

CHAPTER I

INTRODUCTION

This chapter will explain some of the reasons behind conducting this research. In addition, this chapter will also explain the formulation of the problem, research objectives, research benefits, and writing systematics.

1.1 Research Background

The implementation of regional autonomy in Indonesia is the mandate of reform. The principle of autonomy is the basic principle of regional administration based on regional autonomy. One of the principles of regional autonomy in Law Number 23 of 2014 concerning Local Government is the principle of decentralization which is defined as the transfer of governmental affairs by the central government to autonomous regions based on the principle of autonomy.

The existence of regional autonomy in Indonesia is also supported by the existence of regulations regarding central and local financial relations which open up great opportunities for regions to build and develop regional potential by their priorities and needs, accompanied by the transfer of authority in implementing development from the center to the regions (Hidayat et al., 2016). The regulation in question is Law Number 1 of 2022 concerning Financial Relations between the Central Government and Local Government replacing Law Number 33 of 2004 concerning Financial Balance between the Central Government and Local Governments.

One of the consequences of implementing regional autonomy in Indonesia is fiscal decentralization. The existence of this fiscal decentralization provides an opportunity for local governments to manage sources of revenue such as regional taxes, regional levies, segregated assets, and other legitimate revenues. Delegation of authority and responsibility is also given to the management of regional expenditure.

In the context of accountability from the local government in managing local finances, a Local Government Financial Statements (LGFS) is prepared for stakeholders. This is a comprehensive control and performance evaluation tool for

local governments (Mahmudi, 2019). Financial statements in general aim to provide information on the overall financial position and financial transactions carried out by an entity in one accounting reporting period.

In understanding the information presented by financial statements, an assessment is needed which is one of the references measuring tools in measuring the financial condition of an entity by using analysis of financial ratios. Measuring financial conditions in the government sector is expected to have accountability in the use of public money and quality reports based on the data contained (Bourn, 2007). In regional administrations, the measurement of financial conditions is also used as a capability and assessment of local financial accountability in the implementation of regional autonomy.

There are problems regarding aspects of local financial management in line with fiscal decentralization in achieving the ideals of regional autonomy. Triastuti et al (2005) in Yoewono's research (2019) state that these problems include: (1) a wide fiscal gap between minimal revenue and large expenditures; (2) unqualified fiscal needs are supported by the ability of the region to manage revenues and expenditures; (3) high basic allocations, for example, the allocation of costs for the state civil apparatus; and (4) the amount of intervention from the central government in determining the objects and types of regional taxes and fees. Other general problems are also described by Moenek & Suwanda (2019), namely: (1) high corruption, collusion, and nepotism; (2) the performance has not been maximized; (3) budget absorption is not optimal; and (4) accountability that is not yet optimal. Ritonga (2014a) also argues that fiscal decentralization causes variations in financial conditions that create a need for stakeholders.

An urban area is essentially an area with a fairly high level of population concentration in terms of population density and is generally a center of economic activity such as industry, trade, and services. Pariaman City is an example of an interesting city to know about the condition of its area after two decades of expansion from Padang Pariaman Regency amid limited assets. There are at least 32 assets belonging to Padang Pariaman Regency which are still in the Pariaman City area until 2021 (ANTARA Sumbar, 2022). It is because previously Pariaman City was the center of government for Padang Pariaman Regency. With the

existence of parent area assets in Pariaman City, it has the potential to hinder regional development which will have an impact on regional revenue and the welfare of the people in the area.

On the other hand, Pariaman City is one of the areas determined by the regional and central government as the National Activity Center (*Pusat Kegiatan Nasional – PKN*) of Palapa (Padang, Lubuk Alung, Pariaman) and Regional Activity Center (*Pusat Kegiatan Wilayah – PKW*) as stated in the Regional Regulation (Perda) of Sumatra Province Barat Number 13 of 2012 concerning the 2012-2032 West Sumatra Provincial Spatial Planning, Government Regulation of the Republic of Indonesia (*Peraturan Pemerintah – PP*) Number 13 of 2017 concerning Amendments to PP Number 26 of 2008 concerning National Regional Spatial Plans, and the National Medium Long-Term Plan 2015-2019 (Kementerian Pekerjaan Umum dan Perumahan Rakyat, 2016, 2022). According to PP No. 26 of 2008 concerning National Spatial Plans, PKN is an urban area that functions to serve activities on international, national, or several provincial scales; while PKW is an urban area that functions to serve provincial or several district/city scale activities.

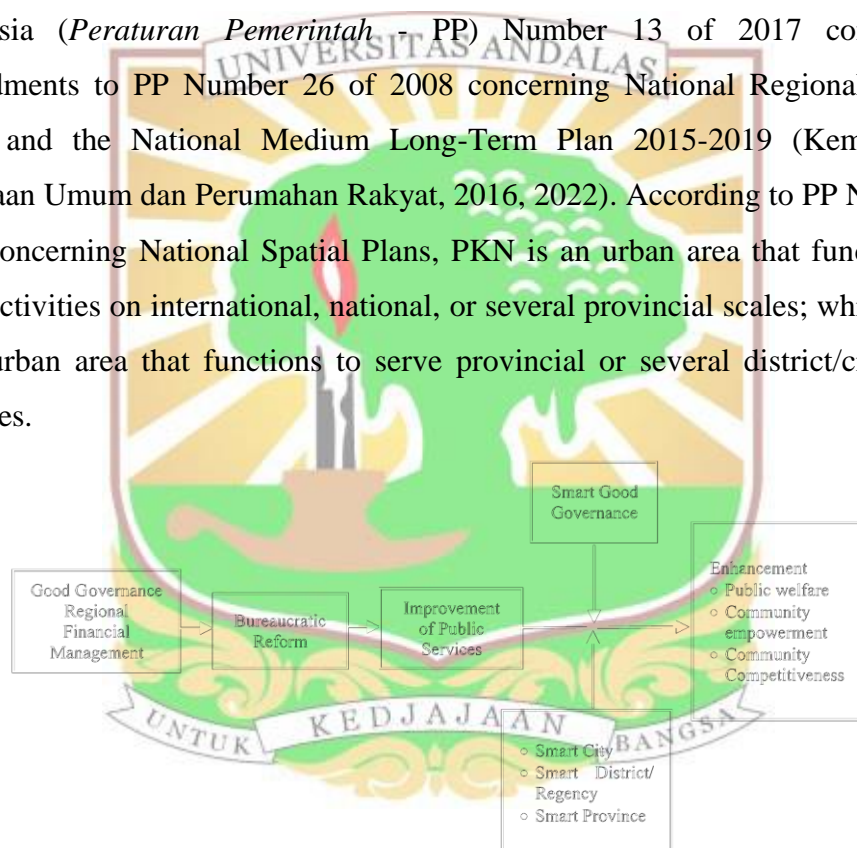


Figure 1. 1 Stages of the Process of Achieving Local Government Goals
(Moenek & Suwanda, 2019)

Based on the statement above, Pariaman City Government as an autonomous region needs to manage local finances properly and know the financial conditions in their area. This is because according to Moenek & Suwanda (2019), good financial management will have an impact on improving public services so that

ultimately community welfare, empowerment, and competitiveness will also increase as can be seen in Figure 1.1.

The problems that have occurred so far, according to Maizunati (2017), are that no local government has officially carried out routine financial condition analysis measurements in their regions, including Pariaman City. The local government feels that the financial condition is limited to the opinion given by the Audit Board of the Republic of Indonesia (*Badan Pemeriksa Keuangan - BPK RI*).

From 2012-2021, Pariaman City Government received the title of Unqualified (*Wajar Tanpa Pengecualian – WTP*) from BPK RI (2022) from the aspect of local financial management and accountability eight times, of which seven times in a row since 2015 and Qualified (*Wajar Dengan Pengecualian – WDP*) twice in 2013 and 2014. This achievement cannot be used as a reference in measuring the financial condition of the Pariaman City Government so in analyzing this financial condition certain methods are needed that must be considered. Local governments need to be aware that this opinion is limited to assessing accountability for financial performance when compared to adherence to budgeting procedures. This opinion is not the main indicator that represents the real condition of local financial health.

This is reinforced by Rahayu's research (2015) which states that audit opinions have not been able to have a positive effect on fiscal decentralization on local financial conditions. The low effect of audit opinion on the positive effect of fiscal decentralization on local financial conditions results in poor audit opinion.

Indrawani (2019) and Suharman (2021) researched the analysis of the financial performance of Pariaman City in the 2011-2017 and 2018-2020 ranges respectively using ratio indicators according to Halim (2007), Mahmudi (2019), and Ulum (2009). The results of this study indicate that in general Pariaman City has a fairly good but fluctuating financial performance.

Assessment of financial performance has differences with financial conditions. This difference can be seen in the financial performance relating to past periods, while the financial condition relates to the entity's ability to meet liabilities in the future, both in the short and long term.

There are various opinions regarding the model for measuring local government financial conditions such as Brown (1993), Kloha et al. (2005), Wang et al.(2007),

Zafra-Gómez et al. (2009a, 2009b, 2009c), and Rivenbark et al. (2009, 2010). The Indonesian government also issued a model for measuring financial conditions through Minister of Finance Regulation (PMK) Number 266/PMK.07/2015 and refined through PMK Number 198/PMK.07/2016 concerning Amendments to PMK No. 266/PMK.07/2015 Concerning Fiscal Health Ratings and Local Financial Management. This model has advantages and disadvantages, so Ritonga (2014a, 2014b) provides improvements to a model for measuring financial conditions known as Ritonga's Six-Dimensional Model.

Ritonga's Six Dimensional Model is a refinement of the model concept previously mentioned. This model combines six main dimensions that focus not only on regional revenues and expenditures but also on other aspects related to local government finance. Research in Indonesia has been carried out by Ritonga et al., (2012) by developing a concept to assess the financial condition of local governments and applying the concept to local governments in Indonesia. Furthermore, Ritonga (2014b) also conducted research by developing instruments to measure the financial condition of local governments in Indonesia. This research was conducted using the reference made by Ritonga (2014b) regarding assessing local governments' financial condition in Indonesia. This study is the first to propose a concept for assessing the financial condition of local governments. This concept consists of six dimensions: short-term solvency, long-term solvency, budgetary solvency, service-level solvency, financial flexibility, and financial independence. There was a new dimension added in 2015 along with policies on government accounting rules, namely the operational solvency dimension. This dimension was added as a consequence of the existence of a new type of financial report, namely the operational statement (*Laporan Operasional* – LO).

This model has been widely used as a reference for research in Indonesia, including research conducted by Indriani et al. (2022), Rodiah (2021), and Maizunati (2017). Based on this, it can be seen that in the case of local government in Indonesia, this model can be used practically in research related to measuring financial conditions in Indonesia. This is also supported by Primawaty (2017) who stated this model is compatible with financial data available from LGFS in

Indonesia and is considered more comprehensive in measuring local financial conditions in Indonesia, making it suitable for implementation in Indonesia.

Based on this phenomenon, it is necessary to carry out an assessment of the local financial condition which in this case is limited to an analysis of the financial condition of the Pariaman City Government using Ritonga's Six-Dimensional Model.

1.2 Formulation of The Problem

Based on the phenomena that have been described in the background, the problem formulated in this research is what is the financial condition of the Pariaman City Government for 2017-2021 based on Ritonga's Six-Dimensional Model?

1.3 Research Purposes

This study aims to determine the financial condition of the Pariaman City Government based on Ritonga's Six-Dimensional Model for 2017-2021.

1.4 Benefits of Research

This research is expected to be utilized for practical and academic purposes as follows:

1.4.1. Practical Use (Operational)

It is hoped that this research can be used as a reference for Pariaman City Government in making decisions regarding local financial conditions and making short-term and long-term local financial management policies in Pariaman City.

1.4.2. Academic Use (Theoretical)

It is hoped that this research can be used in the development of science and can be used as a reference and input material for similar research by future researchers, and can add insight and knowledge in the field of Governmental Accounting, especially in analyzing the Financial Conditions of Pariaman City Government in the future.

1.5 Writing System

The systematics of this writing is used as an illustration that makes it easier for the reader to understand the discussion of the problems presented in this study. Therefore the systematics of writing in this study are as follows:

CHAPTER I: INTRODUCTION

This chapter describes the research background, problem formulation, research objectives, research benefits, and writing systematics.

CHAPTER II: LITERATURE REVIEW

This chapter describes the keywords that will be analyzed and explain the theoretical basis used as the basis for this research. This study uses several keywords, namely: regional autonomy, local finance, and local financial conditions. It also describes the development of previous research and the research framework.

CHAPTER III: RESEARCH METHODS

This chapter describes the methods and process of the research conducted. These are research designs, research objects, types and sources of data, methods of data collection, and methods of data analysis.

CHAPTER IV: RESULTS AND DISCUSSION

This chapter describes the analysis of data processing and data description in this study. The analysis in question is an analysis of the financial condition of Pariaman City using Ritonga's Six-Dimensional Model. Starting with a descriptive analysis of the data to see the overall picture of the data. Then a discussion is carried out which is the result of processing the data to get the category of the financial condition of Pariaman City, where the results of the processing are the answers to the formulation of this research.

CHAPTER V: CONCLUSION

This chapter explains the main conclusions of the research as a whole. In addition, it also describes the limitations faced by this research during its journey, the implications of the research, and suggestions for interested parties.

