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DETERMINANTS OF LOCAL GOVERNMENT FINANCIAL PERFORMANCE IN CENTRAL JAVA 2019-2020

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ABSTRACT

Local governments are required to be able to produce good financial performance so that the public is able to assess the performance of the government. This study aims to analyze the effect of the level of regional wealth, regional expenditure, and intergovernmental revenue on regional financial performance. This research data uses secondary data, namely the financial reports of local/municipal governments in Central Java for 2019-2020 which have been published at www.djpk.kemenkeu.go.id. The sampling method was carried out using purposive sampling technique.

The sample in this study is 35 districts/cities in 2019-2020. The analytical model used is multiple linear regression analysis. The results of this study indicate that regional spending is a factor that affects the financial performance of local governments, while the level of regional wealth and intergovernmental revenue does not affect the financial performance of local governments.

KEYWORDS: Regional Expenditure; Regional Wealth Level; Intergovernmental Revenue; Regional Government Financial Performance

1. INTRODUCTION

During the reformation period in mid-1998, there was a demand for a wider, real, and accountable implementation of autonomy to the regions, especially at the district/city level. Reforms in Indonesia have also changed the system of state life patterns, such as the demands for good governance and the separation of powers between the executive, judiciary and legislative. The relationship between the central government and local governments is regulated in Law No. 22/1999 on regional government and Law No. 25/1999 on Fiscal Balance between Central and Regional Governments.

(Law No. 22, 1999) which regulates the Indonesian government's policy regarding regional autonomy has been amended in (Law No. 32, 2004) concerning regional autonomy. With the existence of regional autonomy, regional governments have the authority to manage and regulate resources according to their abilities and manage their own government affairs. The authority for independent resource allocation requires local governments to prepare financial management reports

in accordance with regional financial management guidelines which will be used as a source of information in evaluating local government performance. Regional autonomy also requires each regional head to submit a report within a period of time, which is addressed to the government, hereinafter referred to as the Regional Government Implementation Report (LPPD).

Research conducted by (Aminah, Afiah, & Pratama, 2019), states that capital expenditure, size, wealth and intergovernmental have a positive effect on the financial performance of local governments. Research (Suryaningsih & Sisdyani, 2016) reveals that simultaneously audit opinion and intergovernmental revenue affect the performance of local governments. However, research conducted by (Ilmiyah, Dewata Evada, & Sarikadarwati, 2017) reveals that intergovernmental revenue has a negative effect on local government performance, while audit opinion, legislative size, size, leverage and clusters of regional financial capabilities have no effect on local government financial performance.

Based on the description above, previous studies have shown mixed results, therefore research on factors that affect local government financial performance is still interesting to review. The purpose of this study was to determine the effect of regional wealth, regional spending, and intergovernmental revenue on the financial performance of local governments in Central Java. The results of this study can contribute to knowledge in the field of accounting, especially public sector accounting related to the financial performance of local governments and for the government and society related to the financial performance of local governments.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Local Government Financial Performance

Performance is a description of the achievement of the implementation of an activity/program/policy in realizing the goals, objectives, mission and vision of the organization (Bastian, 2006).

Regional Wealth

“According to (Law Number 33, 2004), Regional Original Revenue is a source of original regional revenue that is excavated in the area to be used as the basic capital of the regional government in financing development and regional efforts to minimize dependence on funds from the central government. Regional Original Income consists of regional taxes, regional levies, the results of separated regional wealth management and other legitimate regional revenues”.

Wealth is the ability to finance their needs. The level of regional wealth is shown through Regional Original Income (PAD). The local government in implementing programs and activities to serve the community by continuously improving the quality of public services provided to the community is better, one of which is financed with local revenue. The greater the regional original income owned by the regional government; the regional government should have large funds to carry out its

obligations. Therefore, the greater the PAD, the better the performance of the local government (Aminah, Afiah, & Pratama, 2019).

Research conducted by (Kusuma & Handayani, 2017) states that the prosperity or wealth of a region has a positive effect on the financial performance of the regional government. The greater the regional wealth produced and owned by a regional government, the better the financial performance of the regional government will be. Based on the description above, the hypothesis being tested is

H1: Regional wealth affects the financial performance of local governments

Regional Expenditure

Based on (Undang-undang No 32, 2004) Regarding Regional Government, regional expenditures are all regional obligations which are recognized as a reduction in the value of net assets in the period of the relevant fiscal year. In general terms (Undang-undang No 17, 2003) Article 1 paragraph (16) states that regional expenditure is an obligation of the regional government which is recognized as a deduction from the value of net assets.

According to (Peraturan Pemerintah Nomor 58, 2005) Article 20 paragraph (3), it is stated that "Regional spending as referred to in paragraph (1) letter (a) includes all expenditures from the regional general treasury account which reduces the equity of current funds, which are regional obligations in one fiscal year for which payment will not be obtained. back by area. Expenditures are all blood government spending in a budget period."

Based on (Undang-undang No 32, 2004) article 167 paragraph (1) states that regional expenditures are used to protect and improve the quality of people's lives which are manifested in the form of improving services for mandatory affairs and other services in the fields of education, health, provision of social facilities, and public facilities and development of the social security system.

Regional expenditures are expenditures made by the government to carry out regional development. Expenditures for regional development are important to improve the quality of public service infrastructure, the quality of Human Resources (HR) etc. (Ariwibowo, 2015).

Research conducted by (Aziz, 2016) states that regional spending has an effect on local government financial performance. This indicates that the regional government expenditure budget has been realized to the maximum for better performance improvement. Based on the description above, the hypotheses tested are:

H2: Regional spending affects the financial performance of local governments

Intergovernmental Revenue

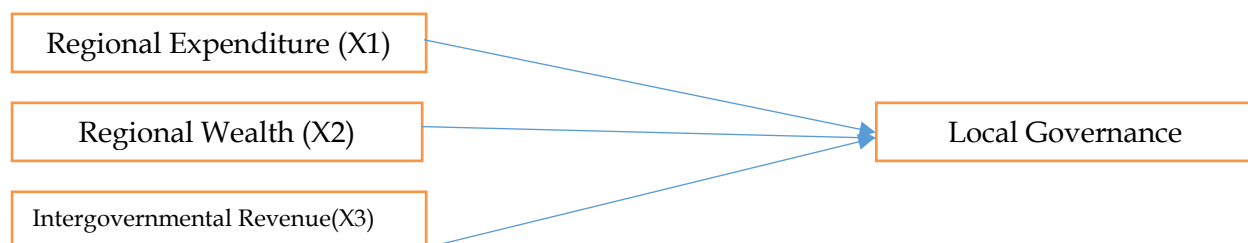
Intergovernmental revenue defined as a type of regional income originating from the transfer of the central government and or the provincial government to the regional government to finance the operational activities of the regional government. in return, the LG spends intergovernmental transfer revenues in accordance with the budget allocations and guidelines under the law (Lesmana, 2010). Menurut (Patrick, 2007) Intergovernmental revenue is local government revenue sourced from the transfer of central government funds to local governments used to finance regional operations (Patrick, 2007) in (Dasmar, Basri, & Indrawati, 2020).

Intergovernmental revenue or can also be called balancing funds is income that comes from external sources. The balancing fund is used to reduce the gap in government funding between regions. The use of this balancing fund will be monitored by the central government. The larger the balancing fund, the greater the supervision from the central government. This will result in local governments to be more careful in carrying out their work programs. This will encourage local governments to improve their performance as a form of financial management accountability because the financial sources come from external parties (Dasmar, Basri, & Indrawati, 2020)

Research result (Suryaningsih & Sisdyani, 2016) shows that intergovernmental revenue has a negative effect on the financial performance of local governments. The greater the balancing fund received from the central government, the stronger the local government relies on the central government to meet the needs of its area, so that the regional government does not try to increase the Regional Original Revenue (PAD) which results in a decrease in the performance of the regional government. Based on the description above, the tested hypotheses are:

H3: intergovernmental revenue affects the financial performance of local governments

Based on the description above, the data is described in the following framework:



Picture 1. Research Framework

RESEARCH METHODS

This study uses secondary data sources, namely data sources obtained from other parties (Sekaran & Bougie, 2016). The data used in this study was taken from the Central Java Regency / City Regional

Government Financial Reports (LKPD) in 2019 and 2020 obtained from the website www.djpk.lemenkeu.go.id.

The population in this study is the district/city government in Central Java by taking a sample of 35 district/city governments in East Java in 2019 dan 2020. The sampling technique was carried out by purposive sampling. Purposive sampling is sampling technique based on certain considerations namely sampling based on criteria made by researchers.

The dependent variable in this study is the financial performance of the local government, while the independent variable in this study is the level of regional wealth, regional expenditure and intergovernmental revenue. Measurement of these variables can be seen in table 1 as follows:

Table 1. Variables Measurement

Variable	Measurement	Source
Dependent Variable (Y) Local Government Financial Performance	$= \frac{\textit{Realization of Regional Spending}}{\textit{Realization of Regional Income}}$	(Dasmar etc, 2020)
Regional Wealth Variable (X1)	$= \frac{\textit{Locally Generated Revenue}}{\textit{Total Income}}$	(Dasmar etc, 2020)
Regional Expenditure Variables (X2)	$= \frac{\textit{Total Realization of Regional Expenditure}}{\textit{Total Regional Budget}}$	(Dasmar etc, 2020)
Intergovernmental Revenue Variable (X3)	$= \frac{\textit{Total balancing fund}}{\textit{Total Income}}$	(Dasmar etc, 2020)

Sumber: Data yang diolah, 2021

This study uses a multiple regression model, namely a regression that has one dependent variable and more than one independent variable where the equation model is as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Description:

Y = Local Government Financial Performance

α = Constanta

B = Regression Coefficient
X₁ = Regional Wealth
X₂ = Regional Expenditure
X₃ = *Intergovernmental Revenue*
ε = Error Coefficient

RESULT AND DISCUSSION

Hypothesis Test

Table 2. Descriptive Statistics Test

	N	Minimum	Maximum	Mean	Std. Deviation
Y (Local Government Financial Performance)	70	.55	1.05	.8574	.15106
X1 (Regional Wealth)	70	.06	.45	.1754	.06899
X2 (Regional Expenditure)	70	.22	1.14	.6481	.33542
X3 (<i>Intergovernmental Revenue</i>)	70	.38	.81	.6217	.07179
Valid N (listwise)	70				

Source: Processed Data, 2021

The following is a discussion of descriptive analysis, as follows:

- The Regional Government Financial Performance Variable with a minimum value of 0.55 found in Magelang Regency in 2020, a maximum value of 1.05 found in Kendal Regency in 2019, the mean value is 0.8574 and the standard deviation value is 0.15106.
- The Regional Wealth Variable (X₁) has a minimum value of 0.6 found in Purbalingga Regency in 2020, a maximum value of 0.45 found in Semarang City in 2019, the mean value is 0.1754 and the standard deviation value is 0.06899.
- Regional Expenditure Variable (X₂) with a minimum value of 0.22 found in Magelang Regency in 2020, a maximum value of 1.14 found in Kudus Regency in 2019, the mean value is 0.6481 and the standard deviation value is 0.33542.
- The Intergovernmental Revenue (X₃) variable has a minimum value of 0.38 found in Semarang City in 2019, the maximum value of 0.81 found in Wonosobo Regency in 2020, the mean value of 0.6217 and the standard deviation value of 0.07179.

Multiple Linier Regression Analysis

Table 3. Multiple Linear Regression Equation

Model		Unstandardized Coefficient		Standardized coefficient	T	Sig.
		B	Std. Error	Beta		
1.	(Constant)	.579	.070		8.283	.000
	X1 (Regional Wealth)	-.047	.084	-.022	-.564	.574
	X2 (Regional Expenditure)	.435	.016	.967	26.857	.000
	X3 (Intergovernmental Revenue)	.007	.088	.003	.081	.936

Source: Processed data, 2021

Based on table 4.5 the regression coefficient value of the influence of the independent variable on the dependent variable can be explained in the multiple regression equation as follows:

$$Y = 0.579 - 0.047 X1 + 0.435 X2 + 0.007 X3$$

The discussion of the multiple linear regression equation model above can be explained as follows:

- a) The constant value based on the regression test is 0.579, which means if the value of X1, X2, X3 is 0, then the Regional Government Financial Performance is 0.579.
- b) The coefficient value of the Regional Wealth variable (X1) is -0.047, which means that if the Regional Wealth increases by one unit, it will reduce the Regional Government's Financial Performance by 0.169.
- c) The coefficient value of the Regional Expenditure variable (X2) is 0.435, which means that if the Regional Expenditure increases by one unit, it will increase the Regional Government Financial Performance by 0.435.
- d) The coefficient value of the Intergovernmental Revenue (X3) variable is 0.007, which means that if the Intergovernmental Revenue increases by one unit, it will increase the Regional Government's Financial Performance by 0.007.

Coefficient of Determination Analysis

Table 4. Coefficient of Determination Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1.	.967 ^a	.934	.931	0.3962

Source: Processed Data, 2021

The results of the coefficient of determination of the independent variable on the dependent variable are seen in the Adjusted R Square. The value of determination is 0.931, which means that 93.1% of

the Regional Government's Financial Performance is explained by Regional Wealth, Regional Spending and Intergovernmental Revenue. While the remaining 6.9% is explained by other variables outside of this study.

Hypothesis Test

Table 5. T Test

Model	Unstandardized Coefficient		Standardized coefficient	T	Sig.
	B	Std. Error	Beta		
1. (Constant)	.579	.070		8.283	.000
X1 (Regional Wealth)	-.047	.084	-.022	-.564	.574
X2 (Regional Expenditure)	.435	.016	.967	26.857	.000
X3 (Intergovernmental Revenue)	.007	.088	.003	.081	.936

Source: Processed data, 2021

Based on table 5, it can be explained that the test of each independent variable on the dependent variable, including:

a) The Influence of Regional Wealth (X1) on Regional Government Financial Performance. Based on the t-test in the table above, it can be seen that the Regional Wealth variable (X1) has a tcount of – 0.564 and a significant value of 0.574. The t value indicates that the Regional Wealth variable (X1) has a negative influence on the Financial Performance of the Regional Government. The significant value indicates that Regional Wealth (X1) has no significant effect on Regional Government Financial Performance, because the significant value of 0.574 is greater than 0.05. So it can be concluded that Regional Wealth has a negative and insignificant effect on Regional Government Financial Performance, so the first hypothesis which states that Regional Wealth affects Regional Government Financial Performance is rejected.

b) The Effect of Regional Expenditures (X2) on Regional Government Financial Performance. Based on the t-test in the table above, it can be seen that the Regional Expenditure variable (X2) has a tcount value of 26,857 and a significant value of 0.000. The value of t indicates that Regional Expenditure (X2) has a positive influence on the Financial Performance of the Regional Government. The significant value indicates that Regional Expenditure (X2) has a significant effect on firm value, because the significant value of 0.000 is smaller than 0.05. So it can be concluded that Regional Expenditures have a positive and significant influence on the Financial Performance of Regional

Governments, so that the second hypothesis which states that Regional Expenditures have an effect on Regional Government Financial Performance is accepted.

c) Effect of Intergovernmental Revenue on Regional Government Financial Performance. Based on the t-test in the table above, it can be seen that the tcount value is 0.81 and the significant value is 0.936. The t value indicates that (Intergovernmental Revenue) X3 has a positive effect on the Financial Performance of the Regional Government. The significant value indicates that (Intergovernmental Revenue) X3 has no significant effect on the Financial Performance of the Regional Government, because the significant value of 0.936 is greater than 0.05. So, it can be concluded that Intergovernmental Revenue has a positive and insignificant effect on the Financial Performance of Local Governments. So that the third hypothesis which states Intergovernmental Revenue has an effect on Regional Government Financial Performance is rejected.

Table 6. F Test

<i>Model</i>		<i>Sum of Squares</i>	<i>Df</i>	<i>Mean Square</i>	<i>F</i>	<i>Sig.</i>
1.	<i>Regression</i>	1.471	3	.490	312.283	.000 ^b
	<i>Residual</i>	.104	66	.002		
	<i>Total</i>	1.575	69			

Source: Processed Data, 2021

Based on the table above, it can be seen that the Fcount in the F statistical test is 312,283 with a significant value of 0.000 less than 0.05 which shows that the independent variables together have a significant effect on the dependent variable.

DISCUSSION

The Influence of Regional Wealth on Regional Government Financial Performance. The results of testing the influence of Regional Wealth on the Financial Performance of Regional Governments in this study indicate that Regional Wealth has an insignificant negative effect on the Financial Performance of the Regional Governments studied. These results are not in accordance with the proposed hypothesis, so the first hypothesis in this study is rejected. The reason that Regional Wealth has an insignificant negative effect on the Financial Performance of Regional Governments is because the greater the regional original income received by the Regional Government, it will be followed by a large risk of misuse of wealth, resulting in a bad impact or a decrease in the assessment of financial performance.

The Effect of Regional Expenditures on Regional Government Financial Performance. The results of testing the influence of Regional Expenditures on the Financial Performance of Regional Governments in this study indicate that Regional Expenditures have a significant positive effect on the Financial Performance of the Regional Governments studied. These results are in accordance with the

proposed hypothesis, so the second hypothesis in this study is accepted. Regional spending is used to protect and improve the quality of people's lives. This is manifested in the form of improving basic services, education, providing health facilities, social facilities, proper public facilities, and developing a social security system. The higher the spending, the local government will provide better and quality services to its people.

The Effect of Intergovernmental Revenue on Local Government Financial Performance. The results of testing the influence of Intergovernmental Revenue on the Financial Performance of the Regional Government in this study indicate that the Intergovernmental Revenue has an insignificant positive effect on the Financial Performance of the Regional Government under study. These results are not in accordance with the proposed hypothesis, so the third hypothesis in this study is rejected. The reason why Intergovernmental Revenue does not affect the Financial Performance of Local Governments is because District/City Local Governments have not been able to use funds from the central government properly.

CONCLUSIONS AND SUGGESTIONS

This study has several conclusions, namely regional wealth has an insignificant negative effect on local government financial performance. Regional spending has a significant influence on the financial performance of local governments. Intergovernmental Revenue has no significant positive effect on the financial performance of local governments. Regional spending has a significant effect on regional performance due to the potential of the area that can be explored to get a source of regional original income so that regional spending is used to protect and improve the quality of life of the community for the better.

This research cannot reach all local governments in Indonesia, only one province, namely Central Java Province, so this research has not been maximized. So, it is recommended that further research examines a broader object. In addition, further research can improve the quality of research with a longer period of time in observation, so that it can obtain more detailed and more relevant data in influencing the performance of regional spending.

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