DESIGN OF A PERFORMANCE-BASED PROGRESSIVE SANCTION SYSTEM TO PREVENT STATE LOSSES IN NON-COMPLIANCE OF LOCAL GOVERNMENT FINANCIAL REPORTS (LKPD)

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INFORMASI ARTIKEL	ABSTRAK

Ketidakpatuhan terhadap ketentuan peraturan perundang-undangan dalam Laporan Keuangan Pemerintah Daerah (LKPD) Tahun 2023 menyebabkan potensi kerugian negara sebesar Rp2,45 triliun dengan 4.147 temuan yang tersebar pada 543 entitas. Sistem sanksi administratif yang ada terbukti tidak efektif karena bersifat normatif, tidak bertingkat, dan tidak memiliki konsekuensi fiskal yang nyata. Penelitian ini bertujuan untuk merumuskan desain sistem sanksi progresif berbasis kinerja yang mampu meningkatkan kepatuhan dan mencegah kerugian negara secara sistemik. Metode yang digunakan adalah penelitian hukum normatif dengan pendekatan perundang-undangan dan konseptual, serta menggunakan teori *Responsive Regulation* dari Ayres dan Braithwaite sebagai landasan dalam menyusun model eskalasi sanksi berdasarkan perilaku entitas yang diawasi. Hasil penelitian menunjukkan perlunya peraturan yang memuat indikator kinerja, klasifikasi pelanggaran, insentif atau disinsentif fiskal, dan sistem pengawasan berbasis data yang terintegrasi. Kebaruan dari penelitian ini terletak pada formulasi sistem sanksi yang menggabungkan fungsi korektif dan edukatif, berbeda dari penelitian sebelumnya yang hanya menitikberatkan pada aspek kuantitatif atau manajerial. Kontribusi ilmiah artikel ini terletak pada penguatan hukum administrasi sebagai sarana penegakan kepatuhan fiskal dan sebagai solusi regulatif terhadap kebocoran keuangan daerah. Dengan demikian, penelitian ini memberikan fondasi normatif bagi pembaruan sistem pengawasan keuangan daerah yang lebih adil, proporsional, dan berbasis hasil.

ABSTRACT

Non-compliance with the provisions of laws and regulations in the 2023 Local Government Financial Statements (LKPD) caused potential state losses of IDR 2.45 trillion with 4,147 findings spread across 543 entities. The existing administrative sanction system has proven ineffective because it is normative, not tiered, and has no real fiscal consequences. This research aims to formulate a performance-based progressive sanction system design that is able to improve compliance and prevent systemic state losses. The method used is normative legal research with a statutory and conceptual approach, and uses the Responsive Regulation theory from Ayres and Braithwaite as a foundation in developing a sanction escalation model based on the behavior of the supervised entity. The results show the need for regulations that contain performance indicators, classification of violations, fiscal incentives or disincentives, and an integrated data-based supervision system. The novelty of this research lies in the formulation of a sanction system that combines corrective and educative functions, different from previous research that only focuses on quantitative or managerial aspects. The scientific contribution of

this article lies in strengthening administrative law as a means of enforcing fiscal compliance and as a regulative solution to regional financial leakage. As such, this research provides a normative foundation for a more equitable, proportional, and results-based reform of the regional financial oversight system.

INTRODUCTION

The Audit Board's Audit Report on Local Government Financial Statements (LKPD) in 2023 shows that non-compliance with statutory provisions in local financial management is still very high, with the value of irregularities reaching Rp2.45 trillion with 4,147 problem findings spread across 543 local government entities (Table 1) (Badan Pemeriksa Keuangan Republik Indonesia 2024). This high number indicates weak structural compliance with the principles of good public financial governance. In fact, Article 3 Paragraph (1) of Law Number 17 of 2003 concerning State Finance emphasizes that state financial management must be carried out in an orderly manner, obedient to laws and regulations, efficient, economical, effective, transparent and responsible. This non-compliance not only causes potential state losses, but also damages public trust in local government institutions (Maulana and Harisman 2024). That being considered, the existing administrative sanctions framework has not provided a deterrent effect on entities that are repeatedly non-compliant. This shows that the control and law enforcement mechanisms in the legal system of local financial administration still have fundamental weaknesses.

In the context of administrative law, the existence of administrative sanctions should function as a corrective instrument to uphold the principle of financial accountability(Maarif 2024). Based on the current regulatory evaluation, sanctions imposed for violations of the management of Local Government Financial Statements (LKPD) tend to be normative and not scaled. For example, the provisions in Law No. 15/2004 on Examination of State Financial Management and Responsibility do mention the obligation to follow up on the findings of the Supreme Audit Agency within 60 days, but do not elaborate on the form of progressive sanctions for non-compliant regions. In practice, regions that obtain an unqualified opinion (WTP) can still have significant losses due to the absence of a direct link between report quality and fiscal legal consequences. This creates an incentive paradox in the local financial supervision system. When there is no real threat of non-compliance, the compliance mechanism will be artificial. In this case, a legal approach that is not only repressive, but also adaptive and responsive is needed.

Table 1. Losses Due to Non-Compliance with the Provisions of Laws and Regulations on Local Government Financial Statements (LKPD) Year 2023 (Value in Rp Million)

No.	Group and Type of Findings	Problems		Occurring to the Entity
		Total	**Value**	
Loss				
1	Fictitious official travel expenditure	55	71.567,76	51
2	Expenditure or procurement of other fictitious goods/services	49	77.363,53	33
3	Goods/services procurement partners do not complete the work	36	26.163,41	32
4	Shortage of volume of work and/or goods	1.200	1.016.375,55	531
5	Overpayments other than shortages in the volume of work and/or goods	401	156.956,04	270
6	*Mark up*	38	32.523,58	30

No.	Group and Type of Findings	Problems		Occurring to the Entity
		Total	Value	
7	Use of money/goods for personal use	64	15.429,20	56
8	Business travel costs are multiple and/or exceed the standard	386	266.879,61	354
9	Multiple honorarium payments and/or exceeding standards	342	111.021,26	268
10	Goods/services specifications are not in accordance with the contract	210	161.778,79	151
11	Expenditures do not match or exceed the provisions	1.261	491.025,44	449
12	Excess tax refund determination and payment or loss compensation determination	1	435,24	1
13	Miscellaneous	104	29.722,25	84
	Total	**4.147**	**2.457.241,66**	**543**

Source: Supreme Audit Agency of the Republic of Indonesia

The Responsive Regulation theory developed by Ayres and Braithwaite offers a relevant approach in designing a law enforcement system that is not solely repressive, but rather multilevel and adapts to the behavior of the supervised entity(Nowotny 1993). In this theory, regulation is built using a pyramid model, starting from persuasion, increasing compliance incentives, to the use of severe sanctions in proportion to the level of violation. In the context of Local Government Financial Statements (LKPD), this approach allows the design of a performance-based progressive sanction system, where entities that are repeatedly non-compliant will be subject to increasing fiscal sanctions. Conversely, entities that are compliant and show improvement are given regulatory incentives such as an increase in the Regional Incentive Fund (DID). By applying this theory, the government can build a dynamic and equitable supervisory system, while encouraging continuous improvement in bureaucratic behavior(Braithwaite 2006). In addition, this approach also allows the integration of corrective and preventive functions in the regional financial management system.

The design of a progressive performance-based sanction system in the context of regional finance law should be built by taking into account the principles of legality, proportionality, and transparency as mandated in Law Number 23 of 2014 concerning Regional Government and Law Number 30 of 2014 concerning Government Administration. In the current regulations, there are no provisions that explicitly regulate the relationship between non-compliance with the Local Government Financial Report (LKPD) and the reduction of transfer funds or delays in fiscal incentives. This results in weak administrative law enforcement against regions that commit repeated violations. In this regard, new norms at both the Ministerial Regulation and Regional Regulation levels that regulate the mechanism for imposing graduated sanctions for financial non-compliance are urgently needed. The regulatory design should include performance indicators, classification of violations, and a monitoring system integrated with real-time data. Thus, sanctions are not only a punitive instrument, but also a legal education mechanism for state apparatus (Nurdin 2019).

Based on previous relevant research from Dyah Setyaningrum and Febriyani Syafitri (2012), *Analisis Pengaruh Karakteristik Pemerintah Daerah terhadap Tingkat Pengungkapan Laporan Keuangan*", and Nur Laila Yuliani and Rahmawati Dwi Agustini (2016), "*Faktor yang Mempengaruhi Kualitas Laporan Keuangan Pemerintah Daerah*", they focus on quantitative analysis of regional characteristic factors and managerial techniques. Meanwhile, this research presents a normative approach with the aim of reforming the compliance enforcement system for Local Government Financial Statements through progressive sanction design. This approach has never been touched in depth in both studies. In addition, this research brings a new dimension in the form of a proposal for the design of a progressive and performance-based

administrative sanction system (compliance history and improvement achievements). In previous studies, there has been no proposal for a systematic legal policy against non-compliant entities in financial reporting. With this research, it becomes a bridge between state administrative law and fiscal accountability, by targeting the reformulation of sanction policies that can be adopted by auditing entities (Supreme Audit Agency) or supervisors (Inspectorate) in strengthening compliance.

In order to prevent the recurrence of state losses due to non-compliance with the provisions of the Local Government Financial Report, it is necessary to formulate a responsive and result-oriented legal system (performance-oriented accountability). The design of a progressive performance-based sanction system to prevent state losses due to non-compliance with Local Government Financial Reports represents an academic effort to fill the legal vacuum in the current regional financial supervision system. With a normative approach and responsive regulation theory, this research is expected to provide concrete solutions to regulative weaknesses in fiscal compliance enforcement. Legal innovation through progressive sanction design is a form of systemic improvement that combines the functions of supervision, correction, and empowerment in one legal framework. Therefore, it is important for the national legal system to accommodate regulative mechanisms that are responsive, adaptive, and measurable. This effort is also expected to strengthen public legitimacy of regional financial governance. Thus, administrative law not only functions as a guardian of formal order, but also as an effective instrument in preventing leakage of state finances.

RESEARCH METHOD

The research method used is normative legal research with a statute approach and conceptual approach to analyze the weaknesses of the norms in Law Number 17 of 2003, Law Number 15 of 2004, and other technical regulations relating to regional financial management and supervision. The theory used is the Responsive Regulation theory of Ayres and Braithwaite which emphasizes a multilevel approach to law enforcement based on the level of compliance and the character of the violation to justify the need for an administrative law sanction structure that is scaled, adaptive, and based on

violation behavior (compliance history). The legal materials used include primary legal materials (laws and regulations) and secondary legal materials (legal literature, audit results of the Supreme Audit Agency, and relevant research results). Data analysis was carried out qualitatively by linking the applicable norms, actual weaknesses in practice, and the need for formulation of new norms. The analysis technique used is descriptive-analytical, which aims to describe the existing legal conditions, identify legal lacunae, and formulate systematic, rational, and applicable regulative recommendations.

RESULTS AND DISCUSSION
Dynamics of Non-Compliance with Statutory Provisions in the Management of Local Government Financial Statements (LKPD)

The dynamics of non-compliance with statutory provisions in the management of Local Government Financial Statements (LKPD) show an increasing trend from year to year. Based on the Audit Report of the Supreme Audit Agency, in 2023 there were 4,147 cases of non-compliance spread across 543 local government entities, with a loss value of Rp2,457,241.66 million (Badan Pemeriksa Keuangan Republik Indonesia 2024). This figure jumped significantly compared to 2022 which recorded 3,520 cases with a loss value of Rp1,733,123.25 million. This increase shows that the legal control and compliance system for regional financial management is still not running effectively. In fact, since 2019, the number of problems has continued to increase from 2,147 findings to more than double in five years (Table 2). This indicates that the existing legal mechanisms have not been able to have a deterrent effect on administrative violations that occur repeatedly.

Table 2. Quantitative Non-Compliance with the Provisions of Laws and Regulations on Local Government Financial Statements (LKPD) in 2019-2023 (Value in Rp Million)

Year	Number of Issues	Loss Value	Number of Entities
2019	2147	893.301,46	521
2020	2645	1.194.379,54	525
2021	2885	1.452.539,96	522
2022	3520	1.733.123,25	540
2023	4147	2,457.241,66	543

Source: Supreme Audit Agency of the Republic of Indonesia

The types of violations found in the 2023 Local Government Financial Statements reflect a recurring and systemic pattern of irregularities. The non-compliance was generally related to deviations from the principles of financial accountability, including shortages in the volume of work, fictitious expenditures, use of budgets outside the provisions, and multiple honorarium payments. In 2023, the largest types of violations occurred in the form of shortages in the volume of work and/or goods which reached Rp1,016,375.55 million, as well as official travel and honorarium payments exceeding standards which reached Rp377,900.87 million. This fact indicates a pattern of systemic weaknesses in the process of budget planning, implementation and supervision that should be strictly regulated by state financial regulations. In fact, Article 3 paragraph (1) of Law Number 17 Year 2003 emphasizes that state financial management must be carried out in an orderly, law-abiding, efficient, and accountable manner. This non-compliance is also contrary to the provisions of Article 20 paragraph (3) of Law Number 15 of 2004, which requires follow-up on the findings of the Supreme Audit Agency within 60 days of issuance. However, because there are no direct and firm sanctions, these administrative violations continue to occur.

The ineffectiveness of the administrative law system in tackling violations of the management of Local Government Financial Statements can be seen from the weak correlation between the opinion of the Supreme Audit Agency and the amount of loss findings. There are many regions that obtain an unqualified opinion (WTP), but still have significant loss findings due to budget maladministration practices (Badan Pemeriksa Keuangan Republik Indonesia 2024). This phenomenon shows that the formal quality of financial reports does not yet reflect substantive compliance with the legal principles of state finance. In this condition, the existing norms are only symbolic and procedural without having binding force. When violations of administrative law have no real fiscal consequences, there is no incentive for local governments to improve budget governance on an ongoing basis. Therefore, the law enforcement system must be strengthened through sanction mechanisms that are not only

repressive, but also responsive and performance-based.

The urgency of establishing a progressive, performance-based sanctions system is becoming increasingly clear in response to the surge in non-compliance that has directly contributed to state losses. This system is important to close the gap between repeated violations and the absence of proportional sanctions, as well as providing a real fiscal burden to non-compliant entities. In the administrative law framework, this system can be formulated through derivative regulations from Law No. 23/2014 on Regional Government and Law No. 30/2014 on Government Administration. The design should include performance indicators, a track record of compliance, as well as a classification of sanctions based on the level of violation. This approach is in line with Ayres and Braithwaite's Responsive Regulation theory, which emphasizes regulatory escalation based on the entity's compliance behavior (Nowotny 1993). Thus, the progressive sanction system will be a fair, measurable, and effective legal instrument in preventing the recurrence of state financial losses.

As a normative footing, the increasing number of non-compliance with Local Government Financial Statements from year to year indicates a systemic failure in internal and external control mechanisms. If this trend is allowed to continue, it will further erode the principle of public accountability and weaken public trust in local government institutions. Therefore, legal reformulation in the form of a progressive sanction system is an urgent need to strengthen the effectiveness of administrative law enforcement. With a structured system, not only legal compliance will increase, but also public trust in regional financial management institutions (Arwani and Priyadi 2024). Thus, the dynamics of non-compliance of Local Government Financial Reports must be used as a legal basis to encourage the renewal of a more fair, responsive and effective sanction system. This effort will ultimately strengthen the integrity of financial administration law within the framework of a democratic rule of law.

Weaknesses of the Current Administrative Sanction System in Enforcing Compliance with Regional Financial Management

The current system of administrative sanctions in local financial management tends

to be declarative and does not yet have normative effectiveness in creating sustainable compliance. Provisions in Law No. 15/2004 and Law No. 17/2003 have not provided strong enough legal pressure to local government entities that repeatedly violate financial management obligations. Although regions are formally required to follow up on the findings of the Supreme Audit Agency within 60 days, there is no graduated sanction system that provides automatic legal consequences for non-compliance. As a result, many local governments ignore the findings without suffering fiscal or administrative restrictions. This is an early indication that administrative law instruments have not been able to perform their corrective function optimally. It is this lack of coercive power that creates room for disobedience to recur every fiscal year.

Furthermore, the normative character of the sanction system only lists obligations without being accompanied by a description of strict and measurable sanctions. This has led to a weak deterrent effect for violators. In practice, violations committed by local governments are not always followed by a reduction in central transfer funds or a decrease in financial performance scores. This shows that there is an absence of correlation between violations of the Local Government Financial Report (LKPD) and the fiscal legal consequences that should be attached. The logic of effective oversight requires a causal relationship between violations and sanctions (Verdier 2022). When this relationship is not established in the legal system, compliance will turn into a mere administrative formality. Therefore, it is necessary to conduct a thorough evaluation of the current sanction structure to ensure that the regulation is not just symbolic, but actually contains the power of legal control.

The weakness of the current sanctioning system is also evident in the absence of offense classification and performance indicators in the financial administrative law enforcement mechanism. All entities, whether committing minor or major violations, are treated equally under a uniform supervisory system. There is no difference in legal treatment between regions that improve themselves and those that consistently commit violations. This system contradicts the principle of proportionality in administrative law, which should dictate that more severe violations should receive greater sanctions. Without a compliance ranking or classification mechanism, the state fails to implement an approach based on substantive justice. Consequently, local financial management does not undergo systemic improvement because there are no legal incentives to encourage behavioral change.

In the Responsive Regulation framework proposed by Ayres and Braithwaite, effective regulation should adopt the principle of the enforcement pyramid, where the regulatory response increases with the level of non-compliance (Nielsen and Parker 2009). However, in the Indonesian context, the regulation of administrative sanctions in local finance has not adopted this kind of tiered model. The government tends to rely on general persuasive and administrative mechanisms, but does not provide an escalative pathway that can tailor legal actions to the profile of the violation. As such, the system is unable to apply appropriate pressure against entities that have a history of chronic violations. Responsive Regulation theory instead emphasizes that the effectiveness of supervision depends on the system's ability to move from soft to hard approaches gradually and fairly (Braithwaite 2006). Therefore, the application of a progressive performance-based sanction model is very relevant to close the current regulatory vacuum.

Another problem that exacerbates the ineffectiveness of the sanction system is the absence of integration between supervisory agencies (Supreme Audit Agency, Finance and Development Supervisory Agency, Inspectorate) and fiscal management agencies (Ministry of Finance, Ministry of Home Affairs). Without the integration of interconnected information systems and databases, assessments of non-compliance in local government financial reports will have no real impact on budget allocations or fiscal incentives. When the audit results of the Supreme Audit Agency do not have implications for the reduction of funds or administrative barriers, the audit results only become symbolic reports without substantive follow-up. In fact, fiscal sanctions are one of the most effective forms of disincentives in modern administrative law systems (Bernatt 2016). The lack of connection between findings and central fiscal policy creates room for impunity at the local level. Thus, legal reformulation should be directed at creating a sanction system that is

based on performance data and integrated across institutions.

The effect of this unresponsive sanctions system is the habituation of violations and the delegitimization of the public accountability system. Non-compliant local governments continue to receive fiscal awards, even the highest audit opinion, because there is no balancing mechanism that takes into account the context of the substance of the violation. In this case, the principle of reward and punishment does not work in a balanced manner, and instead creates negative incentives for financial management. This weakens the position of law as a tool of social engineering (Ibe 2023). In these conditions, the law is actually dwarfed into administrative procedures that are powerless to deal with systemic deviations. So, a responsive and progressive-based sanction system must be developed so that administrative law again has transformational power.

Based on the evaluation, the current administrative sanction system lacks a structure that is responsive to the variety of violations and does not provide effective legal pressure on non-compliant entities. By adopting the principles of Responsive Regulation, the design of the future sanction system should allow for the classification of violations, strengthening of legal coercion, and a gradual escalation mechanism based on local compliance history. This can be done through the establishment of new laws and regulations, both at the central and regional levels, that integrate financial performance indicators in the sanction structure. In addition, this system should be balanced with fair incentives for entities that show substantive improvements. Such a reformulation of sanctions will strengthen the effectiveness of administrative law and reinforce the credibility of public finance oversight. Thus, the national legal system will be able to prevent state losses in a more systemic and equitable manner.

Responsive Regulation Pyramid in the context of Performance-Based Progressive Sanction System Design

The application of the Responsive Regulation pyramid in the design of a performance-based progressive sanction system aims to uphold the principles of fairness, effectiveness, and proportionality in regional financial supervision (Barak-Corren and Kariv-

Teitelbaum 2021). This pyramid is designed to provide space for persuasive, corrective, to coercive approaches in a multilevel manner and responsive to the character of the violation (Figure 1). Through this mechanism, the law is not only repressive, but also educational and rehabilitative. This system allows the state to act flexibly but still within a measurable legal corridor. This approach also encourages internalization of compliance by local entities through proper engineering of incentives and disincentives (Foley 2004). With this model, administrative law enforcement in the management of Local Government Financial Statements will be more systematic and avoid discriminatory or inconsistent practices. Therefore, this pyramid is not only a theoretical framework, but also a normative foundation for progressive and equitable regional financial law reform.
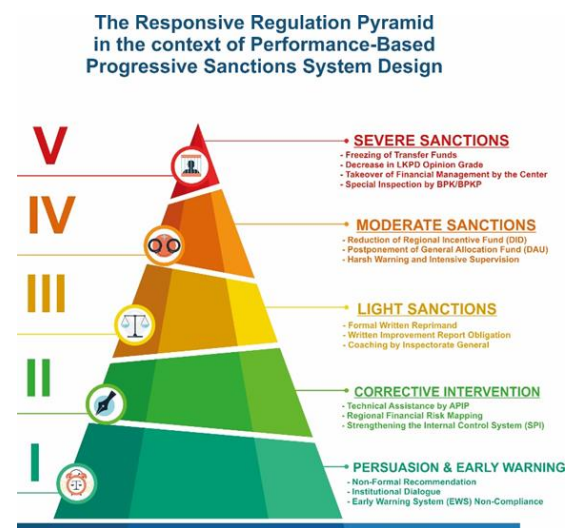

Figure 1. The Responsive Regulation Pyramid in the context of Performance-Based Progressive Sanctions System Design
Source: Author

The first level is a non-punitive approach that emphasizes legal education and early signaling of potential non-compliance. At this stage, the state through the government's internal supervisory apparatus (Aparat Pengawasan Internal Pemerintah) conducts non-formal warnings, institutional dialog, and initial recommendations to local governments. This approach aims to instill early legal awareness before administrative violations occur. The main instrument at this level is an early warning system (EWS) based on real-time data from regional financial reports. This

mechanism is in line with the principle of prevention in administrative law which prioritizes preventive action. Persuasion does not negate supervision, but instead becomes the initial foundation for the escalation of higher administrative sanctions. Thus, this level encourages voluntary compliance and becomes the first layer of legal control.

The second level is carried out when local entities show increasing indications of non-compliance or have not followed up on early warnings. The state through APIP (Government Internal Supervisory Apparatus) or the inspectorate general intervenes based on technical assistance, financial management risk mapping, and strengthening the government internal control system (SPIP). These interventions are administrative in nature and do not impose sanctions, but are directed at correcting structural weaknesses in the regional financial system. This approach is in accordance with the principle of corrective supervision in administrative law, namely guidance through non-punitive juridical instruments. Although assistive in nature, these interventions are still recorded as part of the compliance history. If it does not result in change, then this intervention becomes the basis for increasing sanctions to the next level. The main objective of this stage is the restoration of financial administration functions in line with the principles of accountability and efficiency.

Light sanctions are imposed if administrative violations are committed for the first time and have a limited impact on state losses. The form of sanctions at this stage includes a written warning, the obligation to prepare an improvement action plan, and an increase in the intensity of supervision by the inspectorate or external auditors. The imposition of light sanctions is formally regulated in regulations and outlined in administrative minutes. The goal is to provide proportional legal pressure to encourage behavior correction, without directly affecting the fiscal aspect. This sanction reinforces the ultimum remedium principle in administrative law, that severe sanctions are only imposed if corrective efforts are unsuccessful. If there is no improvement within two reporting periods, then this sanction can be increased to a medium sanction. The third level is therefore the starting point of the transition from a guidance approach to a coercive form of enforcement.

Moderate sanctions are given to local governments that repeat violations or do not adequately follow up on the findings of the Supreme Audit Agency in two consecutive audit cycles. Sanctions include a reduction in the Regional Incentive Fund (DID), a delay in the disbursement of the General Allocation Fund (DAU), or revocation of recommendations to obtain the Special Allocation Fund (DAK). The imposition of these sanctions must be based on objective data and through an administrative verification process in accordance with statutory provisions. This stage shows the transition from soft administrative sanctions to fiscal disincentives as a legitimate control tool. In the principles of administrative law, this action is part of a medium-scale sanction that aims to create a deterrent effect. This provision must be explicitly regulated in technical regulations to have legal legitimacy. The ultimate goal is to encourage structural changes in financial management that are not merely cosmetic, but substantial.

The fifth level is the highest form of administrative sanction given to local government entities that chronically and systemically violate the provisions of state financial management. The form of sanctions can be in the form of freezing all or part of transfer funds, downgrading the opinion grade of the Local Government Financial Report, temporary takeover of financial management by the central government, or special inspection by the Supreme Audit Agency or Financial and Development Audit Agency. The application of this sanction is carried out when all persuasive, corrective, and disincentive efforts have failed. In the perspective of administrative law, severe sanctions are legitimate extraordinary measures in order to protect state finances from greater damage. The procedure for imposing these sanctions must be based on written regulations that fulfill the principles of legality, legal certainty, and proportionality. The purpose of this stage is not merely to punish, but to prevent further state losses and restore the integrity of the public finance system.

Design of a Performance-Based Progressive Sanction System as an Administrative Law Instrument

Non-compliance with the provisions of laws and regulations in the management of Local Government Financial Statements (LKPD) is a

systemic problem that recurs every year (Badan Pemeriksa Keuangan Republik Indonesia 2024). The Supreme Audit Agency report shows a significant increase in the value of state losses due to weak structural compliance with the principles of accountable and transparent financial governance. The current administrative sanction system does not have an adequate deterrent effect on violating entities. Within the framework of administrative law, sanctions must be able to act as corrective, preventive, and repressive instruments simultaneously (afkar 2016). Therefore, the design of a progressive performance-based sanction system is a regulative solution that can close the existing legal vacuum. This system sets sanctions based on violation intensity and compliance history, which is in line with Responsive Regulation theory. Thus, this approach creates a more adaptive, proportional, and results-based supervision pattern.

The first step in designing a progressive sanction system is to formulate performance criteria that are objective, measurable, and based on legitimate fiscal legal indicators. These performance criteria include the timeliness of reporting Local Government Financial Statements, the percentage of completion of follow-up on the findings of the Supreme Audit Agency, the quality of audit opinions, and the efficiency of budget absorption. This assessment must be integrated with national reporting platforms such as SIPD and SAKTI to ensure data accuracy and validity. In addition, the ratio between local expenditure and public service outputs can be a parameter of budget effectiveness. The determination of these indicators must be regulated in binding regulations, such as Minister of Home Affairs Regulations or Government Regulations. These criteria will serve as a reference in determining the weight of violations and the imposition of graded administrative sanctions. With consistent and valid indicators, the system can assess regional performance fairly and rationally.

Offense classification is an important component of a progressive sanctions system so that the law can be applied proportionally to the level of culpability. This classification needs to be divided into minor, moderate, and severe offenses based on the value of the findings, frequency of recurrence, and financial impact. For example, fictitious expenditures and the use of budget for personal interests should be categorized as serious violations because they contain elements of moral hazard and direct losses. Minor violations such as late reporting may be subject to minor administrative sanctions, but should still be recorded in the monitoring system. This classification should be institutionalized in the form of technical regulations that have the force of law, such as Permendagri or PP as a delegation of the State Finance Law. With this classification, the imposition of sanctions will be more accountable, not arbitrary, and provide legal certainty. This is a manifestation of the principles of legality and justice in state administrative law.

To ensure the effectiveness of the system, fiscal incentive and disincentive mechanisms are required as an integral part of the progressive sanction design. Incentives are given to local governments that are compliant and have good financial performance achievements, including in following up the findings of the Supreme Audit Agency thoroughly. Incentives can take the form of an increase in the Regional Incentive Fund (DID), accelerated disbursement of the Special Allocation Fund (DAK), and governance awards. Conversely, disincentives are given to regions that commit repeated violations and do not show significant improvement, in the form of DAU cuts, transfer delays, or freezing DAK proposals. This mechanism should be set out in written legal norms through revisions to fiscal regulations such as the PMK on Regional Transfer Funds. Incentives and disincentives should not be determined subjectively, but rather based on a standardized and transparent performance matrix. With this system, the law is not only a tool of control, but also an instrument of empowerment.

In addition to sanctions and incentives, the integration of data-based monitoring systems is a key element in supporting a responsive progressive sanction system. The supervisory system must be able to detect potential non-compliance early through real-time data processing that is integrated between institutions. APIP (Government Internal Supervisory Apparatus), the Finance and Development Audit Agency, and the Supreme Audit Agency need to have a shared data channel to analyze regional financial reports before violations occur. Supervision is no longer post-event (post-audit), but develops into a predictive and anticipatory supervision model.

The corrective function is carried out through rapid administrative intervention before violations escalate into state losses. Strengthening this data-based system must be accompanied by regulations regarding information security and periodic reporting obligations. With a system based on technology and law, supervision becomes efficient, effective and adaptive to change.

The entire design must be institutionalized in a new regulatory framework that is binding and hierarchical in the national legal system. This regulation can take the form of a Presidential Regulation or Government Regulation as the implementer of Law No. 17/2003 and Law No. 15/2004. This regulation must include the structure of sanctions, performance indicators, procedures for imposition, objections, and administrative settlement mechanisms. Explicit arrangements are needed to provide legal certainty and prevent potential abuse of authority in enforcing sanctions. In addition, new regulations must accommodate the principles of openness, proportionality, and effectiveness as stipulated in Law Number 30 of 2014 concerning Government Administration. Harmonization across regulations must be carried out so that progressive sanctions do not clash with existing norms. This regulation will be the legal pillar for the implementation of the performance-based sanction system.

It is important to embed the principle of differentiation of legal treatment based on compliance history in this system. Regions that are consistently compliant should be treated differently from regions that commit repeated violations. This is in line with the Responsive Regulation approach, which emphasizes the escalation of sanctions according to the level of compliance (Barak-Corren and Kariv-Teitelbaum 2021). Regions that violate for the first time can be subject to reprimands or light sanctions, while chronic violations should be subject to heavy sanctions automatically. With this differentiation, sanctions are fair, proportional, and can encourage improved behavior. This approach also facilitates supervision because supervisory authorities have a historical performance reference as a basis for action. With this principle, the law is not uniform, but adaptive to the context and history of violations.

The design of progressive sanctions should also be oriented as a means of administrative legal education for local government officials.

When officials understand that administrative violations will have a direct impact on the budget and institutional reputation, compliance will naturally grow. This legal education is not only done through training, but also through consistent regulatory practice and integrity. Sanctions are not only a punitive tool, but also a learning tool that improves governance. In the long run, this system will create a legal culture that emphasizes compliance based on awareness, not coercion. This supports the formation of a compliance culture within the local government bureaucracy (Barak-Corren and Kariv-Teitelbaum 2021). Thus, administrative sanctions play a dual role: correcting and educating.

The effectiveness of this system will depend on the existence of periodic evaluation and monitoring mechanisms that are measurable and transparent. Evaluation is carried out to assess the extent to which the sanctions system has succeeded in reducing violations and improving regional financial performance. Audits of the implementation of the sanction system can be carried out by the Supreme Audit Agency and the Financial and Development Audit Agency with the involvement of academics and civil society. Transparency of the implementation of sanctions must also be guaranteed through the publication of compliance data and the imposition of sanctions on the government's official website (Wismaningtyas and Kurniasih 2021). This evaluation should be accompanied by a dialog forum between regions to share good practices and develop strategies to improve compliance. Multi-actor oversight will create legal legitimacy and strengthen public control. With strong oversight, the system will not only be normative, but also substantive.

Overall, the design of a performance-based progressive sanction system can be an effective administrative law instrument in preventing non-compliance with Local Government Financial Reports and reducing state losses. This system is designed based on the principles of proportionality, fairness, and responsiveness according to Responsive Regulation theory. With clear performance indicators, fair classification of violations, measurable incentive/disincentive mechanisms, and data-based supervision, this system is able to encourage structural changes in regional financial management. The implementation of this system requires regulatory commitment,

institutional consistency, and continuous supervision. Amid the increasing risk of public finance violations, this system offers a legal approach that is not only normative, but also solutive. Thus, financial administration law will function optimally as a tool to protect state finances and enforce public accountability. It is time for the law to appear as the main driver of regional financial reform.

Proposed Regulation: Legal Reconstruction in Administrative Sanction System

The legal provisions governing state financial management through Law Number 17 of 2003, Law Number 15 of 2004, and Law Number 23 of 2014, have not fully provided normative tools that are able to take firm action against non-compliance with local government financial reporting. The three laws do not explicitly regulate the form of graded administrative sanctions that can be imposed on entities that repeatedly violate the reporting provisions of the Local Government Financial Report. The absence of a correlation between the level of violation and the level of fiscal consequence causes legal disobedience to continue without a deterrent effect. This is exacerbated by the weak implementation of sanctions in Permendagri Number 77 of 2020 which only regulates the technical aspects of regional financial management without normative enforcement content. This norm vacuum has created a legal vacuum that weakens the coercive power of administrative law in upholding the principle of public accountability. Therefore, it is necessary to carry out legal reconstruction of the existing administrative sanctions system.

The legal reconstruction in question can be initiated through the formulation of new norms in the form of revisions and the formation of laws and regulations at various levels. Revisions to the State Finance and Local Government Laws are important if progressive sanctions are directed at adjusting the allocation of central transfer funds as a form of disincentive against non-compliance. In addition, it is necessary to establish a Government Regulation that specifically regulates the enforcement of regional financial compliance in a tiered and proportional manner. For the operational level, it can be regulated in the Minister of Home Affairs Regulation and Minister of Finance Regulation related to the imposition of administrative and fiscal

sanctions based on performance indicators. In addition, local governments also need to be given space to form Regional Regulations that adopt progressive sanction system designs based on local characteristics. That way, the legal system can provide an adaptive response to the dynamics of financial violations at the regional level.

The substance of the proposed regulation should include concrete and implementable normative elements. First, it is necessary to formulate financial performance criteria that can be used as a basis for measuring the level of compliance, such as the level of resolution of the Supreme Audit Agency's findings, the timeliness of reporting Local Government Financial Statements, and the quality of audit opinions. Second, it is necessary to classify violations proportionally into mild, moderate, and severe violations, based on their impact and frequency. Third, each classification must be followed by a progressive arrangement of administrative sanctions, ranging from written warnings to freezing transfer funds. Fourth, regulations should also regulate fiscal incentive mechanisms for entities that demonstrate compliance and continuous improvement. Fifth, an administrative objection procedure is needed so that the rights of local governments are guaranteed in accordance with the principle of due process of law. All of these substances must be organized in a measurable and systematic legal framework.

The basic principles of regulatory design must uphold the principles of legality, proportionality, effectiveness, accountability, and transparency as applicable in administrative law. In addition, regulatory design must also be based on the principle of responsive regulation that adapts the form of legal intervention to the characteristics of the violation and the behavior of the supervised entity. Implementation of these principles will prevent abuse of authority while maintaining legal legitimacy in administrative enforcement. In addition, synchronization with Law Number 30 of 2014 concerning Government Administration is important in regulating the mechanism for enforcing sanctions and resolving objections. At the national policy level, this design needs to be harmonized with the Presidential Regulation on Bureaucratic Reform which emphasizes efficiency and accountability of public budgets. The principles of good governance and performance-based budgeting must also be the

main reference in the formulation of regulations (Octariani, Akram, and Animah 2017). Thus, the administrative sanction system does not only function to take action, but also to direct and improve.

Regulations designed with this structure will strengthen legal pressure against regional financial violations while encouraging internalization of compliance in public bureaucratic governance. This system also provides legal certainty for local governments due to the classification of violations, measurable indicators, and predictable stages of sanctions. In the long run, this design is expected to reduce the level of state losses that have been caused by repeated violations in the management of Local Government Financial Reports. The state not only enforces the law repressively, but also through legal arrangements that are educative and corrective. This regulation also encourages institutional integration between auditors, internal supervisors, and fiscal policy makers. With this approach, the legal reconstruction of the administrative sanction system will be an important part of the overall reform of the regional financial system.

Therefore, the formulation of new regulations that adopt a progressive performance-based sanction system is a strategic step to close the existing legal loopholes while increasing the effectiveness of administrative law enforcement. This regulation does not merely function as a reaction to violations, but also as a means of social engineering to improve the institutional behavior of local governments. By prioritizing the principles of adaptivity and substantive justice, the legal system will create a balance between the fiscal rights and obligations of local governments. This system design also encourages the active role of supervisory institutions and technical ministries in realizing financial accountability. Therefore, legal reconstruction based on the normative design of progressive sanctions needs to be immediately realized in the national legislative agenda. This is to maintain the integrity of state financial governance and ensure sustainable legal compliance.

Policy Implications: Normative, Institutional, Fiscal, and Socio-Political Impacts

The implementation of a performance-based progressive sanction system in regional financial management has significant normative implications in the administrative law framework. The law enforcement paradigm that was originally reactive and oriented towards post-reporting sanctions needs to be shifted to preventive and adaptive to potential violations. This requires that the law is not only punitive, but also a means of early control of non-compliance (Pramono 2020). In this context, the legal position of the Government Internal Audit Apparatus (APIP) and the Supreme Audit Agency must be strengthened as enforcers of administrative norms, not merely as technical auditors. The strengthening of this role should be explicitly included in the laws and regulations governing the functional relationship between oversight institutions and local financial entities. Thus, there will be integration between the legal supervision system and the fiscal allocation system in a complete and consistent regulatory framework.

The institutional implications of implementing this system include the need to restructure the duties and authorities of key actors in local financial management. APIP (Government Internal Supervisory Apparatus) should be authorized as the implementer of administrative sanctions at mild to moderate levels, including the obligation to follow up violations with corrective mechanisms. The Ministry of Home Affairs and the Ministry of Finance need to be given normative authority as policy determinants of fiscal incentives and disincentives based on the results of performance and compliance evaluations. On the other hand, the Supreme Audit Agency and the Financial and Development Audit Agency should be given the role of final supervisor over the implementation of the system and as integrity auditors over the implementation of sanctions. To support the implementation of this system, thorough training is needed for local financial management officials to understand the principles, indicators, and procedures of performance-based sanctions. In addition, it is necessary to develop an integrated data system based on risk mapping (risk-based compliance platform) to accelerate administrative responses to violations.

Fiscally, the application of progressive sanctions is projected to provide efficiency to the State Budget (APBN) and Regional Budget (APBD) by reducing the level of findings and state losses. By exerting legal pressure on non-compliant regional entities, it is expected that budget management practices will become more disciplined and transparent. In this regard, the fiscal reward system also needs to be expanded to consider not only the achievement of an unqualified opinion (WTP), but also the history of compliance and track record of follow-up to the findings of the Supreme Audit Agency. The Regional Incentive Fund (DID) mechanism should be reformulated to reflect substantive rather than purely administrative performance. This will create a fair relationship between financial achievements and fiscal rewards. With this policy, the national fiscal will be more focused on strengthening governance and not just budget distribution.

From a social and political perspective, this sanction system has the potential to increase public confidence in the integrity of regional financial administration. The public will perceive that the central government is present to ensure compliance and take action against violations openly and fairly. However, this policy can also cause political resistance from local governments, especially if the reduction or freezing of transfer funds is carried out drastically without an educative process. Therefore, the policy transition approach must be carried out gradually through socialization, training, and mentoring so that local governments do not only feel controlled but also coached. The involvement of civil society and academics in monitoring the system is also important to strengthen the social legitimacy of the sanctions policy. Thus, the legal approach can go hand in hand with political and social approaches within the framework of responsive governance.

The implementation of this system also has implications for the design of fiscal policies that are more adaptive and based on performance data. The central government needs to establish measurable and dynamic indicators of fiscal compliance in order to follow the development of fiscal and institutional capacity in the regions. This kind of policy design will encourage the realization of equality of treatment between regions based on the principle of fiscal justice. Assessment of the success of this system should also be conducted regularly through outcome-based evaluation and not just administrative output. This system will create positive incentives for regions to innovate in improving financial governance without waiting for external pressure. Therefore, the progressive sanction system not only has an impact on law enforcement, but also becomes a strategic instrument in the formation of a more effective national fiscal policy.

By considering the overall normative, institutional, fiscal, social, and political implications, it can be concluded that a progressive performance-based sanction system is an urgent need in order to strengthen regional financial accountability. This system presents law as a tool that is not only repressive, but also corrective and educative. This policy requires a change in the pattern of relations between the center and the regions that is more rational and performance-based, not merely on a political or administrative approach. Within the framework of the rule of law, integration between legal instruments and fiscal policy will strengthen the government's position in preventing budget leakage and improving fiscal discipline. Therefore, the implementation of this system must be immediately formulated in clear, structured and binding regulations. That way, the state is able to protect public finances and enforce the law in a fair and sustainable manner.

CONCLUSION

The dynamics of non-compliance with statutory provisions in the management of Local Government Financial Statements (LKPD), it can be concluded that the current administrative sanction system does not have sufficient legal effectiveness in preventing state losses. The absence of a multilevel sanction structure, weak legal coercion against repeated violations, and the absence of a correlation between violations of the Local Government Financial Report and fiscal consequences are concrete evidence of the failure of the regional financial supervision system. In the context of administrative law, this condition reflects the weak function of law as an instrument of control and correction of public bureaucratic behavior. Therefore, it is necessary to design a progressive performance-based sanction system that prioritizes the principles of proportionality, transparency, and responsiveness. This approach is in line with the theory of Responsive Regulation which emphasizes the gradual escalation of law enforcement based on

the level of violation and track record of compliance. With the implementation of this system, state administrative law can function optimally as a pillar of public financial accountability as well as a systemic prevention mechanism against potential state losses in the future.

To ensure the effectiveness of the performance-based progressive sanction system, the following policy measures are recommended: (1) Regulative dimension, immediately revise Law No. 17/2003 and Law No. 15/2004, as well as the establishment of Government Regulations and Ministerial Regulations that explicitly regulate the classification of violations, performance indicators, and fiscal incentive or disincentive mechanisms; (2) Institutional dimension, restructuring the authority of supervisory and fiscal institutions, by integrating the roles of the Supreme Audit Agency, APIP (Government Internal Audit Apparatus), Ministry of Home Affairs, and Ministry of Finance in one risk-based information system; (3) Technological dimension, building a real-time data platform capable of detecting non-compliance early and automating the ladder of administrative sanctions; and (4) Educational dimension, realized through socialization of new regulations and technical training for local officials to foster a culture of compliance. By implementing these recommendations in an integrated manner, the state will be able to build a local finance legal system that is not only repressive, but also adaptive, corrective, and sustainable.

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