


The Effect Of Ratcheting Effect On Regional Original Revenue And Regional Expenditure Of Malacca Regency In 2019-2023

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Article Info	ABSTRACT
Keywords: Ratcheting Effect, Regional Original Income, Regional Expenditure	This study aims to determine the effect of Regional Original Income with Regional Expenditures and the effect of ratcheting on the relationship between PAD and Regional Expenditures in Kab. Malaka. This type of research is a quantitative research and the research approach used is a qualitative approach. The population and sample in this study were Malaka Regency. The types and sources of data used were primary data types and secondary data types. The research variables used in this study were exogenous (Regional Original Income) and endogenous (Racheting Effect) variables. The data collection technique used in this research is the literature study method and the documentation method. The data analysis technique used partial least square (PLS). The data analysis techniques used in testing the hypothesis of this research are as follows: 1) Designing a structural model (Inner Model), 2) Measurement model (Outer Model), 3) estimating, 4) Evaluating the structural model of the construct, 5) Testing hypotheses. The results of this study indicate that Regional Original Income (PAD) has a negative effect on regional spending and the Ratcheting Effect has a positive and significant effect on the relationship between Regional Original Income and Regional Expenditures.
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INTRODUCTION

The development of regional autonomy in Indonesia has been in effect since the enactment of Law No. 32 of 2004 concerning regional autonomy. Truly major changes in state financial management occurred when regional autonomy was implemented in Indonesia. Malacca Regency, like other districts/cities, has obtained a wide, real, and responsible delegation of autonomy. The form of independent regional financial management (self-regulation and management) can be seen from how the Regional Government's strategy in budgeting for government programs and activities, the provision of public facilities and infrastructure and services to the community. The allocation of resources must be able to reflect development priorities for the public interest, parliamentary constituencies, and for the improvement of financial efficiency and effectiveness, so that the goals of public service can be achieved. Budgeting is very important because it is the basis for the implementation of development programs and public servants (Abdullah, 2012). The local government budget in Indonesia is

called the regional revenue and expenditure budget (APBD), with components consisting of revenue, expenditure and financing.

The process of preparing the budget after Law No. 22 of 1999 and Law No. 32 of 2004 involves two parties: namely the executive and the legislature, each through a team or budget committee. The executive as the implementer of regional operationalization is obliged to make a draft APBD which can only be implemented if it has been ratified and approved by the Regional People's Representative Council (DPRD) in the process of ratifying the Regional Revenue and Expenditure Budget (APBD).

The preparation of the APBD begins with making an agreement between the executive and the legislature on the general policy of the APBD, priorities and budget ceiling which will be guidelines for the preparation of the revenue budget and regional expenditure budget. The executive makes a draft of the APBD in accordance with the general policy of the APBD, the budget is then submitted to the legislature to be studied and discussed together before being stipulated as a Regional Regulation (Perda). In this case, it is a form of contract that is a tool for the legislature to supervise the implementation of the budget by the executive, the scope of the budget becomes relevant and important in the local government environment, this is related to the impact of the budget on government performance and in connection with the government's function in providing services to the community. Furthermore, the DPRD will supervise the government's performance through the budget.

This form of supervision is in accordance with (*agency theory*) where the local government is the agent and the DPRD is the principal (Neni Nurhayati, 2018). Therefore, this causes research in the field of budget in local governments to be relevant and important whether the government has worked optimally so that from year to year each region has changes and is independent to prosper its community. According to Chaterine & Mulyani (2020), the public sector budget of local governments in the APBD is actually *the output* of resource allocation. The allocation of resources is a basic problem in public sector budgeting.

The *ratchet* effect in the economic literature is a form of behavioral bias in the budgeting process caused by the use of performance information from the previous period as a basis for determining performance targets through a negotiation process in the context of agency relations (Indjekikian & Nanda, 1999). The *ratchet effect* in the budget can be seen from the increase in the next period's budget in response to the positive variant of the previous year's budget, and vice versa, the decrease in the next period's budget in response to the negative variant of the previous period's budget.

Halim and Abdullah (2006) explained that ratchet will explain that there will be an *agency theory* in its implementation, agency theory also explains that there is an agreement between two parties, namely the one who gives the authority is usually called the principal and the party who receives the authority is called the agent. The research of Abdullah and Junita (2016) explained that when local governments make information from the past year that is profitable which will be used as the basis for determining the budget in the next year, it is called the *ratcheting effect*. The *ratcheting effect* is a form of behavioral bias by budget planners in the process of determining or planning the budget and is also a form of behavioral bias that almost always arises in the relationship between *principal* and *agent* hose agencies

(Indjejikian & Nanda, 1999). *The Ratcheting Effect* is a way for local governments to beautify, renovate and revise the achievement of targets to get an idea of past performance (Nurhayati, 2018).

Research on *the ratchet* effect in government organizations is important at least because of the following. First, the ratchet effect on the budgeting process of government organizations shows a bias in the behavior of budget drafters that can explain the determinants of government budget growth. Government budget growth generally refers to the classic norm, "the realization of the previous year's budget plus a certain rate of growth" (Lee & Plummer, 2007; Marlowe, 2009). This has implications in the form of a tendency to overproduce public goods and services, *effort reduction* and using the budget for non-essential activities towards the end of the fiscal year (Lee & Plummer, 2007). Such conditions result in inefficient budget growth and are detrimental to the public interest. Second, the ratchet effect shows that the budget for the next period contains incrementality that is not in line with the purpose of implementing performance-based budgeting in an effort to improve the accuracy of the planning stages and strengthen the aspect of performance accountability in the budgeting cycle. Third, this study is important to show the differences in the characteristics of government organizations in Indonesia in terms of the scope of authority of local governments in the budgeting cycle which not only includes authority related to the determination of budget plans, but also includes the determination of revenue targets (Susanto & Halim, 2018). The Regional Government of Malacca Regency is one of the local governments in NTT Province that has a good record of achievements. The Regional Revenue and Expenditure Budget (APBD) of the Malacca Regency Regional Government has increased from time to time. The increase and change in the budget can be seen in the APBD report published by [the www.djpk.kemenkeu.go.id/portal/data/apbd](http://www.djpk.kemenkeu.go.id/portal/data/apbd). The published report can be seen in the following table:

Tabel 1. Report on the Realization of Revenue, Regional Expenditure and PAD of Malacca Regency in 2019-2023

Year	Revenue Budget (realization)	Regional Spending	PAD
2016	1.201.550.074.401,00	1.300.560.020.472,00	71.848.806.283
2017	1.418.915.734.541,00	1.392.555.153.413,00	189.534.208.709
2018	1.455.232.059.077,00	1.499.886.746.869,00	71.487.909.124
2019	1.505.217.596.648,00	1.497.046.640.129,00	77.594.080.656
2020	1.431.449.461.031,00	1.446.021.644.280,00	64.100.994.701,24

From the table above, it can be explained that in 2017 the Regional Revenue and Expenditure Budget increased by Rp189,534,208,709 while in 2020 it decreased by Rp64,100,994,701. The table above indicates that the achievement of budget realization requires an increase in terms of budget planning and implementation. The scope of the Regional Budget of the Malacca Regency Government is what attracts researchers to find out the success of changing the government budgeting paradigm with the implementation of performance-based budgeting can reduce the occurrence of government budget behavior

bias in the form of a *ratchet effect* in influencing the relationship between local revenue and regional expenditure in the Malacca Regency Government. Based on the description explained in the background of the problem, the focus of the research is the Analysis of the *Ratcheting Effect* on Regional Original Revenue on Regional Expenditure in Malacca Regency in 2019-2023.

METHOD

The research conducted is a quantitative research on the analysis of *ratcheting effects* on regional original revenue on regional expenditure in Malacca Regency in 2019-2023. The data analysis is quantitative or statistical with the aim of testing the hypothesis that has been established. The method used is a quantitative method, because the research data is in the form of numbers, namely Regional Original Revenue and Regional Expenditure. The population and sample in this study are Malacca Regency which provides data with details of PAD in 2019-2023, Regional Expenditure in 2019-2023 and the Ratcheting Effect in 2019-2023.

There are two types of data in general, namely quantitative data and qualitative data which will be explained below, the author focuses more on quantitative data in conducting this analysis. The quantitative data in this study are the realization figures of Regional Original Revenue and Regional Expenditure in 2019-2023. The quantitative data needed is the amount of realization of the PAD and Regional Expenditure budget in 2019-2023. In collecting data sources, researchers collect data sources in the form of primary data and secondary data.

The author collects primary data by survey method and observation method. The survey method is a method of collecting primary data that uses oral and written questions. In this study, the author conducted interviews with the local government of Malacca Regency (Regional Revenue Office) to obtain the data or information needed about the realization of PAD and Regional Expenditure. Secondary data is in the form of evidence, records or historical reports that have been compiled in archives or data documenters and are ready-to-use. The secondary data types in this study are the realization of Regional Original Revenue, Regional Expenditure and *the ratcheting effect* which is calculated using the formula from the realization of PAD. The data sources used in this study were obtained from the Director General of Financial Balance and the Ministry of Finance through [the http://www.djpk.depkeu.go.id website](http://www.djpk.depkeu.go.id). Regional Original Revenue and Regional Expenditure data are carried out with *natural logarithms* before being processed with WarpPLS.

Variable identification is based on empirical and theoretical studies as a reference for a framework of thinking consisting of two variables, namely exogenous and endogenous variables. The exogenous variable in this study is Regional Original Revenue. The Regional Original Revenue variable is referred to as an exogenous variable because the Regional Original Revenue variable is not influenced by the causal variable in the system and cannot be causally related. The use of regional original revenue variables uses Permendagri No. 13 of 2006 concerning guidelines for regional financial management. The endogenous variables in this study are divided into two:

- a. The intervening/moderation *endogenous variable* is a variable that influences when the exogenous variable affects the dependent endogenous variable. The endogenous variable in this study is *the Ratcheting Effect*.
- b. Dependent endogenous variables are variables that are influenced by exogenous variables and *intervening endogenous* variables. The endogenous variable dependent on this study is Regional Expenditure.

The data collection technique in this study is carried out by:

- a. The literature study method is by examining various literature such as journals, papers, and other sources related to research.
- b. The documentation method is by recording or documenting PAD data and regional expenditure listed on the <http://www.djpk.depkeu.go.id> website

The analysis model used in this study consists of two *artificial least square* (PLS) analysis models to test the effect. The basic idea of PLS is to predict the Y (dependent) variable of the X (independent) variable. PLS will look for the component X that is best for predicting Y. To do this, PLS will look for one component called a latent vector and is a simultaneous decomposition of X and Y with the limitation that this component can explain the covariance between X and Y (Ghozali, 2014). Ghozali also explained that PLS is an analysis method that is *soft modeling* because it does not assume that the data must be measured on a certain scale.

RESULTS AND DISCUSSION

Regional Original Revenue and Regional Expenditure

Regional original revenue is the income obtained from the levy on the respective regional regulations which is based on the laws stated in Law No. 33 of 2004. PAD can also be said to be all regional revenues sourced from the original economic sources of the region. Regional original revenue is recognized when the local government receives regional taxes, regional levies, the results of segregated regional wealth management and other legitimate PAD.

Local governments have the potential to be a source of regional revenue itself, and the basis for this strengthening is from the applicable laws and regulations. The regional regulations that have been issued are expected to increase the ability of the region in financing regional development and also public services on the basis of needs and can reduce the dependence of local governments on the central government. PAD is measured using the following formula:

PAD = regional tax + regional redaction + results of segregated regional wealth management + other valid PAD.

Regional Expenditure is all special regional obligations that act as an effort to reduce net worth in the period of the relevant fiscal year or financial year, which is regulated by law number. 33 of 2004. Regional spending is the use of resources to carry out government activities to be used as the authority of a district or region/city which includes mandatory and optional affairs. Regional expenditure is measured by the following formula:

Regional Expenditure = Operating Expenditure + Capital Expenditure + Unexpected Expenditure + Transfer Expenditure.

Ratcheting Effect

Ratcheting is a form of information asymmetry, namely the existence of information instability between *principal* and *agent* (Leone & Rock, 2002) and Fisher, et al (2002) found that *ratcheting* is symmetrical in behavior. Aranda, Arellano and Davila (2010) explained that the purpose of *Ratcheting* is to minimize budget imbalances and have an impact on the costs incurred in participatory budgeting.

The Ratchet *Effect* is a form of bias from the behavior of budget planners in the process of determining or planning the budget. *The Ratchet* effect is a form of behavioral bias which almost always appears in the relationship between principal and agent (Indjejikian & Nanda, 1999). The ratchet effect arises when the budget designer sets budget goals based on the achievement of the previous period's budget performance as a result of dynamic incentive issues in the context of agency relationships. The impact of ratchet on the budget is shown in the form of opportunistic executive behavior by changing or releasing the current year's budget achievement before or towards the end of the budget period. The *ratchet* effect in this study where the variable is measured using the Aranda et model, al (2010).

$$PADt - PADt-1 = \delta + \gamma(PADRt-1 - PADt-1) + \varepsilon,$$

Analisis Outer Model

The outer model analysis in this study is not discussed because the data of this study is in the form of secondary data. Outer model analysis is discussed or used in a study when the study uses primary data in the form of questionnaires to measure validity and reliability.

Inner Model Analysis

WarpPLS 6.0 analysis is used to see the fit indices model and the results of hypothesis testing. The calculation of the fit model value is based on the results of the WarpPLS 6.0 analysis aimed at table 2.

Table 2. Inner Model Results (R-Square)

Variable	R-Square
PAD	-
Regional Spending	0,49
<i>Ratchet</i> effect	-

The goodness of fit model in PLS analysis uses the *stone-geiser Q-Square test* in the form of a *Q-Square predictive relevance* value. The value is calculated based on the R2 value of each endogenous variable, namely the Regional Expenditure variable, obtaining an R12 value of 0.49. Thus *the value of Q-square predictive relevance* is

$$\begin{aligned} Q^2 &= 1-(1-R_1^2) \\ &= 1-(1-0,49) \\ &= 1- 0,51 \\ &= 0,49 \end{aligned}$$

Based on this calculation, the *Q-square predective relevance value* was obtained of 0.49 or 49%. So that the model is said to have a strong predictive value because the variables in the model only include Regional Expenditure which is able to explain the PAD and

ratcheting effects variables by 49% and the remaining 51% is explained by other variables outside this study.

Tabel 3. *Goodness of fit model*

Result	P-value	Criterion	Information
APC= 0.351	P<0.020	Good IF P<0,05	Accepted
ARS= 0.490	P= 0.007	Good IF P<0,05	Accepted
AVIF= 1.064		P< 5	Accepted

Model *fit indices* are a very important measure in data processing with WarpPLS because *fit indices* show the fit of the model with the data and show the quality of the model being studied. *Arage R-Square* (ARS) is used to assess the magnitude of exogenous, endogenous dependent and moderation variables. ARS is said to be good if the ARS value <0.05. *Avarage Path Coefficient* (APC) is used to see the magnitude of the relationship or attachment between variables. APC is said to be good if the APC value < 0.05. *Avarage Variance Inflation Factor* (AVIF) is used to see the magnitude of correlation between endogenous variables or multicollinearity. AVIF is said to be good if the AVIF score is <5. The interpretation of *the fit model* indicator in this study meets the criteria of *the goodness of fit model* value so that this research model can be used to test hypotheses. Hypothesis testing in this study is carried out by testing the relationship between variables. The statistical test was carried out if a *p-value* of <0.05 (*alpha* 5%) was obtained. The test results are shown in figure 4.3.

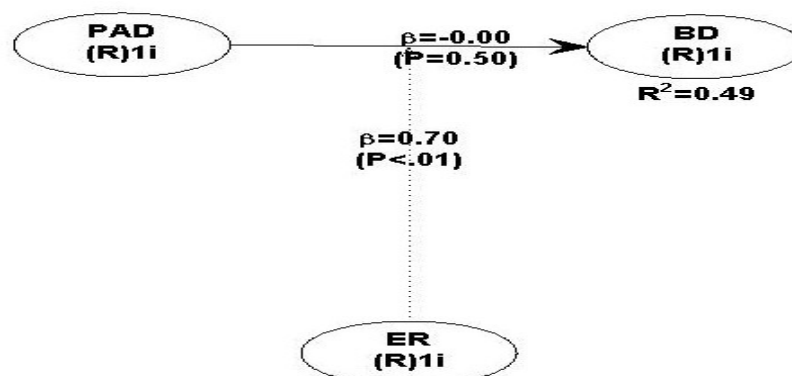


Figure 1. Hypothesis Test Results

Based on the results of the hypothesis test, the results of the overall hypothesis test are as follows:

1. Hypothesis I testing shows that Regional Original Revenue has a negative effect on Regional Expenditure. This is evidenced by the value of the path coefficient with a negative value of -0.00 and a p-value of 0.50 which means more than 5%. This shows that the region does not maximize its Regional Original Revenue so that regional spending is also not maximized. So the hypothesis that PAD has a positive effect on Regional Expenditure is not proven.
2. Hypothesis II testing shows that *Efeck Ratcheting* has a significant positive effect on the relationship between Regional Original Revenue and Regional Expenditure. This is evidenced by the value of the path coefficient with a positive value of 0.70 and a p-

value of $<.01$, which means less than 5%. This means that there is an agency problem in the regional budgeting. So the hypothesis that *Efeck Ratcheting* has a significant positive effect on the relationship between local real income and regional spending is proven.

Discussion

The discussion in this chapter is based on the results of the analysis that has been carried out. The discussion was carried out by looking at the relationship between variables that occurred as proof of the hypothesis proposed.

The Effect of Regional Original Revenue on Regional Expenditure

Research on PAD has been carried out a lot, one of which is research conducted by Mardiasmo (2004), with a high PAD, regional spending will be even greater, one of which is by increasing local government subsidies to the lower class of people. According to Azis et al (2004) in (Syukriy and Halim: 2003). Regional original revenue will affect the local government budget. In this case, local government expenditure is adjusted to changes in local government revenues or changes in revenue occur before the change in expenditure.

Regional Original Revenue (PAD) is regional revenue sourced from regional tax revenues, regional levy revenues, segregated regional wealth management results and other legitimate regional original revenues, which aims to give authority to local governments to fund the implementation of regional autonomy in accordance with regional potential as a manifestation of decentralization.

Regional Original Revenue has a significant role in determining the region's ability to carry out government activities and development programs. Funds to finance regional activities are mainly extracted from the source of their own capabilities with the principle of increasing independence in the implementation of regional autonomy.

If the PAD increases, the funds owned by the local government will also increase, so that the local government will take the initiative to further explore the potential of the region and increase the economic growth of the region. This shows a strong indication, that if the PAD of a region increases, the ability of the region to carry out regional expenditure will also experience an increase (Tambunan: 2006 in Mulyadu Soemole: 2013).

The development of a region through Regional Expenditure can be ascertained to have good potential if the Regional Expenditure is able to finance and be supported by PAD. If the contribution from PAD revenue sources to Regional Expenditure is larger, in principle it will also be greater its contribution to the APBD for Regional Expenditure which will have a good impact on regional development.

Based on the results of the analysis, it shows that local revenue has a negative effect on regional spending. The larger the PAD received, the greater the authority of the local government in implementing the autonomy policy, on the contrary, the smaller the PAD received, the smaller the local government will also implement the autonomy policy allocated through the regional expenditure. It can be said that in the management of local government expenditure in Indonesia, which is reflected in the APBD, PAD is one of the sources of revenue that also determines the size of the allocation of regional expenditure of district/city governments in Indonesia.

Data obtained from the central statistical agency in 2020 Malaka Regency PAD has increased, which is Rp 64,100,994,701.24 from previous years, but regional expenditure has decreased. This is because the Malacca Regency Government uses its PAD budget for the recovery of the Covid-19 virus. In the 2019-2024 Malacca Regency Regional Medium-Term Development Plan (RPJMD) document, the potential for regional development problems in general arises from strengths that have not been used optimally with weaknesses that have not been or have not been overcome. So regional development problems that will be the main agenda to be handled through programs and activities for the next five years are grouped based on affairs, but in general, one of the problems in Malacca Regency is the Low Regional Original Income (PAD). This supports the researcher's argument that the local government of Malacca Regency does not develop and improve its PAD by maximizing its resources in order to be able to finance all activities through regional expenditure allocation. So the PAD obtained by the region is not maximum, the smaller the regional expenditure carried out by the local government for development in the region. The results of this hypothesis test support the results of research by Tuasikal (2008), Anjani (2015), and Permatasari (2016) which show that PAD has a negative influence on regional spending.

However, the results of this study do not support previous studies that examined the relationship between local revenue and regional spending, namely Abdullah and Junita (2016), Rahmawati (2015), and Sari, et al. (2019) concluded that regional original revenue has a significant positive effect on regional spending. The study can conclude that through high local income, it can be concluded that the government can reduce its dependence on local governments. The research can also be concluded that local governments that have relatively high regional original income, therefore the expenditure used for the allocation of regional expenditure will also be larger. Funds received through local revenue, if large, will also be larger the funds that will and must be allocated to regional spending.

Effect of *Ratcheting* Effect on the Relationship between PAD and Regional Expenditure

One of the hypotheses in public finance theory states that the *tax-spend hypothesis* is not the other way around. Some studies provide empirical evidence of this (Poterba, 1995), but in budgeting practice, the relationship is almost always biased due to bias in determining income targets (Larkey & Smith, 1989).

Specifically, revenue budgets that have positive variants are related to an increase in the revenue budget in the following year, while revenue budgets with negative variants are not related to future revenue budget increases. Thus, the relationship between the current period budget variants has a correlation with the determination of the following year's revenue target (Lee & Plummer 2007; Bouwens & Kroos, 2010).

A study by Leone & Rock (2002) found that *budget ratcheting* occurs in the business sector in the process of assigning incentives to managers. Meanwhile, Bouwens & Kroos (2010) show evidence of adverse consequences of the effect of *budget ratcheting* in the private sector. The relationship between agency issues and *budget ratcheting* invites researchers to explore the problem of *budget ratcheting* in all divisions or forms of business organizations.

Agency problems in budgeting occur in the government sector (Abdullah, 2012; Smith & Bertozzi, 1998). Political economy in local governments involves bureaucrats, as seen from efforts to maximize the budget by utilizing the monopoly power they have (Lee and Plummer, 2007). According to Kim (2002), the budget proposed by regional heads is based on budget priorities adjusted to the medium-term goals of local governments, which, if approved by parliament, will be distributed at the beginning of the next fiscal year. Each budget proposal includes two things, namely estimated revenue and estimated expenditure, which is the decision.

Based on the results of the analysis, it was shown that *the Ratcheting Effect* had a significant positive effect on the relationship between PAD and Regional Expenditure. Kim (2002) found that *budget ratcheting* occurs when *agency problems* get worse. Revenue that has a negative variant in the current period's revenue budget is also due to the lower *major power index*. However, the revenue budget that has a positive variant, which causes an increase in the revenue budget in the next period, is also influenced by the strong power of the local government (*higher major power index*). This is proof that when agency problems become more severe, then the revenue budget target for the next period becomes less responsive to the variation of the current period. This shows that *Efeck Ratcheting* has a significant positive effect on the relationship between Regional Original Revenue and Regional Expenditure, meaning that the results of this study support the previous research conducted by Neni Nurhayati (2018) who researched the Effect of *Budget Ratcheting* on the Relationship Between Natural and Regional Revenue and Regional Expenditure. While this study is different from the previous study, namely Regional Original Revenue has a negative effect and on Regional Expenditure, this shows that this study is different from the previous research conducted by Anindyo Aji Susantu and Abdul who researched on the *Ratcheting* Efek has a positive effect on PAD and Regional Expenditure.

The results of this study do not support the previous research conducted by Neni Nurhayati (2018) who researched the Effect of Budget Ratcheting on the Relationship Between Regional Original Revenue and Regional Expenditure. The results of the study show that the variable Influence of Budget Ratcheting on the Relationship Between Original and Regional Revenue and Regional Expenditure has a positive influence on PAD and Regional Expenditure. The same thing was also expressed in their research by Anindyo Aji Susanto & Abdul who stated that *Ratcheting Effus* on the Regional Government Budget has a positive effect on PAD and Regional Expenditure.

CONCLUSION

Based on the results of the analysis and testing, the H1 hypothesis was rejected because the results of the analysis showed that Regional Original Revenue (PAD) had a negative effect on regional spending. The Malacca Regency Government does not develop and does not increase its PAD through the collection of levies, taxes, and other levies and does not maximize its resources in order to finance all regional spending activities that support government activities which ultimately improve the welfare of the community. *Efeck Ratcheting* has a significant positive effect on the relationship between Regional Original

Revenue and Regional Expenditure. Therefore, it can be concluded that the *ratcheting effect* weakens the relationship between local revenue and regional spending.

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