Factors affecting financial performance in regional governments, legislative measures & audit findings of The Financial Audit Agency (BPK)

Fatores que afetam o desempenho financeiro das administrações regionais, medidas legislativas e resultados da auditoria da Agência de Auditoria Financeira (BPK)

DOI: 10.34117/BJDV10N1-014

Recebimento dos originais: 01/12/2023
Aceitação para publicação: 03/01/2024

Henita Guru Singa
Master in Accounting
Institution: Universitas Sumatera Utara
Address: Jl. Prof. TM Hanafiah 12, USU Campus Medan
E-mail: henitagurusinga11@gmail.com

Sri Cahyati
Master in Accounting
Institution: Universitas Sumatera Utara
Address: Jl. Prof. TM Hanafiah 12, USU Campus, Medan, Indonesia
E-mail: sri.cahyati@student.usu.ac.id

Sri Handayani Limbong
Master in Accounting
Institution: Universitas Sumatera Utara
Address: Jl. Prof. TM Hanafiah 12, USU Campus, Medan, Indonesia
E-mail: sri.handayani@student.usu.ac.id

Iskandar Muda
Doctors in Accounting
Institution: Universitas Sumatera Utara
Address: Jl. Prof. TM Hanafiah 12, USU Campus, Medan, Indonesia
E-mail: iskandarl@usu.ac.id

ABSTRACT
The aim of this research is to identify the determinants of financial performance of both the central government and regional governments. This research uses a meta-analysis approach with a sample of several articles, both from academic journals, theses or theses that examine government financial performance published from 2015 to 2022. The results of the research show that there are several factors that determine regional government financial performance, namely the level of wealth regions, size of local government, leverage, local tax revenues, audit findings. On the other hand, the level of dependence on central government, capital expenditure and legislative size are not proven to be factors that influence local government financial performance.

Keywords: government financial performance, level of regional wealth, size of regional government, leverage, regional tax revenue, audit findings.
RESUMO
O objetivo desta investigação é identificar os determinantes do desempenho financeiro quer da administração central, quer das administrações regionais. Esta pesquisa usa uma abordagem de metanálise com uma amostra de vários artigos, tanto de revistas acadêmicas, teses ou teses que examinam o desempenho financeiro do governo publicado de 2015 a 2022. Os resultados da investigação mostram que existem vários fatores que determinam o desempenho financeiro dos governos regionais, nomeadamente o nível de regiões ricas, a dimensão dos governos locais, o efeito de alavanca, as receitas fiscais locais, os resultados das auditorias. Por outro lado, o nível de dependência da administração central, as despesas de capital e a dimensão legislativa não estão provados como fatores que influenciam o desempenho financeiro da administração local.

Palavras-chave: desempenho financeiro do governo, nível de riqueza regional, tamanho do governo regional, alavancagem, receita fiscal regional, constatações de auditoria.

1 BACKGROUND

In the Regional Revenue and Expenditure Budget (APBD) which is the main policy instrument for regional governments. Where the APBD occupies a central position in efforts to develop the capability, efficiency and effectiveness of regional government. Regional financial performance is also seen from the results of the Regional Government Financial Report (Utama, 2020). The results of regional government financial reports must be audited by the Indonesian Financial Audit Agency (BPK) to test the feasibility of the financial reports to see whether there is fairness between the budget spent and the realization of the work program. If there are indications of problems that result in regional financial losses, the BPK provides an audit opinion based on a financial examination of regional financial reports. The BPK's audit opinion is actually an objective and professional assessment of the fairness of regional financial reports (Heriningsih & Marita, 2013).

When regional autonomy is implemented, the central government gives authority to regional governments to regulate and manage government affairs themselves according to the principles of autonomy and assistance duties based on law. Several laws and regulations relating to the implementation of regional autonomy and relating to regional financial management include: (a) Law Number 22 of 1999 concerning Regional Government; (b) Law Number 25 of 1999 concerning central and regional financial balance; (c) Government Regulation (PP) No. 104 of 2000 concerning Balancing Funds; (d) Government Regulation Number 105 of 2000 concerning Regional Financial
Management and Accountability; (e) Government Regulation Number 108 of 2000 concerning Procedures for Accountability of Regional Heads.

Performance measurement is one way that local governments can use to achieve good governance. Good governance is characterized by 3 pillars of basic elements that are interconnected with each other, namely transparency, participation and accountability. Article 4 PP No. 105 of 2000 concerning Regional Financial Management and Accountability emphasizes that regional financial management must be carried out in an orderly manner, in compliance with applicable laws and regulations, efficiently, effectively, transparently and responsibly with attention to justice and compliance. There are two types of performance measurement in regional government, namely financial performance and non-financial performance (Mahsun, 2006, Sadalia et al., 2019, Irawati et al., 2019, Rahmi et al., 2022). According to Mahmudi (2010), there are 2 types of regional financial sources, namely regional financial sources that come from regional revenues that have been determined by statutory regulations and regional financial sources that come from certain efforts made by the government whose results are obtained several years later.

Measuring regional government performance can be measured using government financial performance, one of which is by using increased regional independence, which provides an indication of reduced financial dependence on the central government (Ajani, Akram and Handajani 2016). Efforts to increase local original income, whether sourced from regional taxes, regional levies, regional wealth proceeds or other legitimate PAD, need to continue to be pursued to support regional financing. (Julitawati, Darwanis and Jalaluddin 2012, Abdullah, Asmawanti and Febriansyah 2015).

One indicator that shows the level of regional dependence on the central government is how much balancing funds are provided, which consist of general allocation funds (DAU) which is a form of transfer of central government funds to regional governments originating from the APBN which is allocated with the aim of equalizing financial capacity between regions to fund regional needs in the context of implementing decentralization; special allocation funds (DAK) are funds sourced from APBN revenues allocated to certain regions with the aim of helping to fund special activities which are regional affairs and in accordance with national priorities; and also profit sharing funds (DBH) are funds sourced from APBN revenues which are allocated to regions based on a certain percentage figure to fund regional needs in the context of implementing decentralization, the aim of which is to improve the vertical balance
between the center and the regions by taking into account the potential of producing regions. DAU has a dominant role compared to other funds to be optimized to accelerate regional development and DAK itself is used for the special interests of the region (Jauhar, 2016).

2 LITERATURE REVIEW

2.1 CENTRAL GOVERNMENT FINANCIAL PERFORMANCE

Financial performance is performance that is assessed based on numbers in units of monetary value. Non-financial performance is assessed not based on numbers in units of monetary value. The regional government as the agent in carrying out the mandate given by the community as the principal party, the regional government must improve its financial performance.

Minister of Home Affairs Regulation Number 13 of 2006 concerning Guidelines for Regional Financial Management implicitly states that performance is the output of regional government activities or programs related to budget use using measurable indicators, both in quality and quantity. Regional government financial performance reflects the achievements of planned policies during a certain period as measured by certain financial indicators (Ayuningsih, 2016).

Financial performance can be measured by looking at the efficiency of realization of government budget allocations (Julitawati, Darwanis and Jalaluddin 2012). To see the results of the realization of regional government budget allocations, the regional government will report the realization in the Regional Government Implementation Report (LPPD). In Law of the Republic of Indonesia Number 32 of 2004 Article 10 and Article 27 (2) concerning Regional Government confirms that as a form of accountability in carrying out regional autonomy, regional governments are required to submit LPPD to the central government (Mustikarini and Fitriasari 2012).

The purpose of measuring regional government financial management performance according to Sinambela, Saragih & Sari (2018) is to fulfill three purposes, namely: to improve government performance, performance measures are intended to help the government focus on the goals and objectives of work unit programs, so that in the end it will increase effectiveness in providing public services. To allocate resources and make decisions, to realize public accountability and improve institutional communication.
2.2 REGIONAL FINANCIAL REPORT

As a concrete effort to realize transparency and accountability in state/regional financial management is the submission of government financial accountability reports that meet the principles of being timely and reliable and prepared by following generally accepted government accounting standards (SAP). This is regulated in Law no. 1 of 2004 concerning State Treasury, PP No. 58/2005, PP No.38/2007, Permendagri No. 65/2007 and Minister of Home Affairs Regulation no. 13/2006. All of these regulations require that the form and content of the APBN/APBD implementation accountability report be prepared and presented in accordance with the SAP as determined by government regulations.

2.3 REGIONAL WEALTH LEVEL

The level of regional wealth reflects the region's ability to optimize every potential source of regional financing. Therefore, PAD is often used as an indicator of regional wealth levels (Sedyaningsih, 2015). The increase in PAD is expected to be a stimulus to increase economic growth and also further strengthen the independence of regional governments (Noviyanti and Kiswanti 2016).

2.4 LEVEL OF DEPENDENCE ON THE CENTER

This level of dependence is indicated by the large amount of balancing funds (especially DAU) transferred to regional governments to finance regional expenditure (Sedyaningsih, 2015). Through the funds that have been provided, the central government will monitor the use of DAU to ensure that regional governments have optimized the use of these funding sources to improve their financial performance (Noviyanti and Kiswanti 2016).

2.5 REGIONAL / CAPITAL EXPENDITURES

Regional/capital expenditure is expenditure carried out by regional governments that has benefits for more than one period (Muda and Ridha, 2018). This capital expenditure can be in the form of procurement of regional assets (for example, regional infrastructure development) which are used to improve public services. According to Ayinde. et al. (2015) said that government capital expenditure is expenditure incurred by the government on certain projects to improve and advance the ease of life and comfort of the country for a long period of time, usually more than 1 year. This can increase the
productivity and welfare of the community. The consequence of this spending is the emergence of routine spending, for example for maintenance purposes (Andirfa, Basri and Majid 2016). Law of the Republic of Indonesia Number 32 of 2004 Article 167 paragraph 1 states explicitly that regional spending must be used to provide protection and improve the quality of life of the community. This goal can be realized if local governments strive to improve the quality of their public services, both in the fields of education, health, provision of social facilities, public facilities, and development of the social security system (Marfiana and Kurniasih 2013).

2.6 LOCAL GOVERNMENT SIZE (SIZE)

The size of regional government is reflected in total regional government assets (Noviyanti and Kiswanti 2016). These total assets indicate resources that can potentially be used to improve local government performance. Regional governments are required to provide good and comprehensive reporting regarding the mandatory disclosure of these assets (Marfiana and Kurniasih 2013).

2.7 LEGISLATIVE MEASURES

Legislative size is measured by the number of regional legislative members. The regional legislative body (in this case the Regional People's Representative Council/DPRD) acts as a public representative in supervision of the regional government (Abdillah, 2016). The DPRD has the function of carrying out supervision to ensure that regional governments have used the budget efficiently and effectively to improve public services and regional government performance (Rochmah, 2015).

2.8 FINANCIAL AUDIT AGENCY (BPK) AUDIT FINDINGS

The audit findings of the Financial Audit Agency (BPK) show alleged violations of internal control and legislation carried out by a region. This finding was stated in the audit report on regional government financial reports (Noviyanti and Kiswanti 2016, Purba et al., 2021). The BPK will carry out examinations of regional government financial reports to ensure the fairness of presentation in terms of everything that is material, by referring to generally accepted accounting principles as regulated in government accounting standards.
2.9 FINANCIAL PERFORMANCE ANALYSIS

The performance of a government shows how the implementation of regional autonomy is going, so this is very important to see and measure. Performance is a description of the achievement of implementing an activity/program/policy in realizing the goals, objectives, mission and vision of the organization. Performance indicators are quantitative and qualitative measures that describe the level of achievement of a predetermined target or objective, taking into account input, output, results, benefits and impact indicators. Performance analysis can be carried out in several parts including the following:

2.10 REVENUE PERFORMANCE ANALYSIS

Analysis of regional revenue performance is generally seen from the realization of revenue and budget. Mahmudi (2010:135) states that analysis of income performance can, among other things, be carried out in the following way.

a. Revenue Variance Analysis

This analysis is carried out by calculating the difference between actual income and budgeted income. Usually the budget difference is informed in the budget realization report presented by the regional government. This budget difference information really helps report users in understanding and analyzing revenue performance. Income Variance can be formulated as follows:

2.11 INCOME REALIZATION – INCOME BUDGET

In principle, the revenue budget is the minimum limit for the targeted amount of revenue that must be obtained by the regional government. The regional government is said to have good revenue performance if it is able to obtain revenue that exceeds the budgeted amount (budget target). On the other hand, if the actual revenue is below the budgeted amount, then this was considered not good.

b. Financial Ratio Analysis

Financial Ratio Analysis is divided into 3, namely:

1) Decentralization degree ratio

This ratio shows the authority and responsibility given by the central government to regional governments to extract and manage revenue. The degree of decentralization ratio can be formulated as follows:

Original Regional Income X 100%
Total Regional Expenditure
The higher the PAD contribution, the higher the regional government’s capacity in implementing decentralization.

2) Regional Financial Independence Ratio

According to Widodo (2000: 150) the independence ratio is a ratio that shows the regional government's own financing of government activities, development of services to the community who have paid regional taxes and levies as a source of PAD compared with regional income originating from other sources, for example Central Government assistance or loans. The formula used to calculate the regional Financial Independence Ratio is as follows:

Original Regional Income X 100%

External Sources of Income

The higher the result, the higher the level of regional independence, which is meaningful also that dependence on assistance from the central government is getting lower. Paul Hersey and Keneth Blancard in Nugroho (2003) who introduced "Relationship Situational" states that conceptually there are several relationship patterns that can be used in the implementation of regional autonomy, especially the implementation of Law no. 25 of 1999 concerning Financial Considerations between the Central and Regional Governments, namely: (a) Instructive Relationship Pattern, the role of the central government is more dominant than the independence of regional government or the region is unable to implement regional autonomy, (b) Consultative Relationship Pattern, central government intervention is starting to decrease and regions are considered to be slightly more capable of implementing regional autonomy, (c) Participatory Relations Pattern, the role of the central government is decreasing considering that the level of independence in the region concerned is close to being able to carry out regional autonomy affairs, (d) Delegative Relations Pattern, central government intervention is no longer exists, because the regions are truly capable and independent in carrying out regional autonomy affairs.

3) Revenue Growth Ratio

The revenue growth ratio aims to find out whether the regional government in the relevant budget year or over several budget periods experienced positive or negative revenue growth in its budget performance. The formula used to determine the income growth of a region is as follows:

\[
\text{PAD Year } t - \text{PAD Year } t - 1 \times 100\%
\]
PAD Year t-1

If the regional government is able to maintain or increase realized income from the previous year then the growth is positive, conversely if the regional government is unable to maintain or increase realized income from the previous year then the growth is negative.

b. Shopping Performance Analysis

Analysis of regional expenditures is very important to evaluate whether regional governments have used APBD economically, efficiently and effectively (value for money). Mahmudi (2010: 155) states that budget analysis is carried out in the following way:

a. Shopping variance analysis

Expenditure variance analysis is an analysis of the difference between actual expenditure and the budget. Expenditure variance analysis can be formulated as follows.

Realized Income - Income Budget

If the actual expenditure is less than the budget amount then the regional government's performance is considered good, conversely if the actual expenditure is greater than the budgeted amount then the budget performance is said to be poor.

b. Shopping Compatibility Analysis

According to Widodo (2000:153) the harmony ratio describes how the Regional Government prioritizes the allocation of its funds to development spending (direct) and routine spending (indirect) optimally. The formula used is as follows:

\[
\begin{align*}
\text{Capital Expenditure Ratio} & = \frac{\text{Total Regional Expenditures}}{\text{Total Shopping}} \\
\text{Operational Expenditure Ratio} & = \frac{\text{Total Operational Expenditures}}{\text{Total Shopping}}
\end{align*}
\]

This ratio describes the regional government's priorities in allocating funds to operational expenditure or capital expenditure. There is no definite standard regarding the ideal ratio of operational and capital expenditure to the APBD, because it is greatly influenced by the dynamics of development activities and the large investment needs required to achieve adequate growth targeted.

c. Shopping Efficiency Analysis
According to Widodo (2000:153) the harmony ratio describes how the Regional Government prioritizes the allocation of its funds to development spending (direct) and routine spending (indirect) optimally. The formula used is as follows:

\[
\text{Shopping Realization} \times 100\% \over \text{Budget}
\]

If the efficiency ratio is less than 100%, then the local government is considered to have implemented budget efficiency. Conversely, if it exceeds 100%, it indicates budget waste.

3 METHOD

Research techniques are a method used to obtain data and information needed in research. The research technique used by researchers is a meta-analysis approach is used in this research to test the hypotheses that have been made and explain the results of the recalculations that have been carried out (Fanani, 2014). The meta-analysis approach aims to combine several similar studies regarding government financial performance research and use statistical techniques to obtain a combination of quantitative data (Eny, Subroto, Sutrisno and Irianto 2014).

The data analysis technique used is quantitative. In this research, a data recapitulation will be made from a summary of statistical procedures contained in the results of research related to the determinants of the financial performance of the regional government under study. This method is carried out specifically to take the output (output) from statistical testing related to the selected variables. This research also uses secondary data in the form of research articles published in various articles, national symposiums and a number of final assignments regarding factors that influence regional government financial performance.

3.1 MEASUREMENT VARIABLES

The dependent variable in this research is the financial performance of local governments in Indonesia, in this study, is a dependent variable which is tested by sharing independent variables, namely the level of dependence on the center which can be seen from how much balancing funds or intergovernmental revenue is obtained from the center and can be referred to by just looking at the general allocation funds (DAU).
Apart from that, the level of regional wealth or prosperity is shown by the general amount of regional original income (PAD) generated. Other variables are capital expenditure or regional expenditure, regional government size by looking at the number of regional assets, leverage, regional audit findings, legislative size, and regional tax revenues.

4 RESULTS AND DISCUSSION

4.1 RESULTS

1. Based on the results of the total sample that has been analyzed, it shows that there is no positive influence on the level of dependence on the center on the financial performance of local governments.

2. Regional wealth empirically has a positive impact on regional government financial performance.

3. The total meta-analysis sample indicates there is no impact of regional/capital expenditure on regional government financial performance.

4. The results show that government size is a factor that positively improves local government financial performance.

5. The results of audit findings or findings of minor deviations in the APBN realization report are acceptable. This will further encourage people to strive for good performance in regional financial management.

6. These results show that there is no positive influence of legislative measures to improve government financial performance.

4.2. DISCUSSION

There are other factors beyond the level of regional wealth (wealth), size of regional government (size), regional spending, and legislative size, and audit findings are expected for future researchers to examine other factors such as local original income, general allocation funds, capital expenditure, internal control and apparatus competency, individual characteristics, job satisfaction influence the government's financial performance.

5 CONCLUSION

This research aims to investigate the factors that really influence the success of local government financial performance in Indonesia. The results of the analysis using a
meta-analysis technique approach conclude that there are 5 (five) factors, namely the level of regional wealth (wealth), size of regional government (size), regional spending, and legislative size, as well as BPK audit findings which are the determinants of this performance. Research findings show that the higher/larger the level of regional wealth (wealth), and the size of the regional government (size), will have a positive impact on the financial performance of the regional government. Meanwhile, BPK audit findings show a negative influence on regional government financial performance.

The results of this research also confirm that the level of dependence on the center, capital expenditure, and legislative size are not factors that can be used to determine the success of local government financial performance. The research results show that there is no significant relationship between these variables and the financial performance of local governments. In this research, it is proven that the variables that often appear in research on regional government financial performance are not necessarily determinants of regional government financial performance.
REFERENCES


