

Analysis of Local Financial Performance in Gorontalo Regency in Terms Of Local Financial Independence And Effectiveness Of Pad (Local Own- Source Revenue) In Fiscal Year 2017-2019

Husnah Verawati Fahry¹, Muhdar HM², Sri Dewi Yusuf³

ABSTRACT: The low acceptance of PAD (local own- source revenue) in Indonesia causes regions to be powerless and dependence on the central government, whereas regional autonomy encourages local independence to increase regional income. Based on this fact the authors want to see how is the local financial performance is aimed to analyse and describe local financial performance in terms of the ratio of financial independence and effectiveness of PAD. The main data of this research is secondary data adopted from the financial statements of Gorontalo Regency in fiscal 2017-2019. By using the analysis of financial independence ratios and PAD effectiveness ratios, it is found: first, the level of regional independence of Gorontalo Regency is very low and it indicates the level of dependence on the government is high; Second, the level of effectiveness of Gorontalo Regency PAD has decreased, from 110.22% in 2017 to 74.25% in 2018 and 92.32% in 2019. It indicates that the government's financial performance has decreased from 2017 to 2019. Therefore, it is recommended that the district and city governments simplify administrative procedures, control effectiveness, improve the quality of human resources, and educate public about the importance of local taxes and levies in local development.

KEYWORDS: Financial Performance, Local Own -Source Revenue, Independence, Effectiveness

I. INTRODUCTION

Regional development is an integral part of national development which is carried out to provide opportunities and space for efforts to develop democratization and the regional governments performance to improve people's welfare. Theregional autonomy policy provides an opportunity for a change in developing paradigm from prioritizing the achievement of growth to equality with the principle of prioritizing justice and balance. The role of regional autonomy is to reduce the dependence of regional governments on central government, especially in financial aspect, so that regions are expected to be able to fund their finances independently. One of the concerns of regional governments is in managing revenues from their own regions (Dewi Oktavia, 2012: 90). Regional autonomy, which gives wider authority to regions in developing process, implies the increasingly important role of spatial analysis in monetary policy (Atmoko, 2020). Regions have the authority and responsibility to accommodate the wider public interest. By the spirit of its paradigm shift, the regional governments are expected to be able to manage their own households. Independence in managing their own regional interests has put them in a state where they are able to act better, so it must be accompanied by the regions ability to maintain and improve governance in terms of both financial, human resources, and government management skill of regional government. Based on Law Number 23 of 2014 concerning Regional Government, Law Number 33 of 2004 concerning Financial Balance between Central and Regional Government and Law Number 17 of 2003 concerning State Finance it is stated that the Regional Revenue and Expenditure Budget (APBD) is a form of regional financial management which is determined annually with regional regulations consisting of Income, Expenditure and Financing. Regional autonomy implies the emergence of authority and obligation for regions to carry out various government activities more independently, not too always depending on assistance from the center starting from the planning, implementation, monitoring, evaluation and accountability processes.

In the area of regional finance, a common phenomenon faced by most local governments in Indonesia is the relatively small contribution of local own- source revenue (PAD) in the Regional Revenue and Expenditure

¹ Students at Program of Sharia Economics Masters, Postgraduate of IAIN Sultan Amai Gorontalo, Gorontalo, Indonesia, Email: ririesheva81@gmail.com;

² Lecturer at Program of Sharia Economics Masters, Postgraduate of IAIN Sultan Amai, Gorontalo, Indonesia, Email: muhdar73@gmail.com;

³ Lecturer at Faculty of Islamic Economics and Business, IAIN Sultan Amai Gorontalo, Gorontalo, Indonesia, Email: sridewi73yusuf@gmail.com;

Budget (ABPD) structure. Basically, PAD is a source of basic regional income, because other sources of income can be fluctuate and tend to be beyond the region control or authority (Suryani, 2016: 63). This phenomenon also occurs in the Gorontalo Regency government. The local own- source revenue (PAD) of Gorontalo Regency in fiscal year 2017-2019 shows a fluctuating amount of PAD realization. In 2017, the amount of PAD was 190,428,308,121.81 and in 2018 this number decreased to 147,992,401,409.49 then increased again became 155,456,564,155.41 in 2019.

Table 1
PAD of Gorontalo Regencyin Fiscal Year 2017-2019

Year	Realization of PAD
2017	190,428,308,121.81
2018	147,992,401,409.49
2019	155,456,564,155.41

Source: Government Finance Agency of Gorontalo Regency

In implementing of regional autonomy, it is necessary to have an appropriate policy from the regional government to increase ability to explore its own financial potential, one of which comes from local own-source revenue(PAD), because PAD is a measure to see whether a region can be said to be independent or not. The proportion of PAD to total regional revenues is still an indication of the degree of financial independence of a regional government. The regional autonomy system in a theoretical concept provides the widest spaceindependently to manage regional finances to increase PAD (Atmoko, 2020). This independence is closely related to the regional ability to produce PAD, the higher the regional capacity to produce PAD, the greater the regional discretion to use this PAD in accordance with the aspirations, needs and priorities of regional development. However, in reality, there are still many regencies and cities in Indonesia whose income is still low, which forces these areas to be helpless and always dependent on the central government (Luqy and Vecky, 2017: 25), including PAD Gorontalo Regency as in table 1 shows the realization of PAD which has decreased from 2017 to 2019. Based on the phenomenon of Table 1 and the theoretical concept above, it can be stated that one of the main problems of regencies and cities situed in increasingof PAD. For this reason, this study examines the regional financial performance in its field with PAD. To see the financial performance, the researchers conducted an analysis of the regional financial performance of Gorontalo District in terms of regional financial independence and the effectiveness of PAD in 2017-2019 with the aim of finding and describing the regional financial performance of Gorontalo Regency.

II. LITERATURE REVIEW

This part describes the theoretical concept of regional financial performance, local own- source revenue(PAD), regional financial independence, and the effectiveness of PAD.

Regional Financial Performance : Regional Government Financial Performance is the ability of a region to explore and manage local own- source revenuein fulfilling its needs in order to support the running of the government system, services to the community and regional development without being completely dependent on the central government and having the flexibility in using funds for the interests of regional communities within the boundaries determined by statutory regulations (IbnuSyamsi: 199). Regional finance is an integral part of state finances in allocating economic resources, equitable distribution of development results and creating economic stability for socio-political stability. The role of regional finance is becoming increasingly important because of the limited funds that can be diverted to the regions in the form of subsidies and assistance. In addition, it is also due to the increasingly complex problems faced by regions, which the solutions are of require community' active participation in the regions. The role of regional finance will be able to increase regional readiness to promote the realization of regional autonomy that is more real and responsible.The government in implementing broad, real and responsible regional autonomy requires sufficient funds and continues to increase based on the increasing demands of the community, government activities and development. The funds are obtained through the ability to explore their own financial sources supported by a balance between central and regional finances as a source of financing. Therefore, regional finance is a benchmark for determining the capacity to carry out autonomy tasks, in addition to other benchmarks such as natural resource capacity, demographic conditions, regional potential, and community participation. Regional government financial performance is the ability of a region to explore and manage regional financial sources in fulfilling its needs to support the running of government system..

Regional Original Income (PAD) : Income is the increase of economic benefits during one accounting period due to the inherent cash inflows from an asset and the increase in the value of the net asset which is the right participation. Localown- source revenue(PAD) is all regional revenue that comes from the original regional economic sources. Local own- source revenueis separated into four types of income, namely: local taxes, regional levies, proceeds from regional owned companies and proceeds from the management of separated regional property, and other legal PAD (Abdul Halim, 2002: 67). In an effort to increase PAD, regions are prohibited from stipulating regional regulations on revenues that cause a high cost economy and are prohibited from stipulating regional regulations on regional revenues that hinder population mobility, traffic of goods and services between regions, and import / export activities. What is meant by regional regulations regarding revenue that causes of high cost economy is a regional regulation that regulates the imposition of taxes and levies by the regions on objects that have been taxed by the central and provincial levels, causing a decrease in regional competitiveness, for example is levies. Increasing the coverage or extensificationand intensification of PAD acceptance. There are three things that are concerning in the effort to increase this coverage, namely (a) adding objects and subjects to local taxes and levies,(b) increasing the amount of determination and (c) reducing arrears (Andi Pilham, 2017: 178). Localown- source revenueis a reflection of community's income, for this reason, it is necessary to provide tips for the local government in increasing the potential of the community in managing the sources of community's income. Increasing community's income clearly affects economic growth and welfare as well as increasing localown- source revenue. Increasing localown- source revenueis of course inseparable from the government's ability to foster community and private sector elements in realizing various business fields, and to contribute to the regions. The main characteristicshows that a region is capable of economic weight lies in its regional financial capacity. It means that the autonomous of region must have the authority and ability to explore its own financial sources. The consequence of the application of regional autonomy is that each region is required to increase localown- source revenue(PAD) in order to finance its own household affairs and create better governance (Lakoy, et.al, 2016: 560).

Regional Financial Independence : Regional Financial Independence describes the regionaldependence on transferincome (external data source). The higher the Regional Financial Independence Ratio means that the level of regional dependence on external assistance is lower and vice versa. The Ratio of Regional Financial Independence also describes the level of community participation in regional development. The higher the Regional Financial Independence Ratio, the higher the public participation in paying local taxes and levies which are the main components of Regional Original Income. The higher the people pay local taxes and levies; it shows that the level of community welfare is getting higher. As a guideline in seeing the pattern of relationships with regional capabilities (from the financial side) the following table can be presented:

Table 2
Relationship Patterns and Regional Capability Levels

Financial Capability	Independence (%)	Relationship Pattern
Very low	0% -25%	Instructive
Low	25% -50%	Consultative
Moderate	50% -75%	Participative
High	75% -100%	Delegative

Source: Abdul Halim, 2007

1. Instructive relationship pattern, in which the role of the central government is more dominant than the independence of regional governments (regions that are unable to implement regional autonomy).
2. The pattern of consultative relations, namely central government interference, has begun to decrease because the regions are considered to be slightly more capable of implementing regional autonomy.
3. The pattern of participatory relations, the role of the central government has begun to decrease, given that the region concerned has a level of independence that is close to being able to carry out regional autonomy affairs.
4. The pattern of delegative relations, namely the intervention of the central government, is gone because the regions are truly capable and independent in carrying out regional autonomy affairs.

Effectiveness of PAD : The effectiveness of PAD describes local governments' ability of to realize the planned PAD compared to the targets set based on the real potential of the region. The effectiveness ratio criteria in Mahsun (2009) are as follows:

1. If the value is less than 100% ($x < 100\%$), it means that it is not effective
2. If the value is equal to 100% ($x = 100\%$), it means that the effectiveness is balanced.
3. If the value is more than 100% ($x > 100\%$), it means that it is effective.

RESEARCH METHODS : This study was designed with a positivistic paradigm with a descriptive quantitative research approach which examines regional financial performance through secondary data analysis sourced from regional financial reports for 2017 - 2019. The data were analyzed using the following methods:

1. Regional Financial Independence Ratio (RKKD), which determines the level of a region's capacity to finance itself. With the formula:

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

2. PAD effectiveness ratio, which describes the ability of the region to realize the planned PAD compared to the target set based on real potential. With the formula:

$$Efefectiveness\ Ratio\ PAD = \frac{Realization\ PAD}{PAD\ Budget} \times 100\%$$

III. RESEARCH RESULT

The results of this study describes some of the data obtained through secondary data analysis, both in terms of the ratio of regional financial independence and the ratio of localown- source revenue.

Regional Financial Independence Ratio : The results of the calculation of the regional financial independence ratio of Gorontalo Regency can be seen in the following table:

Table 3
Gorontalo Regency of Regional Financial Independence Ratio in 2017-2019

Year	Locally-generated revenue	Transfer Income	Independence Ratio
2017	190,428,308,121.81	1,062,542,218,683.00	17.92%
2018	147,992,401,409,49	1,081,287,626,729.00	13.48%
2019	155,456,564,155.41	1,283,181,447,340.00	12.11%

Source: Gorontalo Regency Government (Data Processed, 2020)

Based on the results above, it is known that the ratio of regional financial independence for Gorontalo Regency in 2017-2019 has decreased annually. It indicates that the level of dependence of Gorontalo Regency is still very high. When related to the pattern of relationships and regional financial independence, the financial capacity of Gorontalo Regency is very low with a level of independence far below 25%. This is included in the intrusive relationship pattern wherethe role of central government is more dominant than the independence of regional governments (regions that are unable to carry out regional autonomy).

Regional Original Income Effectiveness Ratio : The Regional Original Income Effectiveness Ratio illustrates the ability of the region to realize the planned original regional income compared to the target set based on the real potential of the region. The results of the calculation of the regional effectiveness ratio in Gorontalo District can be seen in the following table:

Table 4
Regional PAD Effectiveness Ratio of Gorontalo District in 2017-2019

Year	Realization of PAD	PAD target	Effectiveness Ratio
2017	190,428,308,121.81	172,762,057,552.00	110.22%
2018	147,992,401,409,49	199,301,061,896.00	74.25%
2019	155,456,564,155.41	168,371,380,186.00	92.32%

Source: Gorontalo District Government (Data Processed, 2020)

Based on the result above, it is known that the effectiveness level of Gorontalo Regency PAD in 2017 was 110.22%, it indicates that in 2017 the effectiveness level of Gorontalo Regency PAD was effective. Then in 2018 it fell to 74.25%, which means that it is below 100% so that it is interpreted as ineffective. Likewise in

2019, although the effectiveness ratio rise again to 92.32% but it was still low 100%, it was also interpreted as ineffective.

IV. DISCUSSION

The results of the calculation of the ratio of regional financial independence and the effectiveness of local own-source revenue (PAD) showed that the level of independence of Gorontalo Regency is still very low, which means that the level of dependence on the central government is very high. Even so, the level of effectiveness of Gorontalo Regency PAD can be said to be effective even though in 2018-2019 the results showed that it was not effective, but in this case it means the ability of the region to realize the planned regional revenue compared to the target set based on the real potential of the region can be implemented. Research conducted by Pramono (2014) states that the financial performance of the Surakarta City government in 2010 and 2011 has been effective, efficient, has experienced positive growth and has the ability to repay loans. However, the level of independence of the Surakarta City Government is still low because the regional revenue obtained from central and provincial government assistance is greater than the original regional income. It was happened in Gorontalo Regency. Where the effectiveness level of PAD showed the effective ratio in 2017 but the ratio of financial independence was very low. The role of the community in paying taxes is one of the important things that affect the level of regional effectiveness. In a study conducted by Mariani (2013) on regional financial performance, research results showed that the financial performance of district / city governments in West Sumatra is efficient, although it has decreased after expansion, but the level of regional financial independence has increased. It indicated that community participation in regional development was increasing. Community participation in the growth and development of an area was needed.

V. CONCLUSION

Based on the results and discussion of the research as described above, showed that: First, the level of regional financial independence of Gorontalo Regency was in the very low category, it indicates that the level of community participation in regional development is low. As a result, regional financial dependence on the central government is very high. Second, the effectiveness of Gorontalo Regency PAD has decreased from 2017 to 2019. This decline indicates that the financial performance of the Gorontalo Regency regional government has decreased (not good). In addition, it also indicates that the ability of the Gorontalo Regency government in realizing the planned PAD has decreased from 2017 to 2019. In an effort to increase PAD Gorontalo Regency it is recommended: simplifying administrative procedures so that people experience the ease of paying local taxes and levies; conduct effective supervision so that there are no deviations from the procedures for collecting local taxes and levies; improving the quality of the human resources of the State Civil Apparatus in managing regional income; conduct outreach to the public about the importance of local taxes and levies in regional development.

REFERENCES

1. Adisasmita, Rahardjo. 2014. Regional Revenue & Budget Management. Yogyakarta: Graha Science
2. Atmoko. C. BI: Regional Studies to Measure the National Economy. Antara News. Accessed December 15, 2020. <http://www.antaraneews.com/berita>
3. Azhar, MKS 2010. Analysis of Financial Performance of District / City Government Before and After Regional Autonomy. Journal of Finance & Business Study Program Master of Management, College of Economics Harapan. Vol. 2 No. 1
4. Gorontalo District Government Finance Agency. Regional Budget Management Transparency of Gorontalo District Government in 2017, 2018, 2019
5. Berwulo, Lugi Laurens Derosario, Vecky A. J Masinambow, Patrick C. Wauran. 2017. Analysis of Local Own Revenue (PAD) in Jayapura City. Efficiency Scientific Periodical Journal Vol. 17, No. 01
6. Bisma, I., D., G., and H. Susanto. 2010. Evaluation of the Regional Financial Performance of the West Nusa Tenggara Provincial Government for the 2003-2007 Budget. Gene Swara Journal Special Edition Vol. 4 No. 3
7. Djaenuri, Aries. 2012. Central Regional Financial Relations. Bogor: Ghalia Indonesia
8. Halim, Abdul. 2002. Public Sector Accounting Regional Financial Accounting. Yogyakarta: ANDI
9. Halim, Abdul. 2007. Public Sector Accounting: Regional Financial Accounting. Edition 3. Jakarta: Four Salemba
10. Halim, Abdul, et.al. 2012. Theory, Concepts, and Applications of Public Sector Accounting. Jakarta: Four Salemba
11. Lakoy, Toar Waraney, Daisy SM Engka, Steeva YL Tumangkeng. 2016. Contribution and Influence of Local Retribution Receipts on Local Revenue in South Minahasa Regency (2005-2014). Efficiency Scientific Periodical Journal Vol. 16 No. 01

12. Machmud, M., G. Kawung, and W. Rompas. 2014. Analysis of Regional Financial Performance in North Sulawesi Province 2007-2012. *Efficiency Scientific Periodical Journal*. Vol. 14 No. 2
13. Mahsun, Mohammad. 2009. *Public Sector Performance Measurement*. Yogyakarta: BPFE
14. Mardiasmo. 2009. *Public Sector Accounting*. Yogyakarta: Publisher Andi
15. Mariani, L. 2013. Analysis of Government Financial Performance After Regional Expansion. *Accounting journal*. Vol. 1 No. 2
16. Mauri, Andi Pilham, Mattalatta and Hasmin. 2017. Analysis of the Influence of Local Retribution and Local Tax Receipts on Increased Local Revenue in Soppeng Regency. *Mirai Management Journal* Vol. 2 No. 1
17. Midjaja, Haw. 2009. *Regional Autonomy and Autonomous Regions*. Jakarta: Rajawali Press
18. Nurhidayat. 2005. Regional Autonomy Financial Balance between Central and Regional, RI Law no. 32 of 2004 & RI Law No. 33 of 2004. Bandung: NuansaAulia
19. Oktavina, Goddess. 2012. Analysis of Local Own Revenue and Its Influencing Factors in the Context of Regional Autonomy: Error Correction Model Approach. *Journal of Development Economics* Vol. 10, No. 2
20. Pramono, J. 2014. Financial Ratio Analysis to Assess Local Government Financial Performance (Case Study at Surakarta City Government). *Among Makarti Scientific Journal* Vol. 7, No. 13
21. Puspitasari, AF 2013. Regional Government Financial Performance Analysis of Malang City Fiscal Year 2007-2011. *FEB Student Scientific Journal*. Vol. 1 No. 2
22. Rahmayati, Anim. 2016. Financial Performance Analysis of the Regional Government of Sukoharjo Regency for the 2011-2013 Fiscal Year. *EKA CIDA Journal* Vol. 1 No. 1
23. Ruslan, Rosady. 2004. *Research Methods of Public Relations and Communication*, Jakarta: GrasindoPersada
24. Soemarso. 2005. *An Introduction to Accounting*. Revised Edition, Jakarta: SalembaEmpat
25. Sugiyono. 2017. *Quantitative Research Methods, Qualitative, and R & D*. Jakarta: ALFABETA
26. Suparmoko, M. 2016. *Public Economics for Finance & Regional Development*. Yogyakarta: Andi
27. Suryani. 2016. Analysis of Regional Financial Conditions in Regencies / Cities in Aceh and North Sumatra. *Journal of Business and Economics (JBE)* Vol. 23, No. 1
28. Syamsi, Ibn. *Principles of National and Regional Development Policy, Planning, Programming and Budgeting*. Jakarta: CV Rajawali
29. Waraney, Tour Lakoy, Daisy SM Engka, Steeva YL Tumangkeng. "Contribution and Influence of Local Retribution Receipts on Local Revenue in South Minahasa Regency (2005-2014)" in the *Scientific Periodical Journal of Efficiency* vol. 16 No. 01 of 2016
30. Zuhri, Muhammad, and Soleh, Ahmad. Analysis of the Financial Performance of the Regional Government of Kaur Regency. *Ekombis Review*. 187-195