CHAPTER I

INTRODUCTION

1.1. Background

Officially the implementation of local autonomy in Indonesia began on January 1, 2001. According to the Government, the implementation of local autonomy in Indonesiais in accordance with Law No. 32 of 2004 which was then replaced by Law No. 23 of 2014, concerning Local Government and Law No. 25 of 1999 concerning Central and Local Fiscal Balance which was replaced by Law No. 33 of 2004. Since then, the Government administration and the Local Development system in Indonesia underwent a change from centralization to decentralization. The implementation of the new government system is also known as the implementation of local autonomy.

In line with the implementation of local autonomy and the implementation of the decentralization principle to each region, it certainly has consequences for local financial management. In this regard, each region is given broad authority and responsibility to explore and manage their Local Own-Source Revenue (PAD) as optimally as possible in accordance with Law No. 32 of 2004 and Law No. 23 of 2014. Furthermore,the Law No. 34 of 2000 which was replaced by Law No. 28 of 2009 concerning Local Taxes and Local Retribution also provides considerable opportunities for regions to optimally explore and manage their Local Own-Source Revenue. The birth of these two laws, especially Law No. 28 of 2009 seems to increasingly provide clearer authority to regency and city areas to explore and manage Local Own-Source Revenue efficiently and effectively.

The implementation of local autonomycreates independence and the opportunity for each region to self-regulate and manage government affairs and the interests of local communities in accordance with applicable laws and regulations. According to Article 1 Number 6 Government Regulation No.58 / 2005 states that "Local Financial Management is the whole activity which includes planning, implementation, administration, reporting, accountability, and supervision of local finances." Based on these explanations, the budget as a representation of local finance is the core of local financial management that is managed independently, so that the activities of planning, implementation, administration, accountability, and supervision are all focused on the budget.

Local financial performance is the level of achievement of a target of local government financial activities. Financial capability is the conformity of the achievement of financial performance results with planned targets. An evaluation of the performance and financial capacity of the region is needed so that the government is encouraged to improve its performance the following year.Measurement of local government financial performance is carried out to generate important information especially for making policies in the management of local finances and assess whether local governments have succeeded in managing their finances well, and have a positive impact on public's welfare (Rahmayati, 2016:41).

The City Government of Pariaman is one of the governments that is in the public spotlight along with the development process undertaken. In 2018, Pariaman won first place in the Most Improved category at the Tourism Care Award which reflects the seriousness of the Pariaman City Government in the

development and construction of tourist infrastructure in the city. And also in that year the Pariaman City Government signed a Memorandum of Understanding on February 14th 2018 on the supervision of village funds with the Pariaman Resort Police aimed at implementing prevention, supervision and handling of village fund problems in Pariaman that reflected the effective, efficient and accountable management of village funds in the context of accelerating development in the village.

Those facts show that Pariaman City Government has already tried to perform good governance system and efficient problem solving & sustainable development. This was also shown by an increase in Local Own-Source Revenue management during the 2014-2018 period.In 2014, Pariaman City's PAD amounted to Rp26.677.826.163,98 and then increased to Rp35.677.361.440,00 in 2018. This means that on average there was a positive growth in Pariaman City's PAD revenue in the amount of 9.79% during the 2014-2018 period.PAD as one of local revenue reflects the level of local financial performance. The greater the PAD, it shows that the regions are able to carry out fiscal decentralization and dependence on the Central Government is reduced.Furthermore, the performance of Pariaman City government in managing their expenditures also assumed to be quite efficient, where in 2014 the level of expenditure efficiency was 91.95% (less efficient) but in 2018 the level of expenditure efficiency showed 86.36% which showed efficient enough.

Besides good governance shown by the quite good financial management performance of Pariaman City government, it turned out according to the assessment of the BPK on the website of BPK, during 4 consecutive years from

2015-2018Pariaman City government also received an Unqualified Opinion (WTP) from the Audit Board of the Republic Indonesia (BPK) on the accountability of financial management in the form of Government Financial Statements. BPK's opinion is one measure of performance in the field of financial management, so it can be said that the financial performance of the Pariaman City government is already good.

Even though according to the BPK assessment, the financial management of Pariaman city has been good enough, but if it is examined more deeply, especially in terms of the level of localfinancial independenceis still very low, in 2014 the level of financial independence of Pariaman City was 5.07%, then increased to 5.41% in 2018. Despite an increase in the level of local financial independence during the 2014-2018 period, the conditions are still very low. This fact shows that the financial performance of Pariaman City Government is not yet optimal.

This study takes the object of the Pariaman City Government because of many potentials owned by this city, so the researcher wants to know the extent of the financial performance of the Pariaman City Government in exploiting the potential that exists in carrying out the autonomy given in order implementing the concept of local finance value for money. Value for money means the application of three principles in the budgeting process, namely economy, efficiency and effectiveness. Economy means the selection and use of certain amounts and quality of resources at the lowest price. Efficiency means that the use of public money (public money) can produce maximum output (efficient). Effectiveness

means that the use of the budget must achieve targets or objectives of the public interest (Mardiasmo, 2002:105).

Various studies on local financial performance have been carried out by several previous researchers, among others, Hendawati (2017) who stated that the financial performance of the Bandung City Government in the 2010-2016 period had been effective, efficient, and experiencing positive growth, coupled with the level of financial independence of the region which was in the range of 50% - 70%. The relatively high independence ratio shows the financial capacity of the Bandung city government in financing the implementation of government and development can be said to be quite independent. This is because potential sources to increase Local Own-Source Revenue (PAD) had been well controlled by the local government of Bandung.

Furthermore, the results of a study conducted by Nurdiwaty & Zaman (2016) also showed that the financial performance of the Kediri City Government in the 2009-2012 period had been effective and efficient, followed by a very good level of local independence. This was evidenced in 2009 the level of financial independence of the City Government of Kediri was 294.19% and in 2012 it was 181.49%. So during this period the financial performance of the Kediri City Government can be said to have been good.

While the results of Abdallah's study (2018) in the Kerinci Regency government in the 2008-2015 period showed the level of financial inefficiency of the region. This was due to the ability of the regions in the Kerinci Regency to carry out their duties less stable because they were still experiencing fluctuating or fluctuating ratios, the government's performance was a wastein financing

development that was not optimal. Furthermore, the level of fiscal decentralization of the Kerinci Regency government is stated to be Sufficient. The adequacy of the degree of fiscal decentralization from the PAD component shows that the Kerinci Regency during the 2008-2015 fiscal year is still very dependent on revenues sourced outside the PAD, such as transfer revenues and other legitimate revenues.

The results of Ramadani's research (2017) also show that the financial performance of the Samarinda City government during the 2010-2014 period had s not yet efficient but at least in terms of the ability of the local government to realize the Local Own-Source Revenue (PAD) had already been effective. However, for the level of fiscal decentralization, the City Government of Samarinda is still in the very low category. This indicates that the Samarinda City Government is still low in accepting the authority and obligations of the central government in carrying out local development.

Although several studies have been conducted on this topic, the differences are still found on the results of the study due to the different ability and capacity of each city/regency government in managing their finances. Based on the description above, the researcher is interested in conducting research related to the analysis of the financial performance of the local government with the research title "Financial Performance Analysis of the Pariaman City Government in 2014-2018".Thus, the financial performance of the City Government of Pariaman during the 2014-2018 period can be determined and if there is a shortage, it can be given some suggestions for improving the financial management of the City Government of Pariaman in the future.

1.2. Research Questions

Based on the background description above, the formulation of the problem in this study is stated in the form of a question as follows:

1. How is the financial performance of the Pariaman City government based on its revenue during the 2014-2018 period ?

2. How is the financial performance of the Pariaman City government based on its expenditure during the 2014-2018 period ?

1.3. Research Objectives

Based on the problem statements that have been stated above, the objectives of this study are:

1. To analyze and find out the financial performance of the Pariaman City Government based on its revenue during the 2014-2018 period.

2. To analyze and find out the financial performance of the Pariaman City Government based on its expenditure during the 2014-2018 period.

1.4. Research Benefits

This research is expected to give contributions and benefits, including:

1. Theoritical Benefits

   The results of this research are expected to be useful for the development of accounting knowledge, especially in public sector accounting regarding issues related to local financial performance of local governments in Indonesia.

2. Practical Benefits

   a. For academics, it is expected that this research can enrich library materials and be able to contribute to the development of theories,

especially those related to public sector accounting, specifically to understand about local financial performance of local governments in Indonesia.

b. For local governments, the results of this study are expected to be able to provide consideration and input for the development of government performance in the management of local finances and take necessary corrective actions and to showcase the transparancy of government in managing public funds.

c. For public, by providing results that can help the local government in improving performance, the public can know the performance of their government and expect to feel better services and increased welfare.

d. For further research, this research is expected to be used as information material, literature for further research development.

1.5. The Scope of Research

This research is limited to the analysis of the financial performance of the City Government of Pariaman based on its local revenue and its local expenditure during the 2014-2018 period. The tools used to measure arethe analysis of revenue variance, revenue growth ratio, ratio of independence, fiscal decentralization ratio, PAD effectiveness ratio, analysis of expenditure variance, expenditure growth ratio, and expenditure efficiency ratio. The data will be analyzed based on Revenue and Expenditure Budget Realization Report 2014-2018 of Pariaman City government.

1.6. Writing Systematic

This systematic writing determination aims to make it easier to compile and study the parts of the entire set of research writing. The systematic in writing this research is as follows:

CHAPTER I : BACKGROUND

This chapter will describe the background of the problem, the formulation of the problem, the limitation of the problem that is limited to the analysis of the financial performance of the Pariaman city government based on the analysis of local revenue and analysis of local expenditure. This chapter also describes the research objectives, the benefits of research both in terms of theoritical benefits and practical benefits, as well as the systematic writing.

CHAPTER II : LITERATURE REVIEW

This chapter outlines the theoretical basis used in this study, namely regarding local autonomy, local finance, local income sources, local expenditure, financing,performanceconcepts,APBDandanalysisoflocalfinancialperformancecontained in this study.

CHAPTER III : RESEARCH METHOD

This chapter explains the research design, types and sources of data, research variables, data collection methods, data analysis methods, and the testing phase used to achieve the research objectives.

CHAPTER IV : RESEARCH FINDINGS AND DISCUSSIONS

This chapter discusses the analysis of data processing and its discussion which is an interpretation of the results of data processing. Interpretation of the results of this study will provide answers to the problems of this study.

CHAPTER V : CONCLUSIONS AND SUGGESTIONS

This chapter is a concluding part that contains conclusions from the results of the overall research and limitations of the research conducted and also suggestions for future research references.