Analysis of the financial performance and financial ratio analysis of the regional government of North Sumatra province for the 2016-2022 fiscal year

Análise do desempenho financeiro e análise do rácio financeiro do governo regional da província de Sumatra do Norte para o ano fiscal de 2016-2022

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ABSTRACT
Regional autonomy is the right, authority, obligation of regions to regulate and manage their own households in accordance with applicable laws and regulations in accordance with Article 1 of UU No. 32 of 2004. The implementation of the regional autonomy system requires regional government officials to be able to manage finances in their regions, effectively and efficiently. The aim of this research is to compare government financial performance in districts/cities in North Sumatra. By examining the results of previous research, and wanting to see the differences between each study in using theory and research methods. The research was carried out by SLR method with content analysis techniques and literature review methods, namely reviewing the differences in the content of each article. The research population is all articles related to the financial performance of regional governments in North Sumatra. The research sample was 4 articles related to
the financial performance of local governments in North Sumatra and the sample was selected using purpose sampling.

**Keywords:** financial ratios, regional government financial performance, regional government financial analysis.

**RESUMO**
A autonomia regional é o direito, a autoridade e a obrigação das regiões de regular e gerir as suas próprias famílias, em conformidade com as leis e regulamentos aplicáveis, em conformidade com o artigo 1.º da UU n.º 32 de 2004. A implementação do sistema de autonomia regional exige que os funcionários dos governos regionais sejam capazes de gerir as finanças nas suas regiões de forma eficaz e eficiente. O objetivo desta pesquisa é comparar o desempenho financeiro do governo em distritos/cidades em Sumatra do Norte. Examinando os resultados de pesquisas anteriores, e querendo ver as diferenças entre cada estudo no uso da teoria e métodos de pesquisa. A pesquisa foi realizada pelo método SLR com técnicas de análise de conteúdo e métodos de revisão de literatura, ou seja, revisar as diferenças no conteúdo de cada artigo. A população de pesquisa é todos os artigos relacionados ao desempenho financeiro dos governos regionais em Sumatra do Norte. A amostra de pesquisa foi de 4 artigos relacionados ao desempenho financeiro de governos locais em Sumatra do Norte e a amostra foi selecionada usando amostragem de propósito.

**Palavras-chave:** taxas financeiras, desempenho financeiro do governo regional, análise financeira do governo regional.

**1 INTRODUCTION**

One important aspect in the implementation of regional autonomy and decentralization that is carefully regulated is the issue of managing regional finances and regional budgets. To realize broad, real and responsible regional autonomy and decentralization, regional financial management is needed which is able to supervise and regulate regional financial policies. economically, efficiently, effectively, transparently and accountably (Mardiasmo, 2009). The success of regional autonomy cannot be separated from the performance of regional governments in managing their finances in an orderly manner, complying with statutory regulations, efficiently, economically, effectively, transparently and responsibly. Financial management performance assessments are carried out on the Regional Government Budget carried out by regional governments which are obliged to submit regional financial accountability reports to assess whether the regional government has succeeded in carrying out its duties well or not.

According to UU Number 32 of 2004 article 1 paragraph 5, regional autonomy is the right, author and obligation of an autonomous region to regulate and manage
government affairs and the interests of local communities in accordance with statutory regulations. (UU No. 32 of 2004, 2004) In this regard, the role of regional government is crucial in determining the success or failure of creating the independence that regional governments always desire. Regional autonomy is believed to be the best way to encourage regional development and replace the centralized development system which is considered by some parties to be the cause of slow development in the regions and increasing inequality between regions.

Financial performance is the result of the realization of income and expenditure which is prepared and measured on an accrual basis (Hasibuan, 2020). Financial performance can be concluded as a picture of the financial condition of a company or the finances of an agency which can be measured in a certain way which can be in the form of realization of income and expenditure which is prepared on an accrual basis which produces a conclusion about the success of the company or agency in managing finances (Darise, 2008). Financial report analysis is an activity to interpret figures in financial reports order to assess financial performance, the results of which will be used as a basis for making economic, social or political decisions (Mahmudi, 2016). Analysis of financial reports is considered be an important managerial tool for evaluating the strengths and weaknesses of a company.

By using financial ratio analysis, the government can measure the extent of government activity in assessing regional independence in financing the implementation of regional autonomy with the regional independence ratio, measure the extent of effectiveness and efficiency in realizing regional income, measure the contribution of sources of income in forming regional income with the activity/ harmony and can determine the growth of income and expenses with the growth ratio.

Therefore, this research was carried out based on the research objective which was to compare the financial performance of districts in North Sumatra with financial ratios. So that we can see which districts can produce good financial performance.

2 LITERATURE REVIEW

Financial performance is the result of the realization of income and expenditure which is prepared and measured on an accrual basis. Financial performance can be concluded as a picture of the financial condition of a company or the finances of an agency which can be measured in a certain way which can be in the form of realization of income and expenditure which is prepared on an accrual basis which produces a conclusion about
the success of the company or agency in managing finances (Darise, 2008, Mustika, 2021).

Financial report analysis is an activity to interpret figures in financial reports in order to assess financial performance, the results of which will be used as a basis for making economic, social or political decisions (Mahmudi, 2016). Analysis of financial reports is considered to be an important managerial tool for evaluating the strengths and weaknesses of a company. Financial condition is a broad concept that describes the financial health of local governments (Turley, Robbins, & McNena, 2015).

The research (Gresi et al, 2023) aims to determine the financial management performance of Tankung Balai City in the period 2018 to 2022 which was studied using quantitative descriptive methods using regional financial ratio parameters such as the independence ratio, effectiveness and efficiency ratio, growth ratio, ratio degree of decentralization and growth ratio. The research results show that the independence ratio is included in the level of participatory independence, the effectiveness ratio is classified as ineffective, the efficiency ratio is classified as efficient, the capital expenditure ratio is classified as low, the operational expenditure ratio is classified as high, the decentralization ratio is classified as low, the growth ratio consists of the growth ratio of Regional Original Income, the regional income ratio and operational expenditure ratio are relatively low, while the capital expenditure ratio is relatively high.

The research (Ahmad Fadli et al, 2023) aims to determine the level of financial performance in Langkat Regency, North Sumatra Province. The data used is the regional financial report of the Langkat Regency Government in 2018-2020. The technique used is five ratios, namely the regional financial independence ratio, the effectiveness ratio, Efficiency ratio. Compatibility ratio and growth ratio. The results of the research show that the financial independence ratio of Langkat district has a very low performance, the effectiveness ratio is effective, the efficiency ratio is not effective, the harmony/activity ratio is not good and the growth ratio is negative.

In research (Aufia Zahra, et al. 2023) The aim of this research is to analyze the financial performance of the Medan City Government from 2017 to 2021 in terms of the degree of decentralization ratio, regional financial independence ratio, Regional Original Income effectiveness ratio, spending efficiency ratio, and regional financial dependency ratio. This research is descriptive quantitative research that uses secondary data, which is sourced from the Medan City Government Budget Realization Report from 2017 to 2021. The results of this research show that the financial performance of the Medan City
Government is seen from the decentralization ratio with an average value of 37% including sufficient category, the regional financial independence ratio with an average value of 64% is at a medium level with a participatory relationship pattern, the Regional Original Income effectiveness ratio with an average value of 121% is classified as very effective, the expenditure efficiency ratio with an average value of 92% is classified as less efficient and the regional financial dependency ratio with an average value of 59% is said to be very high.

The research (Heri Faisal, 2020) aims to determine the financial performance of the Tapanuli district government in the middle of 2016-2018. The results of this research show that the financial performance of the Central Tapanuli district local government is generally said to be quite good, even though the financial ratio is still relatively low, dependence on the central/provincial government is still very high and the receipt of Regional Original Income has not reached the budgeted target. The Tapanuli Regency Government is updating regional taxpayer data, exploring new potential sources of regional income, and increasing the socialization of the benefits of taxes and levies.

3 METHODS

The research was carried out using SLR (Systematic Literature Review) with content analysis techniques, namely reviewing the differences in the content of each article. The research population is all articles related to Regional Government Financial Performance. The research sample was 4 articles related to financial ratios and regional government financial performance, the sample was selected using purpose sampling with the criteria of articles that were relevant to the research obtained during the specified research time period, namely articles obtained within 7 days and articles published in 2020-2023.

4 RESULTS AND DISCUSSION

4.1 RESULTS

After carrying out content analysis by looking at the entire article, we get differences in objectives, theories, methodology and research results.

The research objectives of each article are:

<table>
<thead>
<tr>
<th>Article</th>
<th>Research purposes</th>
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</thead>
<tbody>
<tr>
<td>1.</td>
<td>This research aims to analyze the Financial Performance of the Langkat Regency Regional Government 2018-2020. (Ahmad Fadli, Marliyah, Nur Fadhilah Ahmad Hasibuan, 2023)</td>
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</tbody>
</table>
The research methodology for each article is:

<table>
<thead>
<tr>
<th>Article</th>
<th>Research methodology</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>The secondary data used is data from the 2018 Langkat district government financial report which is documentation. The documentation in this research is in the form of a financial report in the form of the Langkat Regency Government Regional Revenue and Expenditure Budget Realization Report obtained from the official website of the Ministry of Finance <a href="http://www.djpk.kemenkeu.go.id">www.djpk.kemenkeu.go.id</a> for 2018-2020, quantitative research. (Ahmad Fadli, Marliyah, Nur Fadhilah Ahmad Hasibuan, 2023)</td>
</tr>
<tr>
<td>3.</td>
<td>This research is descriptive quantitative research that uses secondary data, which is sourced from the Medan City Government Budget Realization Report from 2017 to 2021. The data collection technique uses documentation techniques, data collection was obtained from the office of the City's Regional Financial and Asset Management Agency (BPKAD). Medan. (Aufia Zahra Fadillah, Sri Sudiarti, 2023)</td>
</tr>
<tr>
<td>4.</td>
<td>The data used in this research is secondary data. The secondary data is the 2016-2018 Central Tapanuli Regency Government Financial Report, quantitative descriptive. (Heri Faisal Harahap, 2020)</td>
</tr>
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</table>

The research population for each article is:

<table>
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<th>Article</th>
<th>Population</th>
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Research samples from each article are:

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<th>Article</th>
<th>Sample</th>
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Sources: Data Analyzed by Author (2023).

After conducting a literature review, differences in research results from each article were obtained, namely:

<table>
<thead>
<tr>
<th>Article</th>
<th>Research result</th>
</tr>
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<tbody>
<tr>
<td>1.</td>
<td>1. Financial performance seen from the independence ratio obtained an average of 9.40%, indicating that financial performance is very low. 2. Financial performance seen from the effectiveness ratio in managing local revenue obtained an average of 102.92%, indicating that financial performance includes effective criteria. 3. Financial performance is seen from the efficiency ratio with an average of 1338.52%, indicating a value of more than 100% is declared inefficient. 4. Financial performance seen from the compatibility ratio (spending) averages 47.83%, indicating a value below 50% is considered good. 5. Financial performance seen from the growth ratio of Langkat Regency for the year obtained an average of 7.78%, indicating negative growth, namely tending to decline. (Ahmad Fadli, Marliyah, Nur Fadhilah Ahmad Hasibuan, 2023)</td>
</tr>
<tr>
<td>2.</td>
<td>1. The regional financial independence ratio has an average that is categorized as participatory because the average results are in the 50%-75% interval, meaning the government is trying to maximize Regional Original Income outside of the assistance received. 2. The effectiveness ratio is categorized as ineffective with an interval below 100%. Realized Regional Original Income is still below what was budgeted. 3. The efficiency ratio is categorized as sufficient with an average below the 100% interval, even though the costs incurred to achieve regional income realization are almost equal. 4. Activity Ratio which consists of the ratio of operating expenditure and capital expenditure. The local government of Tanjung Balai City places operational expenditure as a priority compared to capital expenditure. 5. The growth ratio consisting of the Regional Original Income growth ratio, regional income ratio, operating expenditure growth ratio did not experience significant changes, but the capital expenditure growth ratio, on the contrary, experienced increased growth. (Gresi Lusina Br. Tobing, Lima Romaito Br. Situmorang, Zoyce Natalia Br. Tarigan, Eva Marlina Br. Sianturi, Hamonangan Siallagan, Rizki Christian Sipayung, 2023)</td>
</tr>
</tbody>
</table>
| 3.      | 1. The ratio of the degree of decentralization of the Medan City Government during 2017-2021 is sufficient to say that the Medan City Government is able to carry out regional development by increasing Regional Original Income, and also the higher the regional government's ability to implement decentralization. 2. The independence ratio of the Medan City Government during 2017-2021 is moderate. It can be said that the level of independence of the City of Medan in 2017-2021 has been able to carry out its regional autonomy affairs because the role of the central government has begun to decrease. 3. The Medan City Government's Regional Original Income effectiveness ratio during 2017-2021 is very effective. It can be said that the Medan City Government's ability to realize the planned regional original income compared to the targets set based on regional potential. 4. The efficiency ratio of the Medan City Government during 2017-2021, which is less efficient, it can be said that the realization of costs incurred is still greater than the realization of income received. 5. The regional financial dependency ratio of the Medan City Government, which is very high, shows that the
4. The financial performance of the Regional Government of Central Tapanuli Regency is generally said to be quite good, although the degree of decentralization ratio is still relatively low, dependence on the Central/Provincial Government is still very high and Regional Original Income revenues have not reached the budgeted targets. It is hoped that this research can provide input to the Central Tapanuli Regency Government so that it can update data on entrepreneurs who are regional taxpayers by collaborating with related agencies such as the Central Statistics Agency, the Integrated Investment and Licensing Service, the Trade Service, and so on. So that the calculation of Regional Original Income potential is in accordance with the actual potential amount. (Heri Faisal Harahap, 2020)

Sources: Data Analized by Author (2023).

4.2 DISCUSSION

Related to the Analysis of Regional Financial Reports for North Sumatra Province for the 2016-2022 Fiscal Year. The most widely used methodology is a quantitative descriptive research methodology using descriptive statistics using the North Sumatra Province Regional Financial Report for 2018-2022 and using measuring instruments for the degree of decentralization ratio, regional financial independence ratio, Regional Original Income effectiveness ratio, spending efficiency ratio, financial dependency ratio, regions, effectiveness and efficiency ratios, degree of decentralization ratios and growth ratios with document research instruments. Based on previous research.

The financial performance of the Langkat Regency Regional Government seen from the independence ratio shows that in 2018 the independence ratio was 7.57%; in 2019 there was a decrease of 9.66% and in 2020 it was 10.97% and an average of 9.40%. The Regional Independence Ratio is an illustration of regional dependence on the level of participation by the community in the field of regional development. The financial performance of the Langkat Regency Regional Government, the effectiveness ratio of the Langkat Regency Government, measured over 3 years, shows that in 2019 and 2020 there was an increase, but in 2018 the effectiveness ratio decreased. For 2018 the effectiveness ratio was 94.88% which was considered ineffective because it was still less than 100%, in 2019 it was 110.59% and in 2020 it was 103.28% which was included in the effective category because the value was more than or above 100%. For 2018-2020 the average is 1338.52%. Financial performance based on the efficiency ratio of Langkat Regency has a value for 2018 of 1394.91%; in 2019 amounted to 1327.61%; and in 2020 it was 1293.04% with an average of 1338.52% for 2018-2020. The efficiency ratio describes the comparison between the amount of costs incurred to obtain income and the actual income received. The research results show that the Langkat Regency Government's compatibility ratio calculation for 2018 was 47.57%; 2019 was 45.69% and 2020 was
50.24%. The average result of 47.83% states that most of the funds owned by Langkat Regency are classified as good because they are below 50%. The results of the calculation of the Langkat Regency government's regional income growth ratio were measured over 3 years, where in 2020 it experienced a decline. For 2019 the revenue growth ratio was 22.56% and in 2020 it was 0.78%. The average growth ratio is 7.78%.

The Independence Ratio shows that the independence of Tanjung Balai City from 2018 to 2022 is in the interval 50% - 75%, namely with an average level of 58.71%. This level shows a pattern of participatory relations between the people of Tanjung Balai City and the local government. Based on the calculation of the Regional Original Income effectiveness ratio, it is known that the effectiveness of Tanjung Balai City's Regional Original Income was the largest in 2018 at 107.79%, namely that the regional government succeeded in exceeding the determined regional original revenue budget. However, the average effectiveness of Tanjung Balai City's financial performance is classified as ineffective because the results show an average interval below 100%, namely 81.61%. It was concluded that the budgeted Regional Original Income target had not been realized perfectly, further development was needed to increase Regional Original Income achievement. Tanjung Balai City Efficiency Ratio based on the calculation of Tanjung Balai City's financial ratio's, it is known that the average efficiency in 2018-2022 is 93.32%. Based on the efficiency assessment criteria, 93.32% < 100% has efficiency criteria. Regional expenditure is still below total realized income, indicating that regional governments are minimizing the use of income for regional expenditure. In 2020, capital expenditure issued by the local government of Tanjung Balai City was very high compared to the previous and following years, namely 65.82 billion with an average of 11.03%. However, overall the capital expenditure ratio is categorized as low with a five year average of 5.75%. This shows that the allocation of total spending to increase total regional assets and wealth whose long-term use can be categorized as low. Tanjung Balai City's operating expenditure ratio, based on 2018-2022 data, produces an overall average of 94.45%, which is categorized as a high ratio, which means the government allocates more expenditure funds by focusing attention on regional routine operational expenditures such as personnel expenditures. Tanjung Balai City's capital expenditure ratio based on calculations between 2018-2022 shows the highest average in 2020 at 135.83% and the lowest in 2018 at -20.67%. This illustrates that in 2020 the Tanjung Balai City government spent a lot of money for regional investment needs. The total five-year average capital expenditure growth ratio is 18.56%.
The ratio of the degree of decentralization of the Medan City Government during 2017-2021 is sufficient to say that the Medan City Government is able to carry out regional development by increasing Regional Original Income, and also the higher the regional government’s ability to implement decentralization. The independence ratio of the Medan City Government during 2017-2021 is moderate. It can be said that the level of independence of Medan City in 2017-2021 has been able to carry out its regional autonomy affairs because the role of the central government has begun to decrease. The Medan City Government's Regional Original Income effectiveness ratio during 2017-2021 is very effective. It can be said that the Medan City Government's ability to realize the planned regional original income compared to the targets set based on regional potential. The efficiency ratio of the Medan City Government during 2017-2021 is less efficient, it can be said that the realization of costs incurred is still greater than the realization of income received. The regional financial dependency ratio of the Medan City Government is very high, indicating that the Medan City Government is still very dependent on transfer income obtained from the Central Government and Provincial Government.

The financial performance of the Regional Government of Central Tapanuli Regency is generally said to be quite good, although the degree of decentralization ratio is still relatively low, dependence on the Central/Provincial Government is still very high and Regional Original Income revenues have not reached the budgeted targets. It is hoped that this research can provide input to the Central Tapanuli Regency Government so that it can update data on entrepreneurs who are regional taxpayers by collaborating with related agencies such as the Central Statistics Agency, the Integrated Investment and Licensing Service, the Trade Service, and so on. So that the calculation of Regional Original Income potential is in accordance with the actual potential amount.

5 CONCLUSION

Based on the research results and discussion, it can be concluded that the financial performance of Regency/City Governments in North Sumatra is generally said to be quite good, although the regional financial independence ratio has an average that is categorized as participatory, which means the government is trying to maximize Regional Original Income outside of the assistance received. If we look at the effectiveness ratio in managing local revenue, the district/city government in North Sumatra shows that financial performance includes effective criteria. It is hoped that this research can provide
input to district/city governments in North Sumatra so that they can update data on entrepreneurs who are regional taxpayers by collaborating with related agencies such as the Central Statistics Agency, the Integrated Investment and Licensing Service, the Trade Service, etc. So that the calculation of Regional Original Income potential is in accordance with the actual potential amount. Furthermore, the Regency/City Government in North Sumatra can explore the potential for new local sources of income by utilizing natural resources in the Regency/City in North Sumatra, such as opening new tourist attractions managed by the Regional Government in collaboration with the community so that it can contribute to the receipt of Regional Original Income, one of which is parking fees. Apart from that, the Regency/City Government in North Sumatra must also increase the socialization of the benefits of taxes and levies to the community. Socialization can be carried out by deploying personnel in markets or crowded places, so as to increase public awareness of paying taxes and levies.
REFERENCES


Regional Government UU No. 32 of 2004, concerning Regional Government.
