independence and professionalism as it should be in the fiscal supervision system. The weakness of APIP lies in its position that is often subordinate to the regional head, who is the object of supervision itself. This creates a conflict of interest that weakens independence and reduces the effectiveness of corrections in the internal control structure. For this reason, it is necessary to reconstruct institutional regulations so that APIP is placed structurally and operationally in an independent and autonomous position. Internal control should adopt a risk-based auditing approach, which focuses on budget areas prone to irregularities (Larasati & Bernawati, 2020). This approach gives greater weight to early detection of violations of legal principles than mere administrative verification. Thus, institutional reformulation of APIP is an integral part of strengthening internal control in the regional public finance system.

The relevance of SPI as a legal instrument will be more evident if it is integrated with constitutional accountability indicators, not just administrative technical performance. Responsible public financial management is not merely meeting financial reporting standards, but must demonstrate compliance with the principles of financial management guaranteed in the constitution. In this regard, SPI should be evaluated by its contribution to the implementation of citizens' rights to public services, welfare, and fiscal justice. Jerry Mashaw, in his notion of administrative public accountability, emphasizes the importance of internal controls as a mechanism to ensure conformity between administrative actions and legal mandates (J. Mashaw, 2017). Therefore, indicators of SPI success should include the extent to which internal controls prevent violations of legally guaranteed public rights. With this approach, the SPI can be strengthened as an instrument of the state tasked with ensuring the constitutional implementation of fiscal policy. The integration of constitutional accountability provides a new direction for the reformulation of internal control systems within local governments.

To achieve such effectiveness, a juridical evaluation framework for SPI performance is needed, based on compliance with legal norms, not just administrative compliance. This evaluation should include indicators on the legality of budget planning, the suitability of programs and the legal objectives of financial management, and the ability of the system to detect substantive violations. Philippe Nonet and Philip Selznick's responsive law theory is particularly relevant, as it emphasizes that law should be able to direct institutional behavior toward social goals and substantive justice (Sukmana et al., 2023). In the context of SPI, juridical evaluation will direct supervision to the correction of normative deviations, not just adjustments to technical regulations. Thus, SPI will have a measuring tool that is in accordance with the principles of good governance in the state financial system. This juridical approach also clarifies the limits of legal responsibility of public officials in carrying out budget management functions. The evaluation system thus serves not only an administrative function, but also ensures constitutional compliance.

As part of the improvement process, it is important to look at the SPI model in other countries that have already established internal control as a normative instrument of fiscal governance. In the UK, the internal control system is positioned within the structure of Audit Committees that are independent of the executive, and overseen through the Public Sector Internal Audit Standards (PSIAS) (White et al., 2020). In New Zealand, the Auditor-General's role includes evaluating the contribution of the SPI to the achievement of public value, not just procedural compliance (Hoque & Thiagarajah, 2015). These models show that internal control should be linked to the function of substantive evaluation of the effectiveness of fiscal policy, not just budget execution. These lessons can be used as references in building an SPI that is legally enforceable and has constitutional control. By adopting the principles of independence, risk-based approach, and substantive evaluation, Indonesia can establish an internal control system that is in line with the principles of the rule of law. Therefore, this comparison needs to be used as a foothold in reformulating legal norms related to financial supervision in the regions.

The reformulation of SPI's role requires the formulation of legal norms that place the internal control system as an enforcer of state financial management principles. Currently, the SPI legal framework in Government Regulations No. 60 of 2008 still focuses on the technical aspects of implementation, not on the substance of the norms that must be maintained. It is necessary to establish firm legal norms in regulations that are hierarchically high, to make SPI a norm-enforcing mechanism, not just a technical supervision tool. This approach is in accordance with Hans Kelsen's Grundnorm theory, in which the basic norm must animate the entire legal system, including the supervisory mechanism (Raj & Noorani, 2020). SPI designed as part of a system of legal norms will ensure that all fiscal actions are subject to legitimate principles. It would also place oversight as part of a system of constitutionally limiting fiscal power. As such, SPI norms should be affirmed in the form of positive laws that are binding and applicable across government sectors.

In its implementation, SPI must be given an institutional position that is structurally and functionally independent from the officials who are the object of its supervision. Effective supervision will not be achieved if the SPI remains under a vertical structure that can be influenced by the regional head or direct superior. Therefore, it is necessary to change the organizational design, where the internal control unit is given legal protection, clear authority, and access to all regional financial processes. This model approaches the principle of checks and balances in democratic governance, which calls for a separation between the executors and supervisors of power. In Friedrich Hayek's doctrine of the rule of law, oversight of administrative power must be carried out by institutions that stand on legal norms, not momentary political interests (Rissy, 2022). With this kind of institutional reorganization, SPI will be able to carry out its corrective function independently and objectively. Therefore, the revision of SPI's organizational structure is an integral part of regional finance law reform.

The reformulation of SPI in the perspective of state financial law is not only limited to strengthening norms and institutional structures, but also includes strengthening the legal culture within the fiscal bureaucracy. A legal culture that upholds the principles of financial management must be systematically instilled through training, career systems, and reward and punishment based on supervisory performance. An effective SPI depends not only on regulations, but also on the quality and integrity of the human resources who run it. In the view of Lon L. Fuller, the law will only function if it is carried out with good intentions and consistency, and is obeyed voluntarily by its subjects (Muhamad, 2020). Therefore, the development of the SPI system must be accompanied by the establishment of ethical integrity and professionalism of internal supervisors who uphold the principles of justice and responsibility. Without building a strong legal culture, SPI reform will only stop at the realm of legal formalism without transformative power. Therefore, SPI reform must go hand in hand between the establishment of norms, institutions and legal culture.

The reformulation cycle of the internal control system in the perspective of state financial law illustrates a continuous process that starts from the identification of SPI weaknesses that have tended to be procedural and administrative. These weaknesses indicate that the SPI function has not been carried out as a supervisory instrument based on legal norms and principles of state financial management. A critical evaluation of these conditions is carried out using a normative approach, to assess the extent to which SPI fulfills the principles of legality, accountability, efficiency, effectiveness, and transparency. The results of this evaluation then led to the formulation of a value-based internal control model that places SPI as the guardian of constitutional principles in fiscal management. In the next stage, institutional strengthening of APIP was carried out through a risk-based supervision approach and guaranteed structural independence. Integration of SPI with constitutional accountability indicators is a further strategy to ensure that the internal control function supports the fulfillment of legitimate and responsible fiscal responsibilities.

The next stage in this cycle includes the development of a juridical evaluation framework for SPI that serves to assess the effectiveness of supervision based on compliance with substantive legal norms, not just technical compliance. This framework should be able to assess the extent to which SPI plays a role in preventing irregularities that violate the principles of state financial management. The reformulation process was strengthened through comparative study of SPI models in countries with strong fiscal governance such as the UK and New Zealand, to adopt the principles of independence, results-based evaluation, and public value-based oversight. All of these efforts were crystallized through the formality of a positive law that regulates the SPI as part of a norm-based mechanism for limiting fiscal power. The renewal of the SPI's structure and institutional position was concluded with a process of internalizing a legal culture and supervisory ethics within the fiscal bureaucracy. Thus, this cycle places SPI as a strategic instrument in upholding the principles of rule of law and public accountability in the state financial system.

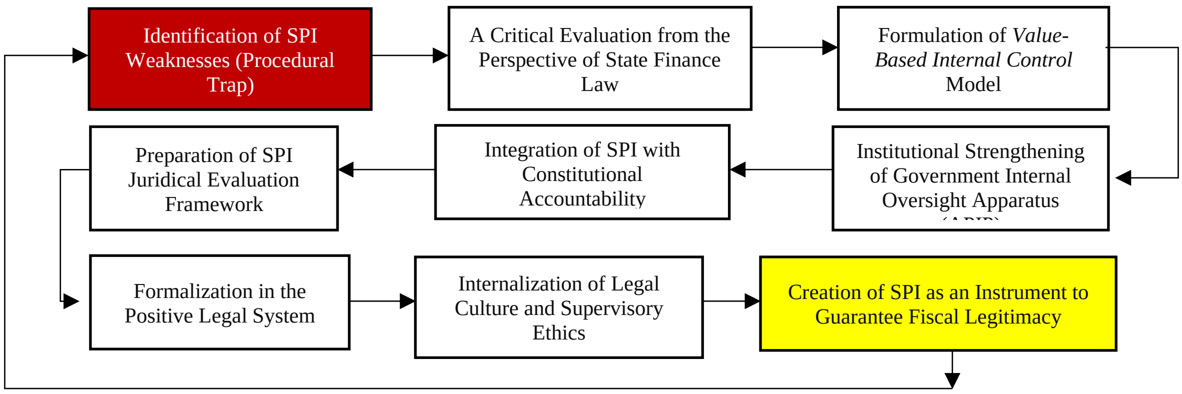

Figure 1. Reformulation Cycle of Internal Control System in the Perspective of State Finance Law
Source: Author

By considering the fundamental weaknesses in the implementation of the Internal Control System (SPI), which has been more oriented towards mere procedural compliance, the reformulation of SPI in the perspective of state financial law is a conceptual and normative necessity. This reformulation not only requires adjustments to the regulatory and institutional framework, but also reaffirms the position of SPI as an instrument to uphold the principles of legal, accountable, and constitutional state financial management. Reorganizing the role of SPI requires a value-based approach and legal principles, integration with public accountability indicators, and strengthening risk-based control mechanisms and structural independence. Learning from international practice shows that the effectiveness of internal control is largely determined by the extent to which the law provides space and protection for its function as a controller of fiscal power. Within this framework, SPI must be understood no longer merely as an administrative tool, but as the frontline in ensuring the upholding of the rule of law principles in public financial management. Thus, through normative, structural and cultural reforms, the SPI can be firmly positioned as a strategic legal instrument in maintaining the integrity and legitimacy of the state financial system.

CONCLUSION

The Local Government Internal Control System (SPI) has not fully functioned as a mechanism to ensure the implementation of the principles of state financial management, as stipulated in Law No. 17 of 2003 and Government Regulation No. 60 of 2008. With a literature approach from Friedrich Julius Stahl, Hans Kelsen, and Mark Bovens, this research proves that SPI is not only administrative technical, but has a juridical function in ensuring compliance with the principles of legality, accountability, efficiency, effectiveness, and transparency. This research fills a normative gap in the discourse of state financial law by dissecting the normative-functional dimensions of SPI that have been ignored by traditional audit models that only focus on procedures. The main implication of this research is the need for legal reformulation of the structure, norms, and evaluation of the SPI to be more in favor of the rule of law principle in fiscal governance. Therefore, it is recommended that the Government and the Ministry of Home Affairs formulate new regulations that place the SPI as a norm-enforcing mechanism with guarantees of independence, constitutional accountability, and substantive evaluation. Regulatory weaknesses and the structural powerlessness of APIP are priority areas that must be addressed to avoid recurring fiscal maladministration practices. However, this study has not fully addressed the integration of SPI with the sanction system and legal protection of internal supervisors, which is a strategic direction for future research.

The research also underscores that SPI weaknesses are not merely procedural failures, but are manifestations of administrative law dysfunction and fiscal delegitimization at the local level. Using the *SPI → State Financial Management Principles → Governance Outcome* evaluative framework, it is evident that violations of the principles of state financial management can be traced to weak SPI implementation that fails to detect, correct and prevent budgetary irregularities. In this regard, the contribution of this study lies in the reinterpretation of SPI as a legal instrument in the regional fiscal oversight system, not just a technocratic component. The main recommendation of this research is the need to strengthen the institutional structure of the SPI through independent institutional design, risk-based and principle-based evaluation, as well as improving the legal culture and integrity of internal supervisors. This research provides a normative basis to encourage reform of regional financial regulations that have been formal towards substantive. However, the limitation of this research lies in the lack of in-depth juridical-comparative analysis of SPI systems in other countries. Therefore, future research needs to focus on comparative studies of internal control systems based on legal principles in countries with strong fiscal governance, such as New Zealand and the United Kingdom, in order to enrich the national legal framework in reformulating SPI.

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