

REGIONAL FINANCIAL RATIO ANALYSIS AS PERFORMANCE APPRAISAL TOOL (CASE STUDY ON BPPKAD MAGETAN REGENCY)

Dwi Koerniawati

Faculty of Islamic Economics and Business, Universitas Islam Negeri Sunan Ampel Surabaya Indonesia

ARTICLE INFO

Keywords:

*Financial Performance;
Ratio Analysis;
BPPKAD Magetan Regency*

E-mail:

dk.niawati@gmail.com

ABSTRACT

This study aims to determine the financial performance of BPPKAD Magetan Regency by analyzing the ratio of regional financial independence, effectiveness and efficiency ratio, activity ratio, growth ratio, and debt service coverage ratio. This study uses secondary data for 2018-2020 obtained through financial statement analysis. The writing methods used are description and exposition. The results showed that the independence ratio is still low with an average of 28.67% but continues to increase every year. The effectiveness ratio tends to be effective with an average of 108.46% while the efficiency ratio is already efficient with an average of 4.75%. In the ratio of BPPKAD activities, Magetan Regency is still prioritized for routine expenditure (Operations) of 69.64% rather than for development expenditure (Capital) of 14.74%. The growth ratio is showing a negative trend. Thus, the financial performance of BPPKAD Magetan Regency based on regional financial ratio analysis is quite good.

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1. INTRODUCTION

Granting autonomy rights to local governments as power holders who are given broad authority to carry out all government affairs. The authority starts with planning, implementing, administering, reporting, accountability, and supervision. This is following Law No.32 of 2004 concerning Regional Government which has been replaced with Law No.12 of 2008 concerning the second amendment to Law No. 32 of 2004. As a consequence of the authority of autonomy at large, regions are directed to spur the realization of public welfare through improved services, empowerment, and participation of citizens. Local governments as parties that carry out the wheels of government, development, and services to the public are required to declare their regional financial statements as a form of accountability for their performance. Article 1 paragraph (3) of Government Regulation No. 71 of 2010 concerning Government Accounting Standards (SAP), states that in preparing and presenting financial statements the government is obliged to use established accounting principles. The regulation is a change to Government Regulation No. 24 of 2005 concerning Government Accounting Standards.

The Magetan Regency Revenue and Financial and Asset Management Agency is a component of regional autonomy in the fields of revenue, financial management, and regional assets. In regional financial management by BPPKAD, Magetan Regency has not used standards or references when an area is said to be independent, efficient, and effective. Thus, performance measurement is needed as a benchmark in determining financial policy in the next fiscal year. In management, performance measurement acts as an assessment tool for whether the strategy that has been carried out has been successfully achieved. From the results of performance measurement, feedback is carried out so that a performance measurement system is formed that can improve organizational performance in a prolonged manner (continuous improvement). Mohammad Mahsun in Fitri Umi Hanik and Tutik Dwi Karyanti (2014: 22) stated that based on feedback on the results of performance measurement can improve performance in the next period both in planning and in its implementation. In government agencies, performance measurement cannot be measured by the ratios commonly obtained from a financial statement in an industry in general. This is because government institutions/organizations are not profit-oriented. The government's obligation to account for its performance is fulfilled by submitting relevant information related to the results of the program implemented to the Regional People's Representative Assembly (DPRD) as well as to community groups who are willing to assess the government's performance. One of the tools to analyze the performance of regional financial management is to analyze regional financial ratios. The analysis is carried out by comparing the results achieved from one period compared to the previous period so that it can be known how the tendency occurs. Through this analysis, BPPKAD Magetan Regency can assess regional

Regional Financial Ratio Analysis As Performance Appraisal Tool (Case Study On Bppkad Magetan Regency).

Dwi Koerniawati

financial independence in financing the implementation of regional autonomy, measure effectiveness and efficiency in realizing regional revenues, measure the extent of government activities in spending regional income, can see the growth or development of revenue acquisitions and expenditures carried out over a certain period.

2. METHODS

The type of data in this study is quantitative data. Quantitative data in the form of Budget Realization Reports (LRA) and Financial Statements that have been audited by Magetan Regency for 2018-2020. Judging from the source, data collection uses secondary data as a basis for financial performance analysis. This study uses secondary data, namely the LRA and Audited Financial Statements for 2018-2020. The data collection technique used in this study is documentation, namely by collecting LRA data and Financial Statements that have been audited for 2018-2020 by the Magetan Regency Government.

A data analysis method is a tool used in discussing a problem. The methods of analysis used include:

- Calculating the regional financial ratio at BPPKAD Magetan Regency using: (1) Regional financial independence ratio (2) Effectiveness and efficiency ratio (3) Activity ratio and (4) Growth ratio
- Comparing and analyzing the results of the calculation of the ratio of regional finances to the Regional Revenue and Expenditure Budget (APBD) from each period in the previous stage
- Conclude the calculation of regional financial ratios based on the criteria information of each ratio that has been determined, so that it can be known how the financial management performance of BPPKAD Magetan Regency.

3. RESULTS AND DISCUSSION

The discussion of results of this study will be discussed about the financial management performance of BPPKAD Magetan Regency using the ratio to APBD as follows:

Regional Financial Independence Ratio

Local financial independence describes the ability of local governments to finance their households by relying on local tax revenues as a source. The independence ratio formula according to Abdul Halim (2008:232) is as follows:

$$\text{Regional Financial Independence Ratio} = \frac{\text{Local Revenue (PAD)}}{\text{Central or Provincial Government Assistance and Loans}}$$

Paul Hersey and Kenneth Blanchard in Halim (2001: 168) stated the relationship between the central and regional governments in the implementation of regional autonomy, including:

- Instructive relationship pattern, the role of the central government is more dominant than the independence of the local government.
- The pattern of Consultative relations, the interference of the central government has begun to decrease since the regions are considered a little more capable of exercising autonomy.
- Participatory relationship pattern, the role of the central government is decreasing considering that the region concerned the level of independence is close to being able to carry out regional autonomy affairs.
- The pattern of Delegative relations and central government interference no longer exists because the regions have been completely able to be independent in carrying out regional autonomy affairs.

A guideline for looking at the relationship patterns and the level of regional independence from the financial side can be seen in table 1.

Table 1 Relationship Patterns and Levels of Regional Independence

Financial Ability/Dependence	Percentage	Relationship Patterns
Very low	0-25%	Instructive
Low	25-50%	Consultative
Keep	50-75%	Participatory
Tall	75-100%	Delegates

Source : Abdul Halim (2001:169)

Regional Financial Ratio Analysis As Performance Appraisal Tool (Case Study On Bppkad Magetan Regency).

Dwi Koerniawati

Table 2 Ratio of Regional Financial Independence of BPPKAD Magetan Regency in 2018-2020

Fiscal Year	Local Revenue (PAD)	Central and Provincial Government Assistance and Loans	Ratio Independence Regional Finance	Information
2018	171.321.160.004	6.319.800.000	27,11%	Consultative
2019	212.818.519.381	7.418.059.000	28,69%	Consultative
2020	205.685.936.442	6.809.703.000	30,21%	Consultative
<u>Average</u>			<u>28,67%</u>	<u>Consultative</u>

Source: BPPKAD Kab. Magetan, 2022 (has been reprocessed)

Based on the calculations above, it can be seen that the financial capability of BPPKAD Magetan Regency in terms of the ratio of regional financial independence is still low and has a consultative pattern. This means that the role of the central government has begun to decrease compared to the independence of local governments or in other words, dependence on external assistance has begun to decrease. The percentage of independence rate from year to year has increased. For the fiscal year 2018, it was 27.11%, in the fiscal year, 2019 was 28.69%, in the fiscal year 2020 it experienced a significant increase of 30.21% from 28.69% in the fiscal year 2019.

The increase that occurred was due to differences in PAD contributions such as regional taxes, regional levies, the results of regional wealth management that were separated, and other legitimate PAD both in target and realization. Nevertheless, local governments must continue to optimize revenues from existing PAD.

Effectiveness and Efficiency Ratio

The effectiveness ratio describes the ability of local governments to realize the planned PAD compared to the targets set based on the real potential of the regions. It can be formulated as follows:

$$\text{Effectiveness Ratio} = \frac{\text{Realization of PAD Acceptance}}{\text{PAD Revenue Target based on Regional Real Potential}}$$

The effectiveness ratio criteria according to Mohamad Mahsun (2013:187), namely:

- If obtained a value of less than 100% ($x < 100$) means that it is ineffective.
- If obtained a value equal to 100% ($x = 100$) means balanced effectiveness.
- If obtained a value of more than 100% ($x > 100$) means effective.

Table 3 Effectiveness Ratio of BPPKAD Magetan Regency for Fiscal Year 2018-2020

Fiscal Year	Realization of PAD	PAD Acceptance Target	Effectiveness Ratio	Information
2018	196.826.063.936	171.321.160.004	114,89%	Effective
2019	237.377.706.042	212.818.519.381	111,54%	Effective
2020	203.465.853.560	205.685.936.442	98,93%	Ineffective
<u>Average</u>			<u>108,46%</u>	<u>Effective</u>

Source: BPPKAD Magetan, 2022 (has been reprocessed)

The budget realization report shows that the original revenue and revenue realization targets of the BPPKAD area of Magetan Regency are experiencing an up-and-down phase from year to year. For the effectiveness ratio, it can be seen that the effectiveness of the financial performance of BPPKAD Magetan Regency in 2018 was 114.89%, in 2019 it was 111.54%, and in 2020 it was 98.93%.

Based on the specified criteria, the effectiveness of financial performance at BPPKAD Magetan Regency in 2018 and 2019 has been running effectively because the results are more than 100%, namely 114.89% and 111.54%. This happens because of the increasing public awareness to pay taxes which has an impact on increasing local tax revenues. Meanwhile, in 2020 it did not run effectively because the results obtained were less than 100%. This ineffectiveness is due to the BPPKAD of Magetan Regency not being optimal in implementing regional levy levies.

Regional Financial Ratio Analysis As Performance Appraisal Tool (Case Study On Bppkad Magetan Regency).

Dwi Koerniawati

To get good results, the effectiveness ratio needs to be juxtaposed with the efficiency ratio achieved by local governments. The efficiency ratio is a ratio that describes the ratio between the number of costs incurred to obtain income and the realization received.

$$\text{Efficiency Ratio} = \frac{\text{Costs Incurred for Collecting PAD}}{\text{Realization of PAD Acceptance}}$$

According to Mahsun (2013:187) efficiency criteria include:

- If obtained a value of less than 100% ($x < 100\%$) means efficient.
- If obtained a value equal to 100% ($x = 100\%$) means that the efficiency is balanced.
- If a value of more than 100% ($x > 100\%$) is obtained, it means that it is inefficient.

Table 4 Efficiency Ratio of BPPKAD Magetan Regency for Fiscal Year 2018-2020

Fiscal Year	Realization PAD Reception	Collection Fee PAD	Efficiency Ratio	Information
2018	196.826.063.936	43.944.563.810	4,48%	Efficient
2019	237.377.706.042	52.889.074.307	4,49%	Efficient
2020	203.465.853.560	38.540.691.830	5,28%	Efficient
<u>Average</u>			<u>4,75%</u>	<u>Efficient</u>

Source: BPPKAD Kab.Magetan, 2022 (has been reprocessed)

Based on calculations, it can be seen that the efficiency of financial management of BPPKAD Magetan Regency where the government provides the best to realize PAD optimally has increased. In the 2018 fiscal year 4.48% then there were successive increases in the 2019 and 2020 fiscal years, namely 4.49% and 5.28%. The increase illustrates the declining performance of BPPKAD Magetan Regency. In general, for the 2019 and 2020 fiscal years, it has experienced a considerable increase compared to 2018 and 2019.

Activity Ratio

In general, the activities of local governments can be judged by the allocation of expenditures that appear in the budget, both routine (operational) expenditures and development expenditures (capital). This ratio illustrates how local governments prioritize the allocation of their funds to routine spending and development spending optimally. The higher the percentage of funds allocated for routine expenditure, the percentage of capital expenditure (development expenditure) used to provide community economic infrastructure tends to be smaller. The ratio of activity (harmony) can be formulated:

$$\text{The ratio of Routine Spending to APBD} = \frac{\text{Total Regular Shopping}}{\text{Total APBD}}$$

$$\text{The ratio of Development Expenditure to APBD} = \frac{\text{Total Development Expenditure}}{\text{Total APBD}}$$

Table 5 Ratio of BPPKAD Activities in Magetan Regency for the Fiscal Year 2018-2020

Fiscal Year	Total Routine Spending (Operations)	Total Spending Building (Capital)	Total APBD	Routine (Surgery)	Development (Capital)
2018	1.261.462.889.234	194.944.111.688	1.716.126.360.246	73,50%	11,35%
2019	1.320.666.015.641	349.500.872.689	1.984.643.458.387	66,54%	17,61%
2020	1.233.234.009.264	237.214.475.379	1.790.371.695.588	68,88%	15,26%
<u>Average</u>				<u>69,64%</u>	<u>14,74%</u>

Source: BPPKAD Kab.Magetan, 2022 (has been reprocessed)

The results of the calculation can be seen that the average ratio of routine (operational) expenditure activities at BPPKAD Magetan Regency are 69.64% while for development expenditure (capital) it is 14.74%. The ratio of routine shopping activities of BPPKAD Magetan Regency is still very high compared to the ratio of development expenditure activities. It can be concluded that BPPKAD Magetan Regency prioritizes routine expenditure over capital expenditure (development). The higher the percentage of funds allocated for routine spending, the smaller the percentage of development expenditure used to provide economic infrastructure for the community.

BPPKAD Magetan Regency needs to reduce routine expenditures such as employee spending and spending on goods that are too large to be allocated for development spending. This needs to be considered by the Magetan Regency government even though the benchmark for the amount of routine spending and development spending on the APBD does not yet exist. However, as a region located in a developing country, local governments should increase development expenditure (capital) in providing infrastructure that supports the improvement of public welfare and public services.

Growth Ratio

Growth analysis is carried out to determine the development of the local government's financial performance in maintaining and improving its success. Known growth rates can then be used to evaluate which potentials need attention. This ratio can be formulated as follows:

- a. Percentage of Regional Native Income Growth (PAD)

$$\frac{\text{PAD Year } p - \text{PAD Year } p-1}{\text{PAD Year } p-1} \times 100$$

- b. Percentage Growth of Total Revenue

$$\frac{\text{Revenue Year } p - \text{Revenue Year } p-1}{\text{Revenue Year } p-1} \times 100$$

- c. Percentage of Regional Spending Growth

$$\frac{\text{Shopping Year } p - \text{Shopping Year } p-1}{\text{Shopping Year } p-1} \times 100$$

Description: p = calculated year, p-1 = previous year

Table 6 BPPKAD Growth Ratio of Magetan Regency for the Fiscal Year 2018-2020

Information	2018	2019	2020
PAD	196.826.063.936	237.377.706.042	203.465.853.560
PAD Growth Ratio	-	2,06%	-1,42
Total Revenue	1.828.792.472.409	1.936.559.034.997	1.801.812.706.354
Revenue Growth Ratio	-	5,89%	-6,95
Routine Shopping (operation)	1.261.462.889.234	1.320.666.015.641	1.233.234.009.264
Routine Spending Growth Ratio (operation)	-	4,69	-6,62
Development Expenditure (capital)	194.944.111.688	349.500.872.689	237.214.475.379
Development Expenditure Growth Ratio (capital)	-	7,92	-3,31

Source: BPPKAD Kab.Magetan, 2022 (has been reprocessed)

Overall, the revenue growth rate of DPPKAD Semarang Regency for the 2018-2020 fiscal year showed negative growth. PAD growth in the fiscal year 2020 fell to 1.42% which plummeted from the previous year. This is because the regional levy results have decreased the revenue target. This is also the case with the revenue growth ratio and the regional expenditure ratio.

4. CONCLUSION

The results of the analysis and discussion that have been described are the average financial performance of the BPPKAD Magetan regency is quite good. It can be seen from the low regional independence (consultative) with an average of 28.67% but continues to increase every year. In terms of the average effectiveness ratio of 108.46%, means that the collection of local revenue tends to be effective and the efficiency ratio with an average of 4.75% is said to be efficient in incurring incentive costs to collect PAD to the maximum. The activity ratio in BPPKAD Magetan Regency is still prioritized for routine spending compared to development spending. The growth ratio shows that BPPKAD Magetan Regency can maintain its performance in managing regional finances, as can be seen from the growth ratio which has experienced a positive trend even though there is a negative trend in the capital expenditure post.

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