

ANALYSIS OF REGIONAL GOVERNMENT FINANCIAL PERFORMANCE IN SOUTH NIAS DISTRICT

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Abstract: This study aims to analyse the ratio of regional independence and financial ratios to the financial performance of Local Governments in the South Nias District for the 2015-2019 fiscal year. 2019. This research is a descriptive study using analysis techniques to analyse the ratio of regional independence and financial ratios to the financial performance of Local Governments in the South Nias District. The results of this study are seen from the ratio of regional independence, the financial performance of the South Nias District Government during 2015-2019 can be said to have not been optimal. This is because the level of regional independence is at a percentage level below 25% or what is called the instructive relationship pattern. Judging from the efficiency ratio, the financial performance of the South Nias District Government During 2015-2019 can be said to be very efficient, at a value below 60%. Judging from the effectiveness ratio, the financial performance of the District Government in South Nias during 2015-2019 can be said to be effective, because the regional government has been able to realize the regional original revenue. budget according to what is budgeted, where the average percentage of realization is already above 90%, and lastly, it can be seen that the growth rate of pad during 2015-2019 can be said to have not been optimal. this is because the growth rate of pad is still in fluctuating conditions.

Keywords: Regional Independence Ratio and Financial Ratio and Financial Performance

1. Introduction

North Sumatra is one of The 34 Provinces in Indonesia, which consists of 33 District/ Cities. Some of the existing Districts include Nias District, South Nias District, West Nias District, and North Nias District. The four regencies are located on one island which is known as Nias Island. Based on Presidential Regulation No. 131/2015, the four regencies mentioned above are included in the category of disadvantaged areas. the accountability for the regional revenue and expenditure budget will be seen in the regional government financial statements each year. the information contained in the accountability report for local government financial reports can be used as an indicator to measure the financial performance of local governments (Hamzah Et All, 2019; Basri And Nabiha,2014)

Table 1 Audit Opinion of the Audit Board of the Republic of Indonesia, South Nias District

Year	Opinion
2013	Disclaimer of opinion
2014	Disclaimer of opinion
2015	Disclaimer of opinion
2016	Disclaimer of opinion
2017	Disclaimer of opinion
2018	Qualified Opinion
2019	Qualified Opinion

Source: Summary of Semester Examination Results from Audit Board of the Republic of Indonesia, 2020

In the table above, there are 2 types of the Audit Board of the Republic of Indonesia opinion on regional government financial reports, namely qualified opinion and disclaimer of opinion. South Nias District received Disclaimer of opinion five times in a row, and twice the qualified opinion year. When the scope of the audit is

limited, an auditor will certainly not conduct an examination based on the predetermined audit standards, so a disclaimer of opinion will occur. Qualified opinion occurs because the auditor did not obtain sufficient and appropriate evidence to support his opinion. However, the auditor concluded that there was an undetectable effect of the misstatement on the emerging financial statements. Even if this happens, there is material but it is not pervasive (Setiyawati, 2016 and Suwanda, 2015).

Based on Government Regulation No. 12/ 2019, Regional Financial Management is all activities which include planning, budgeting, implementation, administration, reporting, accountability and supervision of regional finances, to measure the financial capacity of a region, a financial ratio analysis can be carried out against the determined regional revenue and expenditure budget and implementation (Halim, 2007). Performance measurement is used to assess the accountability of organizations and managers in public services, which is not just the ability to show that public money has been spent, but includes the ability to show that the money has been spent efficiently and effectively (Mardiasmo, 2002; Mahmudi, 2013). Based on the Regulation of the Minister of Home Affairs No. 21 of 2011, performance is the output or result of activities or programs that will be or have been achieved in connection with the use of a budget with measurable quantity and quality.

The main problem that is still often faced by regional governments in Indonesia is the low revenue from regional original revenue and the high dependence on transfer funds from the central government. If this continues, the long-term impact will result in the Central Government experiencing financial distress (heavy financial pressure) due to difficulties in bearing regional financial burdens (Ruliana, 2015). The different levels of independence are quite far due to the lack of a maximum role from the government in optimizing regional original revenue, therefore to find out more deeply, it is necessary to have a benchmark that can assess a performance, so that it can be used as an evaluation material for future improvements (Siregar et al). Financial reports are one of the tools to measure the level of success of the government in carrying out its programs, besides financial reports can be used in evaluating programs that have been implemented during the budget period (Marsudi et al, 2019).

Financial independence of a region is the ratio of Original Local Government Revenue (PAD) to financial sources originating from external parties (such as central balancing funds and loans). The higher the value of the independence ratio, it means that the Regional Government has high financial independence and vice versa (Purnamawati and Hudaya, 2020). According Yoda and Febriani (2020) conducted research that aims to evaluate, describe and map the level of regional financial independence inequality using the Williamson Index between districts in West Sumatra Province. The ratio of regional financial independence between districts in West Sumatra Province is categorized as "Very Low".

2. Literature Review

2.1. Stewardship Theory

Stewardship theory can be applied to accounting research in public sector organizations such as government organizations (Donaldson and Davis, 1991), which since its early development; public sector accounting has been prepared to meet the information needs for the relationship between stewards and principals. Accounting as a driving force for the operation of transactions is moving in an increasingly complex direction and is followed by the growth of specialization in accounting and the development of public sector organizations. The relationship between stewards and principals based on trust, acting collectively in accordance with organizational goals. The implication of stewardship theory for this research is that it can explain the existence of regional government (stewards) as an institution that can be trusted to act in accordance with the public interest by carrying out its duties and functions appropriately, making financial accountability entrusted to it, so that economic, public service and welfare objectives society (principals) can be achieved optimally (Boateng et al, 2015).

2.2. Public Sector Accounting

Government Regulation No. 71/2010, financial statements are structured reports on financial position and transactions conducted by a reporting entity. The general purpose of financial reports is to present information regarding the financial position of budget realization, excess budget balances, cash flow, operating results and changes in equity of a reporting entity that is useful for users in making and evaluating decisions regarding resource allocation. Government accounting standards are known as regional financial management officers and

the bookkeeping of agency or regional work units. A reporting entity is a government unit consisting of one or more accounting entities which according to the statutory provisions must present accountability report in the form of financial report (Hasibuan and Syahril, 2019).

The application of the local government financial accounting system is the main thing in the regional financial management accountability system. The law on state finance shows that. The responsibility for regional financial management is required in the form of local government financial reports in accordance with the applicable Governmental Accounting Standards. Law No. 1/ 2004 concerning the State Treasury further clarifies that financial reports must be prepared based on the accounting process that must be carried out by each Proxy of Budget Users and Budget Users as well as State / Regional General Treasurers. In connection with that, the central government and each local government need to do bookkeeping a system whose guidelines are stipulated by the Minister of Home Affairs.

2.3. Financial Performance

Regional Government Financial Performance is the output or result of activities or programs that will be or have been achieved in connection with the use of regional budgets with measurable quantity and quality, regional capacity can be measured by assessing the efficiency of services provided to the community, if it generates local revenue, then will give rise to an increase also to achieve economic growth (Yasin, 2020). Governance issues undermine local government in South Africa's Limpopo Province, particularly with regard to financial management. Audit report to compare the financial performance of the local government of Limpopo and the city with other South African provinces. One key finding is recruitment patterns have a major influence on government financial performance municipality. The governing African National Congress has adopted that strategy ignoring competitive recruitment practices and rewarding party members and them affiliated with parties that have access to jobs, especially in local government, which has an adverse effect on urban financial management (Mamogale, 2014).

The complicated structure of the annual reports of government agencies, especially those with financial reports, which is often difficult for ordinary people with limited educational backgrounds, especially in finance or financial accounting, to understand and follow. To understand the language contained in the annual report, one must understand and be properly trained to understand and understand the meaning of the financial concepts used in the financial report (Ashley L and Ryzin, 2011). According to Atkinson and McCrindell (1997) Performance measurement in organizations is mostly still focused on financial data for coordination and control purposes. Performance, strategy and organizational goals are more challenging (Atkinson et al., 1997). Regional financial performance or the ability of an area is one measure that can be used to see the ability of a region to carry out regional autonomy (Sudaryo, 2017). Financial performance analysis is carried out to assess past performance by doing various analyzes to obtain a financial position that represents reality and potential performance that will continue (Oktalina, 2020). Performance measurement can use analysis of regional financial ratios to reports on the calculation of local revenue and a budget consisting of a ratio of regional financial independence, effectiveness and the ratio of regional revenue efficiency, activity ratio, and growth ratio (Halim, 2004: 150).

3. Research Method

This research was conducted in South Nias District. The location of this research is at Regional Government of South Nias District. The data find from the Audit Board of the Republic of Indonesia. The data used in this study are secondary, data on Audit Results and Financial Reports of the South Nias District Government for the 2015-2019 budgets. The data analysis technique was carried out using the financial reports based on the local government on financial performance indicators, namely independence ratios, efficiency ratios, effectiveness ratios and growth ratios. The ratio of regional financial independence illustrates the dependence of regions on outside funds, the higher the ratio of independence means the higher the level of regional dependence, the lower the external assistance and vice versa (Faud, 2016). Based on this explanation, the ratio of regional independence can be formulated as follows:

$$\text{Independence Ratio} = \frac{\text{Original Local Government Revenue}}{\text{Central or Provincial Government Assistance and Loans}} \times 100\%$$

Source: Halim, 2007

As a guide in seeing patterns of relationships with regional capabilities, it can be seen in the following table:

Table 2 Relationship Patterns and Regional Capability Levels

Ability Regional Finace	Ratio Independence	Relationship Pattern
Very Low	0 – 25 %	Instructive
Low	25 – 50 %	Consultative
Moderate	50 – 75 %	Partisipatory
High	75 – 100 %	Delegative

Source: Halim, 2007

Sartika (2019), the regional efficiency ratio is a comparison between the amount of costs incurred to obtain income and the realization of the income received. Local government performance can be said to be efficient if the ratio achieved is less than 100%. The smaller this ratio, the more efficient the local government's financial performance will be. The formula used to determine the efficiency ratio is as follows:

$$\text{Efficiency Ratio} = \frac{\text{Realization of Regional Expenditure}}{\text{Realization of Regional Income}} \times 100\%$$

Source: Halim, 2007

As a guide in seeing the level of efficiency of regional finances, it can be seen in the following table:

Table 3 Regional Financial Efficiency Criteria

Efficiency Percentage	Efficiency Criteria
Above 100%	Not Efficient
90% - 100%	Less Efficient
80 % - 90%	Simply Efficient
60% - 80%	Efficient
Below 60%	Very Efficient

Source: Decree of the Minister of Home Affairs No. 690.900-327 (1996)

According to Faud (2016), the effectiveness ratio is basically related to the achievement of policy goals or targets; the effectiveness ratio describes the ability of local governments to realize planned regional revenue compared to targets set based on the real potential of the region. The greater the value of the ratio obtained or the greater the target realized, it indicates that the more effective the budget performance is in a government agency, and vice versa. The effectiveness ratio is formulated as follows:

$$\text{Effectiveness Ratio} = \frac{\text{Realization Original Local Government Revenue}}{\text{Budget Locally – Generated Revenue}} \times 100\%$$

Source: Mahmudi, 2013

As a guide in viewing the level of effectiveness of regional finances, it can be seen in the following table:

Table14. Regional Financial Effectiveness Criteria

Efficiency Percentage	Effective Criteria
Above 100%	Very Effective
90% - 100%	Effective
80 % - 90%	Simply Effective
60% - 80%	Less Effective
Below 60%	Ineffective

Source: Decree of the Minister of Home Affairs No. 690.900-327,1996

Halim (2014) growth ratio measures how much the ability of local governments to maintain and increase the success that has been achieved from one period to the next. If the growth ratio shows a positive number, it illustrates that financial performance has increased and vice versa. The income growth ratio can be formulated as follows:

$$\text{Growth Ratio Original Local Government Revenue (PAD)} = \frac{PAD(n) - PAD(n-1)}{PAD(n-1)} \times 100\%$$

Source: Halim, 2007

4. Results and Discussion

The ratio of regional independence shows that the level of regional independence of the South Nias District Government, as a whole, is still in an instructive condition, namely the level of regional independence is in the range of 0% to 25%.

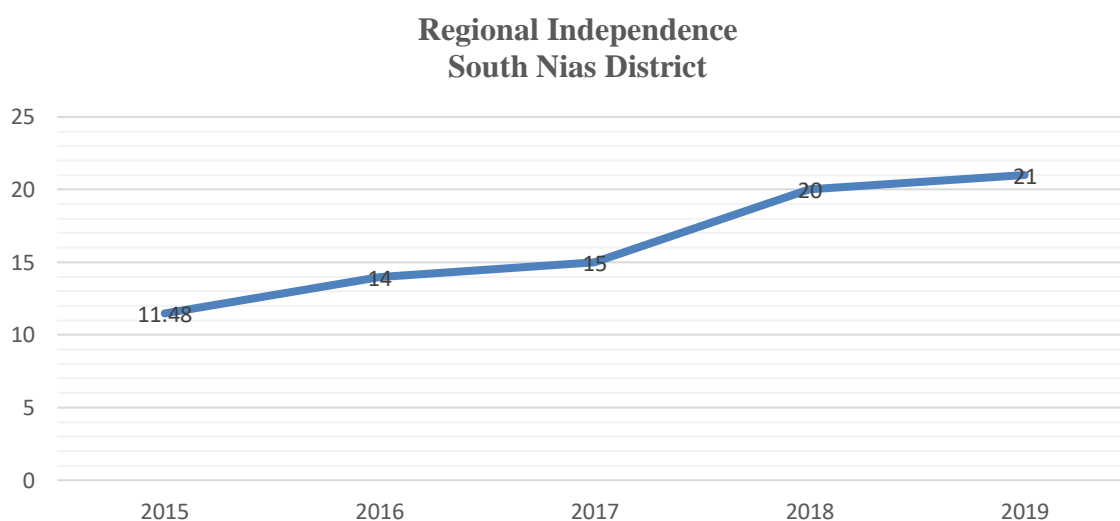


Figure 1 Graph of Average Level of Regional Independence of South Nias District in 2015-2019

Based on figure 1, the ratio of regional independence shows a picture that the level of regional independence of the South Nias District Government as a whole it is still in an instructive condition, where the amount of Original Local Government Revenue(PAD), all South Nias District from the 2015 up to fiscal year the 2019 budget year only filled less than 25% of the budget requirement regional income, and the rest is met by funding

sources external such as central government assistance and loans.

The efficiency ratio shows that the level of efficiency the finances of all districts on the island of Sumatra are still at a very efficient level, where the average percentage value of efficiency is below 60%.

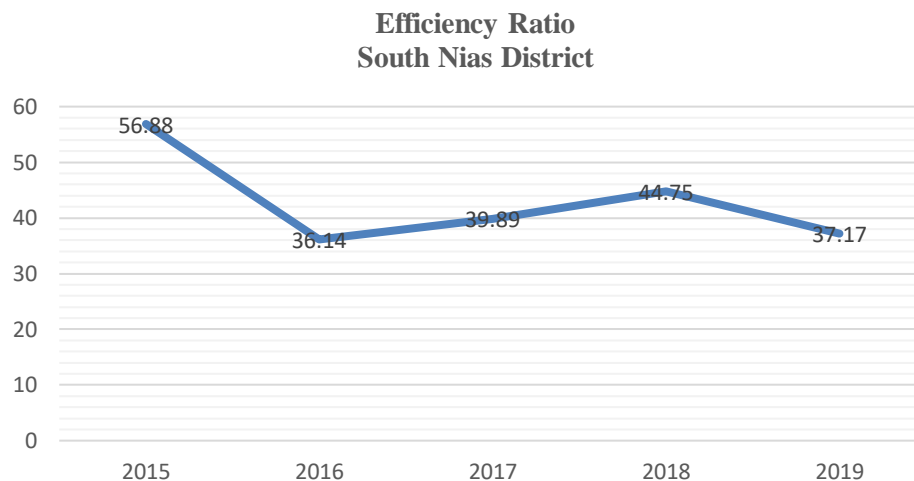


Figure 2 Graph of Average Financial Efficiency Levels of South Nias District 2015-2019

Based on Figure 2, the Efficiency Ratio shows that the level of financial efficiency of all South Nias District is at a very efficient level because it is below 60%. Although the average level of financial efficiency of the District Government in South Nias as a whole from 2015 to 2018 has improved from year to year, it is still at an average position below 100%, which is very efficient, that is, in 2015 it was at the level of 56.88%, then in 2016 it fell to the level of 36.44% which is very efficient, then in 2017 it increased to the level of 39.89% which was still very efficient and in 2018 it rose again to 44.75% which is very efficient, and in 2019 it fell back to the level of 37.17 % still at the very efficient level.

The effectiveness ratio shows that the effectiveness level of Original Local Government Revenue (PAD) in all South Nias District is already at the effective level.

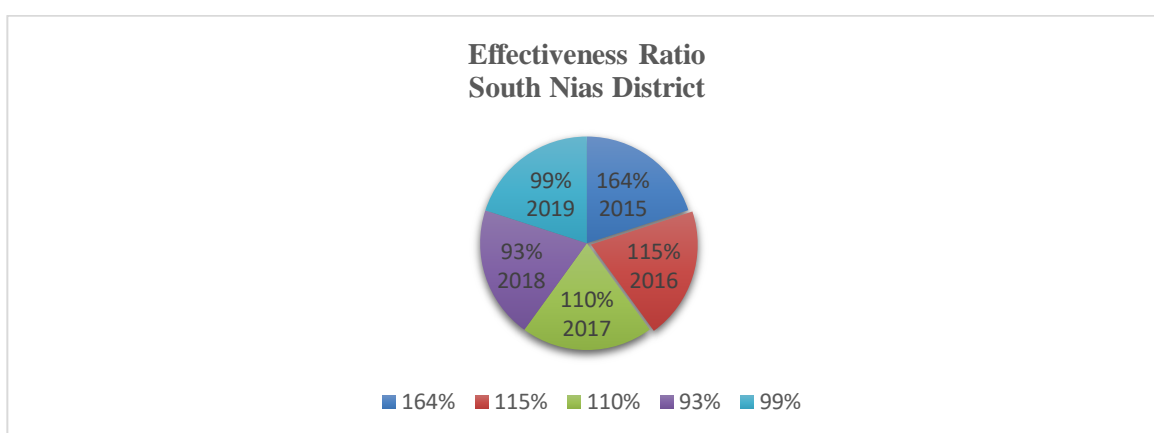


Figure 3 Graph of Average Financial Effectiveness Level of South Nias District 2015-2019

Based on Figure 3, the Effectiveness Ratio shows that the effectiveness level of PAD in all South Nias Districts is already at an effective level. The average level of effectiveness of the South Nias District Government's PAD is already above 90%. When viewed as a whole from 2015 to 2019 the effective level has indeed increased from year to year, but it is still in an effective position, namely in 2015 it was very effective at the 164 %% level, then in 2016

it fell to the 115% level % but still in a very effective level because it is still above 100%, then in 2017 it increased by 110% and in 2018 it decreased at the effective level to 93%, and in 2019 it rose again at the 99% level which is still effective.

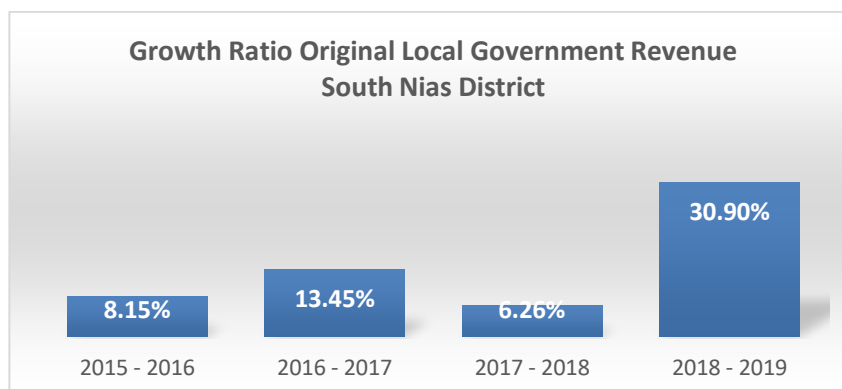


Figure 4 Graph of Average PAD Growth Rate of South Nias District 2015-2019

Based on figure 4, the PAD Growth Ratio shows that the average in South Nias District has a fluctuating growth rate of PAD every year. In 2016, PAD growth increased by 13.45%. Then in 2017, South Nias District experienced positive PAD growth. However, in the year of decline in 2018, PAD decreased again by 6.26%, then in 2019 it increased by 30.90%.

5. Discussion of Research Results

Based on the calculation of the regional independence ratio of all South Nias District in 2015-2019, it is found that the level of regional independence is still very low, which is at a level below 25% of total regional income or is included in the pattern of instructive relationships. There was an increase in numbers from 2015 to 2019. Starting from 2015, the Independence Ratio was at 11.48%, and then increased to 14% in 2016. Then in 2017 the level of independence again rose to 15%, but in 2018 again experienced an increase in the level of independence to 20%, and in 2019 it has increased to 21%. This increase is still included in the Instructive relationship pattern. It can be concluded that the level of financial independence of all South Nias District is still at a low level, where the Regional Government is still not able to independently finance government activities in terms of services to the community. Then this also means that the active role of the community in supporting development in the region is still very low, which in this case is in the form of public awareness in paying taxes and levies. In addition, the local government has not been able to optimize the fees for tourist attractions on the island of Sumatra, so the potential for PAD cannot be relied on as a source of revenue for the region. Based on these results, it can be said that the performance of local governments is still not optimal, this is because more than 50% of regional funding needs are still financed by external funding, namely government assistance (transfers) and loans (Hariyani et al, 2020; Ermawati and Aswar, 2020; Oktalina, 2020 and Martini et al, 2019).

Based on the results of the analysis of the budget realization report of all South Nias District in 2015-2019, it is found that the efficiency level of regional spending is still in a very efficient position, namely the Efficiency Ratio showing that the level of financial efficiency of all South Nias District is at a very efficient level because it is below 60%. Although the average level of financial efficiency of the District Government in South Nias District as a whole from 2015 to 2018 has improved from year to year, it is still at an average position below 100%, which is very efficient, that is, in 2015 it was at the level of 56.88%, then in 2016 it fell to the level of 36.44% which is very efficient, then in 2017 it increased to the level of 39.89% which was still very efficient and in 2018 it rose again to 44.75% which is very efficient, and in 2019 it fell back to the level of 37.17 % still at the very efficient level. This indicates that the Government Regions are trying to continue to improve the balance between regional income and expenditure because the lower the efficiency level of regional spending, the better the performance of the regional government. Basically, the level of efficiency of regional spending shows how big the role of regional spending is in the revenue owned by the region. If the regional expenditure is greater than the income owned by the region, this implies that the region needs additional income to meet the expenditure needs of the region outside of the

income it has. Generally, the phenomenon that occurs in South Nias District is the high composition of the regional expenditure budget caused by a lack of supervision from regional apparatus which causes cases of overpayment of regional expenditures which indirectly increase the expenditure budget owned by the region (Worthington and Dollery, 2008; Wardhani et al, 2017 and Adiputra, 2018).

Based on the results of the calculation of the effectiveness ratio of all districts in South Nias District in 2015-2019, it is found that the average level of effectiveness is above 90% and can be said to be very effective. The average level of effectiveness of the South Nias District Government's PAD is already above 90%. When viewed as a whole from 2015 to 2019 the effective level has indeed increased from year to year, but it is still in an effective position, namely in 2015 it was very effective at the 164 %% level, then in 2016 it fell to the 115% level % but it is still in a very effective level because it is still above 100%, then in 2017 it increased by 110% and in 2018 it decreased to the effective level to 93%, and in 2019 it increased again at the level of 99% which is still effective. The decrease and increase in the percentage level that occurs is due to a decrease in the collection of local taxes and levies, where local taxes and levies are components that make a high contribution. to PAD. Based on the explanation above, it can be said that the performance of the Regional Government is quite good because it can realize the PAD budget planned effectively. However, it needs attention, even though the level of effectiveness of the regions is already in an effective position, there are still a number of things that need to be improved, such as the importance of regions in making a list of potential owned by the region before determining the amount of the PAD, and the creativity of the regional government is needed to explore new sources of income either through cooperation or making programs to increase PAD, such as the establishment of Regional Owned Enterprises (BUMD) in potential sectors. This is done in order to avoid the realization of zero on the target budget that has been set (Mangantar, 2018; Indramawan, 2018 and Wardhani et al, 2017).

Based on the results of the analysis of the budget realization report of all South Nias District in 2015-2019, it is found that the average growth rate of PAD is still in fluctuating conditions. In 2016, PAD growth increased by 13.45%. Then in 2017, South Nias District experienced positive PAD growth. However, in the year of decline in 2018, PAD decreased again by 6.26%, then in 2019 it increased by 30.90%. This situation illustrates that efforts to increase PAD are still not optimal. Obstacles to increasing PAD are usually caused by several things such as not optimal PAD management, incompatibility of Human Resources with the PAD potential and updating of PAD object data that has not been effectively carried out by the management of regional apparatus organizations. Based on the explanation above, it can be said that the performance of the Regional Government is still not good because the regional government has not been able to increase or at least maintain the amount of PAD in the region. One of the components in achieving regional independence is the need for an increase in PAD in an area. The growth of PAD is needed to improve the economy and become an effort to improve the welfare of people in the regions. Commitment and support from all parties is needed, such as the right Regional Government in determining and implementing the PAD management strategy and also the community who actively contributes to the payment of local taxes and levies and supervises the implementation of activities. Regional government. Providing optimal services and improving good public facilities will encourage the growth of PAD and if PAD grows, the goal of regional autonomy to create an independent region will be realized (Probohudono, 2018; Mahpudin, 2020 and Digidowiseiso and Djumadin, 2020).

6. Conclusion and Suggestion

Judging from the ratio of regional independence, the performance of government finances South Nias District during 2015-2019 can be said to have not been optimal. This is because the level of regional independence is at a percentage level below 25% or what is called the instructive relationship pattern. Judging from the efficiency ratio, the financial performance of the South Nias District Government during 2015-2019 can be said to be very efficient, at a value below 60%. Judging from the effectiveness ratio, the financial performance of the District Government in South Nias during 2015-2019 can be said to be effective, because the Regional Government has been able to realize the budget. PAD is in accordance with what is budgeted, where the average percentage of realization is above 90%, and most recently, it can be said that the growth rate of PAD during 2015-2019 is not optimal. This is because the growth rate of PAD is still in fluctuating conditions.

The suggestion in this research is that the local government should increase the collection, supervision and control efforts as well as improve the human resources of PAD managers. Second, the Regional Government must continue to improve its performance so that a good level of effectiveness can be consistently maintained and can assist in efforts to increase the efficiency of regional financial management. Third, Regional governments need to pay more attention to regional expenditure budgets and determine priorities in the implementation of regional expenditures in order to improve regional financial efficiency.

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