

ANALYSIS OF REGIONAL FINANCIAL RATIO IN ASSESSING FINANCIAL PERFORMANCE OF REGIONAL GOVERNMENTS OF CIREBON REGENCY

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DOI: <https://doi.org/10.37178/ca-c.23.1.402>

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Abstract

Regional autonomy or decentralization gives each regional government the authority to regulate and manage its government, especially financial performance. Assessment of local government financial performance can show the financial condition of the local government. This research was conducted and obtained by using the types of quantitative data and qualitative data. The quantitative data used is the 2019-2020 Budget Realization Report, while the qualitative data used is an overview of the Cirebon Regency BKAD. The data source of the 2019-2020 Budget Realization Report is the secondary data. Data collection techniques used are observation, interviews, and literature study. The data analysis method used is regional ratio analysis, such as independence ratio analysis, PAD effectiveness ratio analysis, efficiency ratio analysis, suitability ratio analysis, and growth ratio analysis. The results show that judging from the ratio of financial independence, the financial performance of the local government of Cirebon Regency is still very low or still instructive. The ratio of independence in 2019 was 18.96% and increased in 2020 to 19.55%. Even though it is seen from the trend that the independence ratio has increased, the relationship pattern is still in the range of 0%-25%, which is instructive.

Keywords: *Regional Original Income, Regional Financial Performance, Independence Ratio Analysis, PAD Effectiveness Ratio Analysis*

Premilary

Law Number 23 of 2014 concerning Regional Government which was ratified on September 30, 2014 and effective on October 2, 2014. Furthermore, Law of Regional Government has been amended several times, namely the first amendment with the

issuance of Law Number 2 of 2015 concerning Stipulation of Government Regulation in Lieu of Law Number 2 of 2014 concerning Amendment to Law Number 23 of 2014 concerning Regional Government into Law and the second amendment with the issuance of Law Number 9 of 2015 concerning Second Amendment to Law Number 23 of 2014 concerning Regional Government plus Law Number 33 of 2004 concerning Financial Balance between the Central and Regional Governments which have been in effect since October 15, 2004 are the initial steps for the emergence of regional autonomy [1].

Based on law number 23 of 2014 concerning Regional Government in article 6 paragraph 1 it is stated that regional autonomy is a right, authority and obligation of autonomous regions to regulate and manage their own government affairs and interests of local communities in the system of the Unitary State of the Republic of Indonesia. In the implementation of regional autonomy, the performance of regional financial management is the main focus. The level of independence of a region can be seen from good financial management which results in good financial performance as well [2]. Government accountability assessment is needed as an indicator of financial performance measurement. Analysis of local government financial ratios can be used as a measuring tool for financial performance, where the results are used to assess the level of regional financial independence during the implementation of government activities [3, 4].

Regions are required to improve their financial performance compared to previous implementation of regional autonomy with authority granted for regional officials to manage their regional assets independently. Thus local governments can be more independent and no longer dependent on the central government. Maximizing local revenue for regional financing is the authority given by the central government to the regions. Local governments are required to be more accountable and transparent in managing their regional finances to be more efficient and effective. This regional autonomy requires regional governments to pay greater attention to regional financial management where the level of regional government independence is reflected in good, accountable and transparent regional financial management. To assess government accountability, it is necessary to measure financial performance. The assessment of the financial performance of the Regional Revenue and Expenditure Budget (APBD) is carried out by calculating the regional financial capacity and regional financial performance so that it can be seen how trends occur. It is hoped that the assessment of the ability and financial performance of the Regional Revenue and Expenditure Budget will become a measuring tool for assessing the financial performance of the regional government. Carrying out efficiency and effectiveness in realizing regional expenditures and regional revenues is the right step in good regional financial management.

Regional financial capacity in government activities is important because regional governments will not be able to carry out their functions efficiently and effectively without being supported by sufficient costs for the implementation of government in the context of serving the community and implementing development [5]. This regional financial capacity is one of the basic criteria to determine the extent of the region's ability to regulate and manage its own household. Performance measurement serves to assess the success or failure of an organization, program or activity. Performance measurement is needed to assess the level of deviation between actual performance and expected performance [6]. In order for financial planning to be carried out effectively and efficiently, information related to regional finances and sources of financing for local governments is needed [7].

Literature Review and Hypothesis Development

Financial Ratio

Financial ratio analysis in the public sector has not been done so much, so that in

theory there is no agreement on the name and measurement rules [8] In the context of transparent and accountable regional financial management, it is necessary to carry out an analysis of financial ratios to the financial statements of the Regional Government, although the accounting principles in the financial statements of the Regional Government are different from the financial statements of private organizations. Regional government which has the task of carrying out development activities.

Financial analysis can be interpreted as an attempt to identify financial characteristics based on available financial statements. In conducting a financial analysis, certain measures are needed. The measure that is often used is the ratio. According to [9] financial ratio analysis is a ratio that describes a relationship or consideration (mathematical relationship) between a certain amount and another amount, by using an analytical tool in the form of a ratio that explains the picture to the analyst of good or bad financial conditions, especially if the numbers the ratio is compared with the comparison ratio figure used as the standard.

According to [10, 11], regional dependence on sources of funds from outside the region (central and provincial governments) is measured by the ratio of regional independence. If the regional government relies a lot on financial assistance from the central and provincial governments, it can be said that the region is not independent so that the ratio of regional independence is high, and the opposite. Community participation in developing the region can also be seen by the level of independence ratio. The form of community participation is obediently paying regional taxes and retribution so that it can increase regional revenue.

Financial Performance

Performance is a description of the level of achievement of the implementation of an activity/program/policy in realizing the goals, objectives, mission and vision of the organization contained in the strategic planning of an organization [12, 13]. The term performance is often used to refer to the achievement or level of success of individuals or groups of individuals. Performance can be known only if the individual or group of individuals has predetermined success criteria. This success criterion is in the form of certain goals or targets to be achieved.

Meanwhile performance measurement is a process of assessing the progress of work against predetermined goals and objectives, including information on: efficient use of resources in producing goods and services; quality of goods and services (how well the goods and services are delivered to customers and to what extent customers are satisfied); the results of the activity are compared with the intended purpose; and the effectiveness of actions in achieving goals [12]. So performance measurement is a method or tool used to record and assess the achievement of the implementation of activities based on goals, objectives and strategies so that organizational progress can be known and improve the quality of decision making and accountability.

Performance measurement is carried out to assess the accountability of institutions/institutions/organizations in producing the best public services through financial and non-financial measurement tools. Accountability includes the obligation to properly convey to the public the expenditure of funds, including the obligation to convey that the managed funds are spent economically, effectively and efficiently. From every rupiah spent, the funds must be able to have an impact for the public interest, meet public needs, and according to public demands, and be properly accounted for to the public [8].

Regional financial management according to [14] is the organization of existing wealth in an area to achieve the goals of the area. In addition, regional autonomy gives the authority to use regional assets according to need as a form of accountability for regional finances, so regional governments are obliged to submit their accountability in the form of LKPD. Prior to the reform of regional finance, accountability for regional

financial management was aimed at higher levels of government. And with the reform, accountability is aimed at the people. Previously, financial audit reforms were in place but did not go well. The reason is that the budget system does not include its performance. And in the reform era, because the budgeting system uses a performance system, the implementation of audits on LKPD will be better. And also the Executive has the advantage in terms of mastery of information. The executive as the executor of (operational) functions in local government has a comprehensive understanding of administration and bureaucracy, as well as statutory provisions as the basis for all aspects of government. The executive in proposing a budget for the implementation of public services has a tendency to propose a budget that is larger than the actual conditions that occur (maximum principle). On the other hand, for the proposed revenue budget, there is a tendency for the executive to propose a lower target (minimum principle), so that at the time of realization, the target is easy to achieve.

Research Methods

The types of data used are quantitative data and qualitative data. The quantitative data used is in the form of the 2019-2020 Budget Realization Report, while the qualitative data used is an overview of the Cirebon Regency BKAD. The data source used in this study is secondary data in the form of the 2019-2020 Budget Realization Report. Data collection techniques used are observation, interviews, and literature study. The data analysis method used in this research is quantitative descriptive analysis, using regional financial ratio analysis.

Results and Discussion

Independence Ratio Analysis

The ratio of the level of regional independence shows the success of the regional government in managing regional finances without relying on funds provided by the central/provincial government. This ratio is measured by comparing PAD with the total revenue received by the regional government.

The size of the regional original income indicates the level of regional financial independence, the greater the regional original income obtained, the higher the level of risk of independence, so it is possible that the low assistance received from the provincial and central governments. The level of independence ratio is in line with community participation in regional development, which can be seen by indicators of retribution and tax payments. Community obedience in paying levies and taxes as a source of regional income is a reflection of the higher level of community welfare [15]. During the COVID-19 pandemic, it had a very broad impact on all business sectors, with these conditions certainly having an effect on reducing the payment of levies and taxes. The community will focus more on how to maintain their survival, many businesses have gone bankrupt and many employees have been laid off by companies with reasons to cover losses that continue to grow.

Table 1

Results of Calculation of the Independence Ratio of the Cirebon Regency Government

FISCAL YEAR	REGIONAL ORIGINAL INCOME (PAD) (Rp)	Central or Provincial Government Assistance and Loans (Rp)	INDEPENDENCE RATIO (%)
2019	639.841.341.358,19	3.374.628.589.358,00	18,96%
2020	616.573.116.956,01	3.154.130.949.645,00	19,55%

Source: Cirebon Regency Financial Report 2019-2020 (processed)

Based on table 1 above, it can be seen that there has been an increase in the level of independence in the Cirebon Regency Government, this can be seen from the independence ratio in 2019 of 18.96% to 19.55% in 2020. But if you look at the pattern of the relationship between the level of independence and ability Regional finances are in accordance with table 1. The level of independence of Cirebon Regency is considered to be very low or still instructive, namely an average of 19.25% from 2019-2020. During the COVID-19 pandemic, the Cirebon Regency Government's PAD decreased by 3.64%, this was due to a decrease in regional levy revenues, regional taxes and the results of regional wealth management.

PAD Effectiveness Ratio Analysis

The PAD Effectiveness Ratio shows the ability of regional governments to realize PAD budget targets [16]. This ratio is calculated by comparing the realization of PAD revenue and PAD budget. The effectiveness ratio describes how the regional government in realizing the regional original revenue (PAD) that was previously budgeted based on the actual potential of the region. The effectiveness ratio describes the comparison between the realization of regional original income and the previously budgeted PAD based on the potential possessed by the region. Regional financial management is said to be effective if the value of this effectiveness ratio is more than 100%. The higher the effectiveness ratio, the better the regional ability [17].

Table 2

Results of Calculation of the Effectiveness Ratio of Cirebon Regency Government's PAD

FISCAL YEAR	REALIZATION OF PAD (Rp)	PAD REVENUE TARGET (Rp)	EFFECTIVENESS RATIO (%)
2019	639.841.341.358,19	617.644.092.930,00	103,59%
2020	616.573.116.956,01	565.008.144.276,00	109,13%

Source: Cirebon Regency Financial Report 2019-2020 (processed)

Based on table 2 above, it can be seen that there was an increase in the effectiveness ratio from 103.59% in 2019 to 109.13% in 2020 with very effective criteria. Thus it can be concluded that the Cirebon Regency Government in 2019-2020 has been very effective in managing its PAD. However, when viewed from the realization of PAD, Cirebon Regency has decreased by around 3.64%, this is the impact of the COVID-19 pandemic which affects the decline in regional levy revenues, regional taxes and the results of regional wealth management.

Efficiency Ratio Analysis

The efficiency ratio analyzes the comparison between the amount of sacrifice/expenditure that must be financed by the regional government in generating revenue with the realization of the income received in that period. Regional Financial Efficiency Ratio (REKD) is a comparison between the amount of costs incurred to obtain income and the realization of income received. Regional financial performance is considered good when the regional financial efficiency ratio is small, therefore the regional government must pay attention to the realization of all the income it receives by calculating exactly how much it will cost [18] Based on table 3 above, it can be seen that the average financial efficiency of the Cirebon Regency Government in the last two years is 82.13% or it can be said to be efficient because the value is less than 100%. The costs incurred by the Cirebon Regency Regional Government to obtain income are considered appropriate. The Regional Government of Cirebon Regency can be said to have good performance, this can be proven by being able to minimize the amount of spending by adjusting to its income.

Table 3

Calculation of the Efficiency Ratio of the Cirebon Regency Government

FISCAL YEAR	REALIZATION OF REGIONAL EXPENDITURE	INCOME REALIZATION (Rp)	EFFICIENCY RATIO
2019	3.373.974.352.440,86	4.014.469.930.716,19	84,05%
2020	3.024.639.762.349,00	3.770.704.066.601,01	80,21%

Source: Cirebon Regency Financial Report 2019-2020 (processed)

On the other hand, seen from the realization of the revenue of the Cirebon Regency Government, it decreased to Rp. 3,770,704,066,601.01 in 2020 when compared to the realization of income in 2019 of Rp. 4,014,469,930,716.19. This is in line with the decrease in the realization of expenditure in 2020 by Rp. 3,024,639,762,349.00, which originally in 2019 reached Rp. 3,373,974,352,440.86. This is the impact of the extraordinary events of the COVID-19 outbreak. Since it was declared a pandemic, positive cases in Indonesia and Cirebon Regency, including West Java Province, have shown an increase and an increasingly widespread distribution. This has had a huge impact on various sectors, including in the implementation and budgeting of regional development in 2020, so a policy of refocusing and reallocation of the budget is needed. This policy is intended for handling health and handling economic impacts through the provision of a social safety net, which greatly influences the achievement of local government performance targets.

Compatibility Ratio Analysis

Table 4

Calculation of the Conformity Ratio of the Cirebon Regency Government

FISCAL YEAR	TOTAL EXPENDITURE (Rp)	OPERATING EXPENDITURE REALIZATION (Rp)	OPERATING EXPENDITURE RATIO (%)
2019	3.373.974.352.440,86	2.786.140.573.287,86	82,58%
2020	3.024.639.762.349,00	2.673.701.396.925,00	88,40%

Source: Cirebon Regency Financial Report 2019-2020 (processed)

The results of the calculation of the compatibility ratio are divided into the ratio of the compatibility of operating expenditures and the ratio of compatibility of capital expenditures. Shows that most of the funds owned by the Cirebon Regency Government are still prioritized for operational expenditure needs which reached an average of 85.49% from 2019-2020. The large allocation of personnel expenditure is one of the causes of the increase in the allocation of operating expenditure funds. while the capital expenditure ratio at the Cirebon Regency Government has decreased significantly by 7.60% since the 2019-2020 period. In the realization of capital expenditures in the Cirebon Regency Government, there was a significant decrease reaching 49.48% this was due to the prioritization of the use of certain activity budget allocations (refocussing) by the Cirebon Regency Government to overcome the COVID-19 pandemic problem. Changes in the budget allocation include cutting capital expenditures that are less priority.

Growth Ratio Analysis

Growth Ratio is a measurement of how much the local government's ability to

maintain and increase the success that has been achieved from one period to the next, both in terms of sources of income and expenditures. The growth ratio is useful to find out whether the regional government in the relevant fiscal year or during several budget periods, budget performance experiences positive or negative revenue or expenditure growth [19]. The formula for calculating the Growth Ratio is as follows:

$$\text{PAD Growth Ratio} = \frac{\text{Realized PAD Xn} - \text{Realized PAD Xn-1}}{\text{Realization of PAD Xn-1}}$$

Table 5

Results of the Calculation of the Cirebon Regency Government Growth Ratio

FISCAL YEAR	PAD XN (Rp)	PAD XN-1 (Rp)	RATIO (%)
2018	584.810.843.481,60	-	-
2019	639.841.341.358,19	584.810.843.481,60	9,41%
2020	616.573.116.956,01	639.841.341.358,19	-3,64%

Source: Cirebon Regency Financial Report 2019-2020 (processed)

Based on the results of the calculation of the Regional Government Growth Ratio of Cirebon Regency, it is known that the average growth ratio reached 2.89% from 2019-2020 where in 2019. The growth ratio in 2019 was 9.91% but in 2020 there was a significant decline. very significant (very low) reaching -3.34%. As explained in the efficiency ratio analysis, the decline in the Cirebon Regency Government's Growth Ratio was due to the impact of the COVID-19 pandemic whose impact spread rapidly to all regions in various sectors such as trade, health, transportation, tourism and others, including the economic and social sectors. also affect regional revenue.

The decrease in regional original income, both Regional Tax Revenue, Regional Retribution, Regional Wealth Management Results and Other Regional Original Income due to decreased levels of production and public consumption, as well as large-scale social restrictions.

Conclusions

Based on the data analysis that has been done previously, the following conclusions can be drawn:

1. The Financial Performance of the Cirebon Regency Government when viewed from the Regional Financial Independence Ratio is still very low or still instructive. In 2019, the independence ratio was 18.96% and then increased in 2020 to 19.55%. Even though it is seen from the trend that the independence ratio has increased, the relationship pattern is still in the range of 0%-25%, which is instructive.
2. The Financial Performance of the Cirebon Regency Government when viewed from the PAD Effectiveness Ratio is considered very effective, where the average effectiveness is above 100%. In 2019, the PAD effectiveness ratio was 103.59% and increased in 2020 to 109.13%.
3. The Financial Performance of the Cirebon Regency Government when viewed from the Efficient Ratio is said to be efficient because it is less than 100%. In 2019 the efficiency ratio was 84.05% then decreased in 2020 by 80.21. Even though it's down, it's not less than 100%, so it's still considered efficient.
4. The Financial Performance of the Cirebon Regency Government when viewed from the Harmony Ratio is considered to still allocate a lot of operating expenditures rather than capital expenditures. In 2019, the operating expenditure ratio was 82.58% and in 2020 it increased by 88.40%. For capital expenditure in 2019 it reached 17.42 and experienced a very significant decrease in 2021 to 9.82%.

5. The Financial Performance of the Cirebon Regency Government when viewed from the Growth Ratio is considered to be still not good or still low where the average is 2.89% from 2019-2020. In 2019 the growth ratio reached 9.41% and experienced a very drastic decline in 2020 which reached a value of -3.64%.

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