

# The Analysis Regarding the Financial Ratios to Assess the Government Finance Performance at Serang City on the Budget Year Periods of 2014-2018

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**Abstract:-** This research was intended to find out the **Regional Financial Independence ratio, PAD Effectiveness Ratio and Capital Expenditure Ratio in Financial Performance of Serang City Government for the 2014-2018 fiscal year period.** This research methods that have been used was the **descriptive qualitative method with the data used came from the financial statements of Serang City office 2014-2018 period of year.** The results of this research is the **Regional Financial Independence Ratio from 2014 to 2018 which has an average of 10.24% with very low criteria, the PAD Effectiveness Ratio from 2014 to 2018 has an average of 113.206% with very effective criteria, the ratio Harmony of Capital Expenditures from 2014 to 2018 has an average of 17.99% in the mismatched category.**

**Keywords:-** *Financial Ratios, Financial Performance.*

## I. INTRODUCTION

### A. Background of the Problems

Law Number 32 of 2004 was concerning about the Regional Government and Law Number 33 of 2004 was concerning about Financial Balance between the Central and Regional governments has huge impacts on the implementation of autonomy area. The Regional Government was given the authority and obligation to carry out the various government activities more independently, Including the optimizing financial management in particular management regarding the regional income.

The Measurement of financial performance for public benefit can be used as a basis for assessing the performance, namely to assess success or not an organization of programs or activities other than that it could also used as a benchmark to improving performance, especially financial local government in the next period. There is regional autonomy resulting in the decentralization of the government system in Serang City, therefore the City of Serang as the party entrusted with the task run the wheels of government, development and community service must be submit financial accountability reports of the region to be assessed whether the Serang City Government has successfully carried out its duties properly or not.

The Ratio analysis of the regional budget must be done to improve the quality of regional financial management, besides increasing the quantity of regional finance Management, ratio analysis to APBD realization could be used also as a tool to assess the effectiveness of regional autonomy because of this policy which provide the flexibility for regional governments to manage its finances so it should be able to improve the regional financial performance itself.

Regional Financial Independence Ratio has Shown that the capability level of an area to self-financing the government activities, development and Provide the good service to people who paid off the taxes and levies as source of income whom needed by the region. The Financial Independence Ratio Regions could be seen by the amount of Local own-source revenue compared to other sources regional revenue (Transfer Income) such as: Profit sharing tax, Profit sharing not from the natural resource taxes, general fund allocation and special allocation, emergency funds and loans.

The Effectiveness Ratios could be describe as the ability of local governments in realizing the long term planned of local revenue compared to the target is determined based on the real potential of the region. The Effectiveness related with the level of success of an operation in the public sector so that an activity which said to be effective if the activity has a large influence on the ability to provide community service which is predetermined goals.

The congeniality ratio could describes how the local government prioritized the allocation of funds for routine and development with optimally. The higher the percentage of fundsWhich allocated for Routine Expenditures means the percentage of Investment Expenditures (Expenditures Development) which used to provide facilities and infrastructure people's economy tends to get smaller.

### B. Problems Identification

Based on the background whose described above, the identification of problems that writer found as its follows:

- The addition of Serang City regional government towards the subsidies which provide by Central and provincial government as seen from the greater Regions income compared to Local own-source Revenue (PAD).

- The role of the central government is more dominant than the independence of the government area which reflected by the amount of transfer revenue from central and Provincial Government.
- Lack of the regional capacity to explore the potential sources of income As local own-source revenue it could be seen as the smaller local own-source revenue (PAD) compared to the total of Regional Income.

*C. The Research Purposed*

- To find out the independence ratio of financial performance at Serang City Government
- To find out the effectiveness ratio of financial performance at Serang City Government
- To find out the balance ratio of capita; expenditure to financial performance at Serang City Government

**II. THEORETICAL STUDY**

*A. Local Government Financial Report*

The definition of financial statements in which contained on the explanation Law Number 8 of 2006 that concern about the Financial Report and Performance of Government Institute based on article 1 paragraph 1, which form of accountability for managing the State and regional finances for one year period.

Based on the government regulation No. 71 of 2010 which concern about the Standards of Government Accounting, the local government financial statements are structured reports of financial position and transactions which conducted by a entity report staff. The entity report is a unit of government which consisted of one or more compliant accounting entities based on the rules of the govt

regarding submitting the financial statement as form of liability .

*B. Local Government Financial Ratios*

➤ *Local Financial Independence Ratio (RKKD)*

The Local Financial Independence Ratio (RKKD) has shown the level of the ability for a region to finance its own government activities , the development and assisted to people who have paid off the taxes and levies as a source of income whom needed by the region. The local Financial Independence Ratio has indicated by the magnitude of Local Own-source Revenues and compared to the Regional Revenues which are comes from the other sources (transfer income) such as: Tax revenue sharing, Non-tax revenue sharing, natural resources, general allocation funds and special allocations, emergency funds and loans.

The formula that used to calculate the Independent Ratio is:

$$Independence Ratio = \frac{PAD}{Transfer Income} \times 100\%$$

Source: Mahmudi (2016:140)

Local Financial Independence Ratio has illustrates the local dependence to Transfer Income (data source by external). The higher the Local Financial Independence Ratio implies that the level of local dependence on aid external parties are getting lower and vice versa. Local Financial Independence ratio also illustrates the level of community participant in regional development. As a guide to seeing the pattern of relationships with regional capabilities (from the financial side) could be describe as the following table was presented:

Financial Ability	Independence (%)	Relationship Pattern
Very Low	0% -25%	Instructive
Low	25%-50%	Consultative
Medium	50%-75%	Participatory
High	75%-100%	Delegative

Table 1:- The Patterns related and The Levels of Local Ability  
Source: Mahmudi (2016:140)

➤ *PAD Effectiveness Ratio*

PAD Effectiveness Ratio illustrates the ability of government regions in realizing the PAD that have been planned compared to the targets set based on the real potential of the region. The more higher the PAD Effectiveness Ratio, the better the local government's performance. The formula that used to calculate the PAD Effectiveness Ratio is:

$$Effectivity Ratio = \frac{PAD Realization}{PAD Planned} \times 100\%$$

Source: Mahmudi (2016:141)

The Local governments were said to be able to carry out their duties if the ratio was achieved at least 1 or 100 percent. But the higher the ratio Effectiveness means the ability of the region was getting better. in order to obtained the better size this ratio needs to be accompanied by an efficiency ratio. The government has compiled the research guidelines for effectiveness the regional finances as it follows:

Effectiveness Criteria	Percentage of Effectiveness (%)
Very Effective	> 100
Effective	> 90-100
Effective Enough	> 80-90
Less Effective	> 60-80
Not Effective	< 60

Table 2:- Local Financial Effectiveness Criteria

➤ *The Balance Capital Expenditures Ratio*

The Balance Ratio describes how the local government prioritized the allocation of funds to Routine and Development optimally. The higher the percentage of funds which allocated for routine expenditure means the percentage of Investment Expenditures (Development Expenditures) used to provide the facilities and community

economic infrastructure tends to get smaller. Simply, the balance ratio can be formulated as follows:

$$CER = \frac{\text{The total of Capital Expenses}}{\text{The total of Local Expenses}} \times 100\%$$

Source of Mahmudi (2016:163)

Balance Capital Criteria	Percentage (%)
Mismatched	0% - 20%
Less Matched	20% - 40%
Fair Matching	40% - 60%
Matched	60% - 80%
So Matched	80% - 100%

Table 3:- The Criteria for Evaluating the Performance of Balance Capital Expenditures

Source: Mahmudi (2016:163)

**III. RESEARCH METHODS**

The analytical method that used in this research was the analysis descriptive qualitative, which defined as research that produces the descriptive data in form of written words. The descriptive research method approach the qualitative research by using data or document research techniques, observations and interviews. The Research analysis of content or document has specified for collect and analyze the official documents or data that have been validated and has guaranteed the validity.

**IV. RESEARCH FINDINGS**

➤ *The regional Independence Financial Ratios*

Therefore the measurement of Regional Financial Independence Ratio (RKKD) of Serang City during the 2014-2018 the fiscal year could be formulated as its follows:

$$\text{Independence Ratio} = \frac{PAD}{\text{Transfer Income}} \times 100\%$$

- *In Year 2014*  
 $\frac{97,827,597,434}{873,460,253,533} \times 100\% = 11,2\%$

- *In Year 2015*  
 $\frac{111,062,806,774}{918,745,599,190} \times 100\% = 11,2\%$

- *In Year 2016*  
 $\frac{126,900,900,019}{1,005,365,373,571} \times 100\% = 12,6\%$

- *In Year 2017*  
 $\frac{232,458,208,409}{998,886,437,141} \times 100\% = 23,2\%$

- *In Year 2018*  
 $\frac{164,218,548,654}{1,003,053,326,709} \times 100\% = 16,3\%$

The amount of the Regional Financial Independence Ratio (RKKD) was obtained from the allocations of local own-source revenue (PAD) with the Transfer Income then multiple by 100% times.

Year	PAD (IDR)	Transfer Revenue (IDR)	Independence Ratio (%)	Finance Ability
2014	97,827,597,434	73,460,253,533	11,2	Very Low
2015	111,062,806,774	918,745,599,190	12,1	Very Low
2016	126,900,900,019	1,005,365,373,571	12,6	Very Low
2017	232,458,208,409	998,886,437,141	23,2	Very Low
2018	164,218,548,654	1,003,053,326,709	16,3	Very Low
<b>Average</b>			<b>10,24</b>	

Table 4:- The Independence Ratio of Serang City Regional Government during Fiscal Year 2014-2018

Source: Process by Author

➤ *PAD Effectiveness Ratio*

There has amount of the Effectiveness ratio of regional finances during the budget year of 2014-2018 as its follows:

$$Effectivity\ Ratio = \frac{PAD\ Realization}{PAD\ Planned} \times 100\%$$

Source: Mahmudi (2016:141)

In Year of 2014  
 $\frac{97,827,597,434}{81,140,202,667} \times 100\% = 120,56\%$

In Year of 2015  
 $\frac{111,062,806,774}{93,549,618,840} \times 100\% = 118,72\%$

In Year of 2016  
 $\frac{126,900,900,019}{115,139,113,647} \times 100\% = 110,21\%$

In Year of 2017  
 $\frac{232,458,208,409}{214,818,694,7291} \times 100\% = 108,21\%$

In Year of 2018  
 $\frac{164,218,548,654}{151,589,133,197} \times 100\% = 108,33\%$

The amount of Effectiveness Ratio was obtained from the results of the allocations of Local own-source revenue (PAD) with the Budget (PAD) then multiplied by 100%, the higher the Effectiveness Ratio means the regional progress is getting better.

Year	Realization of PAD (IDR)	PAD Budget (IDR)	Effectiveness Ratio (%)	Effectiveness Criteria
2014	97,827,597,434	81,140,202,667	120,56	Very Effectiveness
2015	111,062,806,774	93,549,618,840	118,72	Very Effectiveness
2016	126,900,900,019	115,139,113,647	110,21	Very Effectiveness
2017	232,458,208,409	214,818,694,729	108,21	Very Effectiveness
2018	164,218,548,654	151,589,133,197	108,33	Very Effectiveness
<b>Average</b>			<b>10,24</b>	

Table 5:- The Effectiveness Ratios of Serang City Local Government PAD Fiscal Year of 2014-2018

Source: Process by Author

➤ *The Balance Capital Expenditures Ratio*

$$CER = \frac{\text{The total of Capital Expenses}}{\text{The total of Local Expenses}} \times 100\%$$

Source: Mahmudi (2016:163)

In Year of 2014  
 $\frac{151,309,166,795}{949,970,142,088} \times 100\% = 15,92\%$

In Year of 2015  
 $\frac{183,910,387,759}{1,061,917,792,736} \times 100\% = 17,31\%$

In Year of 2016  
 $\frac{169,833,426,482}{1,129,841,327,429} \times 100\% = 15,03\%$

In Year of 2017  
 $\frac{333,514,135,271}{1,330,488,751,791} \times 100\% = 25,06\%$

In Year of 2018  
 $\frac{204,289,084,471}{1,227,871,712,658} \times 100\% = 16,63\%$

The amount of the Capital Expenditure Ratio was obtained from the allocations of total expenditure capital with total regional expenditure then multiplied by 100%.

Year	Total of Capital Expenses (IDR)	Total of Regional Expenses (IDR)	Effectiveness Ratio (%)	Information
2014	151,309,166,795	949,970,142,088	15,92	Not Matched
2015	183,910,387,759	1,061,917,792,736	17,31	Not Matched
2016	169,833,426,482	1,129,841,327,429	15,03	Not Matched
2017	333,514,135,271	1,330,488,751,791	25,06	Less Matched
2018	204,289,084,471	1,227,871,712,658	16,63	Not Matched
<b>Average</b>			<b>17,99</b>	

Table 6:- The Balance Ratio of Capital Expenditures in Serang City Government during period fiscal year 2014 – 2018

Source: Process by Author

## V. CONCLUSIONS AND RECOMMENDATIONS

### A. Conclusions

Based on the results of research and discussion that has been done regarding to the regional Independence Financial Ratios, PAD Effectiveness Ratios, and The Balance ratio of Capital Expenditures at Serang City during Fiscal period of 2014 - 2018. So it can be concluded that:

- An assessment of the financial performance at Serang City Regional Government seen from Regional Financial Independence Ratio has an average value of 10.24% according to the Pattern of Relationships and the Level of Regional Capability included the range of 0% -25% ie has a very low level of ability and have Instructive relationship patterns. The Instructive relationship patterns namely roles the central government has more dominant than the the regional government (regions that unable to implement the regional autonomy).
- An assessment of the financial performance of Serang City Regional Government it could be seen from The PAD Effectiveness Ratio has average value of 113.206%. Based on guidelines for evaluating the level of financial effectiveness with an average value of 113,206% have very effective criteria because of the value was obtained more than 100%. This indicates the ability of The Regional Government of Serang City in realizing the Local own-source Revenue that has been planned are exceeds the target set,
- An assessment of the financial performance at Serang City Regional Government could be seen from The Balance ratio of Capital expenditure has an average of 17.99% it was said to be incompatible because it has a value below 20%, and it was concluded that the Regional Government of Serang City was still not optimal in allocating the capital expenditure.

### B. Recommendations

Based on the results of these research and discussion which conducted by the authors. There has several advice could be provide by these following recommendations:

- To develop this thesis it could be done by adding the research period, probably by extend the longer period or can be focus on a certain period or one year only and it is recommended to compare financial performance with other regions to get more accurate assessment.
- Serang City Government must continue to improve its performance, for example by:
  - Could be able to optimize the revenue from the potential income that has been there. The initiative and willingness of the Regional Government is needed efforts to increase the local own-source revenue (PAD). The Enhancement of Local own-source revenue (PAD) could be done by the Regional Government through optimally the implementing of tax collection and regional levies and supervise and control.
  - The Regional Government of Serang City has advised to collect the data routinely against the tax objects so that potentially can be known that actually through the tax object data, which later can be Increased by the Local own-source Revenue (PAD) of Serang City.

- The Regional Government of Serang City has advised to conduct the socialization routinely against the taxpayers to increase the mandatory awareness tax on obligations in the event of tax compliance on time.

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