

## Analysis of Financial Performance of Local Government Keerom Fiscal Year 2009 - 2013

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**Abstract:** This study is purposed to (1) determine the financial management performance of Keerom district, (2) effective and efficient in the financing the needs of the region. This research is a descriptive study describing and analyzing the data obtained. The object of this study is to measure the performance of financial management in Keerom district in terms of the ratio of financial independence area, Regional Financial Dependency Ratio, the ratio of fiscal decentralization, the effectiveness and efficiency ratios. Results of the analysis of the financial performance ratio in Keerom district in 2009-2013 shows that (1) the financial performance is not optimal yet in the implementation of regional autonomy, this is indicated by the indicator of financial performance, they are; Regional independence of Keerom district reached 3.22%, Regional Financial Dependence is very high towards the central government, it is reached 53.91%, and the Fiscal Decentralization is less, considering the financial dependence on the central government is very high at 16.44%. (2) effectiveness in managing local finance in Keerom district is Highly Effective since it reaches 95.11% and it needs to be maintained and improved, but the efficiency of financial management in this district shows the results of inefficient, it reaches 100.41%, then it needs special attention in order to avoid wastage in the use of finance to fund the development and the activity of other areas.

**Keywords:** *Ratio of Regional Autonomy, Regional Dependency Ratio, Fiscal Decentralization Ratio, Effectiveness Ratio, and Efficiency Ratio*

### 1. Introduction

Giving broadly autonomy and decentralization pave the way for the government to conduct local financial management oriented to public interest. The law No. 105 of 2000 on the management and financial accountability area chapter 4 confirms that financial management should be conducted in an orderly, obedient to the laws in force, efficient, effective, transparent and accountable with regard to the principle of fairness and compliance. The ability to manage the financial area outlined in the regional budget that directly or indirectly reflects the ability of local governments to finance the implementation of the tasks of government, development and social services. The evaluation of the financial management performance of local and regional financial will largely determine the position of a government in the framework of carrying out the local government. Regional financial problem is one key element in the implementation of regional autonomy even though it is recognized that other various variables also affect the regional financial, such as variables of human resources, organization, management, infrastructure and other supporting variables. The importance of local financial variables related to the fact that the mobilization of the financial resources of the region in view as the most crucial part in the administration of local government.

Regional financial capability in managing its financial outlined in the regional budget that portray the ability of local governments to finance the implementation of the tasks. In carrying out regional autonomy, local governments are required to run the government effectively and efficiently, it is able to encourage participation of the society in development as well as improving equity and justice by developing the entire potential of each region. One aspect of the local government that should be set carefully is the financial management and local budgets. Income and expenditure regional budget is the annual financial plan established by local regulations. Income and expenditure regional budget is a key policy instrument for local government as a policy instrument, the budget supports a central position in the development of capabilities and local governments effectiveness. Income and expenditure regional budget is also used as an instrument to determine the amount of income and expenses to help decision-making and the achievement of development, spending authority in the future, the source of the development size of a standard for the

performance evaluation, an instrument to motivate employees and coordination instrument for all activities of the various work units, so it will be seen whether it has been successful or not in their duties. One of the instruments to analyze the performance of local governments in managing the regional finance is by using financial ratios of the regional budget that has been implemented, Bastian (2005: 274). By using 5 ratios of the analysis results will be used as a benchmark in assessing the regional financial independence in financing the implementation of regional autonomy.

Based on the raw data of 2012 budget realization of Keerom district, shows that on the side of regional income is still very small, Rp. 13,215,026, while the balance of funds still dominate the regional income compared to the regional income, Rp. 581 219 044. It indicates the high fiscal dependence of local governments on Keerom district in 2012. Based on Keerom district's expenditure, increased from the previous year in 2011 regional needs only Rp.567.120.009,00 and in 2012 Rp. 681,918,304.00, it is the impact of local autonomy where the local government is actively and more flexible financing in the development of all forms of activity programs for regional development.

Based on the explanation above, the the problem of this study:

- How is the financial performance of Keerom District Government in 2009 - 2013?
- What the level of effectiveness and efficiency in managing the financial of Keerom district in 2009 – 2013?

## 2. Literature Review

**The Description of Regional Financial Performance:** Performance is the attainment of what is planned, either by personal or organization. If the achievement reached as planned, the performance is done performing well. If the achievement of the planned beyond what can be said to be a very good performance. If the achievement is not in accordance with what is planned to or less than what was planned, the performance is bad. The financial performance is a measure of performance using financial indicators. Analysis of financial performance is basically done to assess the performance in the past by performing various analyzes in order to obtain the financial position of an entity that represents the reality and potential of performance will continue. One of the instruments to analyze financial performance of local government is to carry out the analysis of the ratio of the budget that has been defined and implemented (Halim, 2008: 230). The use of ratio analysis in the public sector, especially for the regional budget has not been done, as the theory; there is no unanimous agreement about the name and measurement rules. However in the context of financial management that is transparent, fair, democratic, effective, efficient and accountable, analysis of the ratio of the regional budget needs to be implemented although there is an accounting different rule in regional budget owned by private company (Halim, 2008: 231-232).

Financial ratio analysis on the regional budget is done by comparing the results achieved from one period compared to the previous period so it can be seen how the trend is going. Moreover, it can also be done by comparing ratio of certain local government financial or nearest other local government or the one who has equal potential in order to how the local government's financial position toward other local governments. According to Article 2 of Government Regulation No. 108/2000 parties who concern with the financial ratios in this regional budget are:

- a. DPRD (Regional House of Representatives): Parliament is the agency who gives authorization to local governments to manage the regional financial report.
- b. Executive: Executive Board is an organization who government receives financial management authorization from Parliament, such as the governor, regent, mayor and leader of other regional governments.
- c. Financial Supervisor: Financial Supervisory Agency is the entity conducting oversight towards financial management undertaken by the local government. This agency includes the General Inspectorate, Financial and Development Supervisory Agency, and the Audit Board.
- d. Investors, creditors and donors: Agencies or government organizations, financial institutions, and others from both within the country and abroad who provide financial resources for local governments.
- e. Economic analyst and observer of local government: Economic analyst and observer of local government, the parties concerned on the activities undertaken Local Government, such as educational institutions, scientists, researchers and others.

- f. People/Society/Citizen: Society is groups of people who pay attention to the government activities, especially the ministry of local government, or who receive products and services from the local government.
- g. Central government: The central government requires local government financial reports to assess the accountability of the governor as a representative of the government

**Regional Financial Performance:** The performance of the financial ability is one measurement that can be used to look at the ability of the region in implementing regional autonomy (Halim 2004: 24). According to Halim to see the government's financial performance District/City/Province, can be done by analyzing:

- a. The degree of fiscal decentralization (local independence level)
- b. *fiscal need*
- c. *fiscal capacity*
- d. *tax effort*

Some definitions above which are related to the financial performance assessment at government level are:

- a. The degree of fiscal decentralization  
The degree of fiscal decentralization is the degree of independence to fund its own regional needs without relying on the central government.
- b. Fiscal needs  
According to Law No. 33 of 2004 Article 28 paragraph 1 "local fiscal needs a local funding need to carry out basic public services"
- c. Fiscal capacity  
According to Law No. 33 of 2004 Article 28, paragraph 3, "the regional fiscal capacity of local sources of funding derived from the regional original income and sharing income"
- d. Tax effort  
Tax effort is the coefficient of elasticity of regional income with a Regional Gross Domestic Product.
- e. Standard fiscal need  
Standard fiscal need is the average standard fiscal needs of a region (Halim, 2004: 29)
- f. Standard fiscal capacity  
Standard fiscal capacity is the average fiscal capacity of a regional standard
- g. The higher regional income, the higher the degree of fiscal decentralization (the level of independence of the region) the lower regional income, the weaker as well the degree of fiscal decentralization (the level of independence)
- h. The higher the Tax and Non-Tax Revenue, the stronger is the degree of fiscal decentralization (the level of independence of the region). The lower the Tax and Non-Tax Revenue, then the weaker degree of fiscal decentralization.
- i. The higher the Regional Contribution, the weak degree fiscal decentralization (regional level independency). The lower the sumbangana area (SB), the stronger the degree of fiscal decentralization (the level of independence)
- j. The higher the index Public Services Per Capita, the greater *fiscal need*. The lower the index Public Service per capita, the fiscal need will be lower.
- k. The more elastic regional income of a region, then the structure of the regional income of the area the better. The more inelastic regional income of a region, then the structure of the regional income of the area is getting worse.

### **Financial Ratio**

- a. Independence Ratio: The ratio of local financial independence (fiscal autonomy) demonstrates the ability of local governments to finance its own activities of government, development and the targets set according to the public service who have to pay taxes and retribution as income sources needed by the regions. Local financial independence is shown by the size of local revenue compared to local income derived from other sources, for example, central government grants or loans. The higher the ratio, the level of independence of the region's dependence on external assistance will be getting lower, and vice versa.

- b. Dependency Ratio: Regional dependency level is a measurement of the ability of the region to pay local development activities through optimization of regional income, as measured by the ratio between regional income and budget without subsidies (Fund Balance).
- c. Fiscal Decentralization Ratio: Fiscal Decentralization level is a measure to indicate the degree of authority and responsibility given by central government to local governments to carry out the development. The level of fiscal decentralization in this study was measured using the ratio of regional income toward total regional income.
- d. Effectiveness Ratio: Measurement is done in order to determine the level of effectiveness of the success of achieving the budget goals that require actual data income and earnings targets.
- e. Efficiency Ratio: This efficiency level measurement done to determine how much the efficiency of the implementation of an activity by measuring the inputs used and outputs produced compare with data that requires expenditure and income realization.

### 3. Methodology

This research was conducted in Keerom district government offices. Types and sources of data used are as follows secondary data. Data source: regional data in scoring/figure, including the Regional Budget and gross regional domestic product of Keerom district in 2009-2013. To achieve the expected results, the authors use research method as follows. Literature research, the method of data collection conducted by the author by excavating or studying the literature books and writings which are related to the issues discussed. The analysis method used in this study is described as follows: Descriptive Analysis which explains the government's financial performance of Keerom district with the following formula:

#### Regional Autonomy Ratio

Independence Formula Ratio:

$(\text{Regional Income} / \text{Total of Regional income}) \times 100\%$

Source: Halim (2008: 234)

Harvey in Halim (2001: 261) states about the pattern of relationships between central government and local government in the implementation of regional autonomy, especially the implementation of Law No. 33 of 2004 on Financial Balance between Central and Local Government, among others:

- a. Instructive relationship Pattern, where the role of the central government is more dominant than the independence of local government (areas that are not capable of implementing the regional autonomy).
- b. A consultative relationship pattern that intervention central government has begun to decrease since the area is considered a little more able to implement regional autonomy.
- c. Participatory relationship patterns, the role of central government has begun to diminish considering the area in question is able to carry out the level of independence approaching regional autonomy.
- d. Delegated relationship patterns, there is no central government intervention is because the area has been completely capable and independent in carrying out the affairs of regional autonomy.

As a guideline pattern of relationships with local financial independence can be seen in Table 1 as follow

**Table 1: Guidelines for assessment of local financial independence**

Local capabilities	Independence%	Relationship Patterns
Very low	0-25	Instruktuf
Low	25-50	Consultative
Moderate	50-75	Participatory
High	75-100	Delegative

Source: Halim (2001: 261)

#### Regional Dependency Ratio

Formula Dependency Ratio:

$(\text{Regional Income} / \text{Total regional Budgets without subsidy}) \times 100\%$

**Table 2: Regional Financial Dependence Assessment Criteria**

<b>Percentage of PAD to Total Dependence Revenue Unsubsidized</b>	<b>Regional Finance</b>
0.00 - 10:00	Very low
10.01 to 20.00	Low
20.01 to 30.00	Enough
30.01 to 40.00	Moderate
40.01 to 50.00	High
> 50.00	Very high

Source: Ministry of Home Affairs Research Team - UGM, 1991

### **Fiscal Decentralization Ratio**

Formula Fiscal Decentralization ratio:

$(\text{Original Regional Income} / \text{Total of Regional Income}) \times 100\%$

**Table 3: Criteria for Evaluation of Fiscal Decentralization**

<b>Percentage of PAD to TPD</b>	<b>Fiscal Decentralization level</b>
0.00 - 10:00	Very less
10.01 to 20.00	Less
20.01 to 30.00	Moderate
30.01 to 40.00	Enough
40.01 to 50.00	Good
> 50.00	Very good

Source: Ministry of Home Affairs Research Team - UGM

### **Ratio Effectiveness**

Effectiveness Ratio Formula:

$(\text{Realized Income} / \text{Income Target}) \times 100\%$

**Table 4: Criteria of Regional Financial Management Effectiveness Assessment**

<b>Percentage Financial Performance</b>	<b>Criteria</b>
Above 100%	Very Effective
90% - 100%	Effective
80% - 90%	Quite effective
60% - 80%	Less effective
Less than 60%	Ineffective

Source: Ministry of Home Affairs, Kepmendagri No.690.900.327 1996

### **Efficiency Ratio**

Efficiency Ratio Formula:

$(\text{Expenditure} / \text{Income}) \times 100\%$

**Table 5: Criteria Fiscal Management Efficiency Rating**

Percentage Financial Performance	Criteria
Above 100%	Not efficient
90% - 100%	Less Efficient
80% - 90%	Efficient enough
60% - 80%	Efficient
Less than 60%	Highly Efficient

Source: Ministry of Home Affairs, Kepmendagri No.690.900.327 1996

#### 4. Result and Discussion

**Local Government Financial Performance Keerom:** To analyze and measure the financial performance of Keerom District Government, in 2009 - 2013, it will be measured using three (3) ratios, they are:

**Ratio Level Regional Financial Independence:** The ratio of the level of local financial independence is measured by comparing the original regional income acquisition with part equalization funds received from the central government.

**Table 6: The level of financial self-sufficiency ratio of Keerom Fiscal Year 2009-2012**

Year	Original Region Income (IDR)	Total of all Income (IDR)	Ratio%
2009	34.183.000	473.488.604	7,22
2010	12.561.537	461.197.429	2,73
2011	12.061.537	586.544.402	2,06
2012	15.102.103	647.910.530	2,34
2013	12.281.470	719.019.984	1,71
Average	17,237,929	577 632 190	3.22

Source: Author Data Processed, 2015

Based on the ratio of the financial independence level in Table 6 above, it can be seen that in the period of the 2009, it had a 7.22% degree of independence until the 2013 budget shows the percentage the less of independence which continues to decrease each year, along with the increasing needs of local fiscal annually, it surely must also be supported by the efforts to increase the regional fiscal capacity. Despite a decline of income performance annually during the 2009-2013 period, but still remained was followed by an increase in the acquisition of Fund Balance of the central government. The implementation of the regional autonomy policy does not necessarily make the region self-sufficient and able to finance the activities of regional development by optimizing the acquisition of sources of regional income. The fact, the independence of the region will depend on the magnitude of the potential sources of income to fund expenditure. Another important aspect that also cannot be ruled out is the support of the quality of human resources is adequate as the driving wheel of development.

Based on the ratio of the level of financial independence in Table 5.1 above, the average level of financial independence Keerom district during the period from 2009 to 2013 was **3.22%** then classified according to the assessment criteria of local financial independence is the province with the level of Regional Financial Independence *Less Once*. Pattern of instructive relationship, the role of the central government is more dominant than the independence of local government (areas that are not capable of implementing the regional autonomy). (See Table 3.1 Assessment Criteria of Regional Financial Independence). This shows that Keerom district during the period of 2009 - 2013 have less financial independence so that it has a high dependence on central government assistance through the fund balance in implementing regional autonomy and fiscal decentralization.

**Dependency Level of Regional Financial Ratios:** The ratio of regional financial dependency is measured by comparing the acquisition of original region income to total regional budget without subsidies (Fund Balance). Total of regional budget is the total regional income obtained from all local income derived from each component of regional income and acceptance of local financing.

**Table 7: The level of financial dependence ratio in Keerom district in 2009-2013**

Year	original region income (IDR)	Non receipt of subsidies (IDR)	Ratio%
2009	8.143.985	36.183.000	22,50
2010	9.876.504	16.561,538	59,63
2011	6.089.652	12.061,537	50,48
2012	13.215.026	20.102.103	65,74
2013	11.121.470	156.276.879	71.17
Average	9.689.327	48.237.011	53.91

Source: Data Processed Author, 2015

The level of financial dependence is based on the results of the calculation of the ratio of the area between the original region incomes with the budget without subsidies in Table 7 shows an increase in the percentage fluctuated. In the 2009 fiscal year level of local financial dependence on the central government amounted to 22.50%, rose dramatically in 2010 to 59.63%, then dropped in 2011 to 50.48% and in 2012 rose to 65.74% and last in 2013 increased higher by 71.17%. The high percentage indicates an increase in the area of financial dependence on the central government. In general, in 2009-2013 despite the level of local financial dependence on the central government Keerom district shows the percentage tend to fluctuate, but the trend did not change significantly. Fixed percentage change remained at the same criteria. The average level of financial dependence Keerom district toward the central government in the period of 2009-2013 is 53.91%. It indicates that the performance of original region income as well as other local income sources has not been optimal to finance the activities of regional development, so the area is still very depend on government subsidies through the Fund Balance. When classified according to the criteria of assessment of the level of financial dependence toward central government the District level Regional Financial Dependence *Very High* (See Table 2 Regional Financial Dependence Assessment Criteria).

**Fiscal Decentralization Ratio:** The ratio of the level of fiscal decentralization Keerom District during the fiscal year 2009-2012 was measured comparing original local income to total income

**Table 8: The rate ratio Fiscal Decentralization Keerom FY 2009-2012**

Year	Realization of original local income	Total income	Ratio%
2009	8.143.985	507.671.604	16,04
2010	9.876.504	473.758.967	20.85
2011	6.089.652	598.605.939	10,17
2012	13.215.026	663.021.634	19.93
2013	11.121.470	731.301.455	15.21
Average	9.689.327	594.871.920	16.44

Source: Data Processed Author, 2015

Based on Table 8 above it can be seen that the ratio of the District of fiscal decentralization has increased quite high at the start of the implementation of the system of budgeting (budget) with a performance-based approach in 2009 with the percentage rate reached 16.04%, but in the period of 2010 increased, and the In 2011 declined later in 2012 increased to 19.93% and in 2013 fell to 15.21%. The implementation of performance-based budgeting system in fiscal year 2010 is not too showing the impact of the increase in fiscal capacity Keerom district through the optimization of local revenue. Still the level of dependence of

government Keerom to the central government shows with the contribution of original local income in sustaining the local revenue, the role of original local income or financial ability to fund the construction itself is still less than 50%, the remaining 60% is still dependent financing from the General Allocation Fund. Trend realization of original local income is less stable influence the dependence of local governments to the central government. This trend is due to the performance of local tax collection submitted by the central government within the framework of fiscal decentralization. Based on the analysis of the average level of fiscal decentralization Keerom period 2009-2013 is 16.44% that were classified according to the criteria of assessment of the level of fiscal decentralization is the province with the level of Fiscal Decentralization *less* (See Table 3.3 Criteria for Evaluation of Fiscal Decentralization)

### Level of Effectiveness and Efficiency of Local Government Financial Management Keerom

**Effectiveness Ratio:** Measurement of the effectiveness of income in Keerom in 2007-2013 known through the ratio between the actual incomes received by the target area of the budget.

**Table 9: The level of effectiveness ratio of the regional budget in 2009 - 2013**

Year	income Realization	income Target	Ratio%
2009	478 788 055	507 671 604	96.09
2010	466 121 243	473 758 967	98.39
2011	579 492 460	598 605 939	96.81
2012	594 434 071	663 012 643	89.66
2013	691 550 455	731 301 455	94.57
Average	562 077 257	594 870 122	95.11

According to the table above, the level of effectiveness in 2009 reached 96.09%, in 2010 increased 2% to 98.39%, in the year 2011 decreased 2% again in 2012 decreased sharply to 89.66% and in 2013 increased 94.57% return although unlike the year - the previous year. During the period of 2009 - 2013, the level of effectiveness of local revenue has a tendency *Effectively*, although in 2012 has decreased by about 10% but does not affect the average of effectiveness above 90%, because the effectiveness of the local income in 2009-2013 was obtained by an average of 95.11% (See Table 3.4 Assessment Criteria Effectiveness of Financial Management), So that this achievement needs to be considered and maintained.

**Efficiency Ratio:** This efficiency level measurements used to determine how much the efficiency of the implementation of an activity by measuring the inputs used and outputs produced compare with data that requires expenditure and income realization.

**Table 10: Ratios of Budget Efficiency Level in Keerom District in 009 - 2013**

Year	Expenditure Realization	Income Realization	Ratio%
2009	531 005 583	478 788 055	110.91
2010	450 603 978	466 121 243	96.68
2011	567 120 009	579 492 460	97.87
2012	681 918 304	594 434 071	114.72
2013	566 007 292	691 550 471	81.85
Average	559 331 033	562 077 260	100.41

Source: Data Processed Author, 2015

During the period of 2009 - 2013, the level of efficiency of the shopping area of Keerom have a tendency *Inefficient*, with efficiency levels above 100%, which is 100.41% (See Table 5, Criteria for Fiscal Management Efficiency Rating). Tendency inefficient basically is a waste, which take into account the fiscal allocation to finance the construction and activities of local governments are not careful in calculating the fiscal capacity of the area and the level of funding priorities, thus achieving the target is not optimal. The future structure of



Keerom district budget will prioritize the fulfillment of the *basic need* of society, namely education, health and public works sector in order to increase the quantity and quality of services.

## 5. Conclusion

Based on the analysis of the financial performance of the region, in general Keerom in 2009 - 2013 concluded as follows. Financial performance Keerom regency administration is not optimal in the implementation of regional autonomy, it is indicated the financial performance indicators, among others; Independence Keerom regency reached 3.22%, this shows less once the role of local governments in the region need to be content while visible Regional Financial Dependence *Very High* toward the central government reached 53.91%, Fiscal Decentralization *less* considering the financial dependence on the central government is very high at 16.44%. Effectiveness in managing local finance in Keerom is *Very Effective* reached 95.11%, so this achievement needs to be maintained and improved, but the efficiency of financial management in this district shows the results *Inefficient* reached 100.41%, then there needs special attention in order to avoid waste in the use of finance to fund the development and activity other areas.

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