

Solvency, Debt and Operating Performance (Case Study on 23 Districts/Cities in Aceh Province, Indonesia in 2014-2015)

Jalaluddin Juanda Fitrawati
Faculty of Economics and Business of Syiah Kuala University, Indonesia

Abstract

This study aims to investigate the financial performance of local governments before and after the enactment of Law No. 71 year 2010 on accrual-based government accounting standards in all districts/cities of Aceh Province, Indonesia based on Liquidity Ratios, Solvency, Debt, and Operating Performance. The data used is secondary data in the form of local government financial reports published on the website of the Financial Supervisory Body (BPK) in 2014 and 2015. This research is quantitative descriptive research, uses purposive sampling method. The objects of this study are 23 districts/cities in Aceh Province. The method of analysis is Paired Sample T-Test. The results of this study indicate that the liquidity ratio is significantly different between the years before and after the enactment of Law No. 71 year 2010 about accrual accounting standards, while the solvency ratio and the operating performance ratios are not significantly different between the years before and after the enactment of the aforementioned law.

Keywords: Financial Performance of Local Governments, Liquidity, Solvency, Debt and Operating Performance

1. Introduction

Financial performance means the determination of certain measures that can measure the success of an organization in obtaining revenue and a measure of performance using financial indicators (Handoko, 2016). Local government financial performance is a measure of local regions capacity to manage and explore regions financial resources in meeting their needs in order to support the running of the government system, service to the community and its development without being completely dependent on the central government. The way to make it happens is analyzing the reports made by the government in the form of Budget Realization Report (LRA) as one of the main government accountability reports.

In the era of public sector reform, the government is expected to report the results of its programs to assess whether the government works economically, effectively and efficiently. The government's financial performance becomes the focus of attention by both government officials and other stakeholders. This is due to the issues surrounding government financial management which are always interesting to be highlighted for various purposes, especially the issues about corruption. Local government financial solutions still rely on funding from the central government, and this is a source of dependence by local government (Patrick, 2007). Meanwhile, the financial performance of local government in a less good era of autonomy becomes a problem that must be resolved soon. Performance even tends to decline in the era of autonomy than before the autonomy right is granted (Hariyadi, 2002; Azhar, 2008).

Accountability for the management of regional finance is stipulated in Law No. 17 Year 2003 on State Finance which states that the preparation and presentation of local government financial statements shall be based on Government Accounting Standards (SAP) as further stipulated in Government Regulation No. 24 Year 2005 on Government Accounting Standards which is then regulated in Government Regulation No. 71 year 2010 on Accrual-based Government Accounting Standards (written in Appendix I and Cash toward Accrual based in Appendix II of the regulation).

In order to facilitate the technical implementation, the government has issued a guideline for implementation and technical guidance through the letter of the Minister of Internal Affairs No. S.900 /316/BAKD on "Guidelines of Administration and Accounting Systems and Procedures, Reporting and Regional Financial Accountability. All these regulations require the form and content of the accountability report for the implementation of the State/Regional Budget (APBN/APBD) to be prepared and presented in accordance with Government Accounting Standards (SAP) (Maisyuri, 2015).

The components of financial statements include Budget Realization Report (LRA), Balance Sheet, Cash Flow Report (LAK), and Notes to Financial Statements (CALK). Therefore, the information contained in the Local Government Financial Statements (LKPD) should be useful in accordance with the needs of users and must provide information that is reasonably free from material misstatements so that it will not mislead readers and users of financial statements and can be used for planning, controlling, and decision making.

In this research, the researchers observe the comparisons before and after the enactment of the Government Regulation Law No. 71 Year 2010 on Accrual-based Government Accounting Standards that must be applied to

23 districts/cities in Aceh Province which must be applied fully not later than 2015.

To know the local government financial performance, it is necessary to do an analysis of the financial performance of local governments in managing its local finance. One of tools used to analyze the performance of government in managing its local finance is financial ratio analysis. The results of financial ratio analysis will be used as a benchmark to see the financial performance of local governments in financing the development of the region.

Government financial performance becomes an important point and a very interesting topic to be studied. Examination of the financial performance of local government can reflect the results of programs and activities undertaken by the local government, whether the government is good in carrying out duties and functions in accordance with the mandate of the people to achieve prosperity.

Based on the description presented above, the researchers are interested to conduct research on the financial performance of local government before and after the enactment of Law No. 71 year 2010 on Accrual-based Government Accounting Standards. The research is entitled "Analysis of Government Financial Performance on the basis of Liquidity Ratio, Solvency, Debt, and Operating Performance Case Study In 23 District/Cities in Aceh Province years 2014-2015.

2. Theoretical Framework and Hypothesis Development

Performance is a description of the achievement level of the implementation of an activity or program and policy in realizing the organization's goals, objectives, mission and vision contained in the strategic planning of an organization (Bastian, 2010). The local government financial performance is the ability of a district to explore and manage sources of finance in fulfilling its need to support the running of government system, service to society and development of its region without totally dependent on central government and flexibility in using fund for the benefit of local society within the restriction determined by legislation.

Finance is all rights and obligations in the framework of the implementation of local government which can be assessed with money including all forms of wealth related to regional obligations (article 1 government reg. No.58/2005).

The local governments financial performance is the ability of a district to explore and manage financial resources in meeting its needs to support the running of the government system, service to the community and its development without totally dependent on the central government in the use of funds for the benefit of the district community within the restriction determined by legislation.

Halim (2002) explains that "financial statements are financial information containing data elements of wealth structure and financial structure. Those are reflections of the economic activity of an organization in a certain period". Government Regulation (PP) No. 71 year 2010 on Government Accounting Standards (SAP) explains that the financial statements are structured reports on the financial position and transactions conducted by a reporting entity.

Government Regulation (PP) No. 24 year 2005 on Government Accounting Standards states that the components contained in a set of Central Government Financial Statements (LKPP) consist of:

a. Budget Realization Report

The Statement of Government Accounting Standards (PSAP) No. 02 on the Budget Realization Report (LRA) states that the Budget Realization Report (LRA) provides an overview of the sources, allocations and uses of economic resources administered by the central or regional government in one reporting period. The Budget Realization Report (LRA) presents elements such as: income, expenditure, transfers, surplus or deficit, and budget financing.

b. Balance sheet

The balance sheet describes the financial position of a reporting entity regarding the assets, liabilities, and equity of funds on a specific date (SAP, 2005). The elements covered by the balance sheet consist of assets, liabilities, and equity of government funds.

c. Cash Flow Report (LAK)

The cash flow report provides information on the sources, uses, changes in cash and cash equivalents for one accounting period, cash and cash equivalents balance at the reporting date. Cash inflow and cash outflow are classified based on operating activities, non-financial asset investments, financing and non-budget (SAP, 2005). Presentation of cash flow report and disclosures relating to cash flows are set forth in Statement of Government Accounting Standards (PSAP) No. 03 on Cash Flow Reports. The elements covered in the reports of Cash Flows consist of cash receipts and disbursements.

d. Notes to the Financial Statements (CaLK)

Notes to the Financial Statements include a detailed description or list or analysis of the value of a post presented in the Budget Realization Report, Balance Sheet, and Cash Flow Report. The Notes to the Financial Statements describe the presentation of information on the accounting policies used by the reporting entity and other information required and recommended to disclose (in accordance with Government Accounting Standards

(SAP)) and other disclosures necessary to produce fair presentation of financial statements, such as contingent liabilities and other commitments.

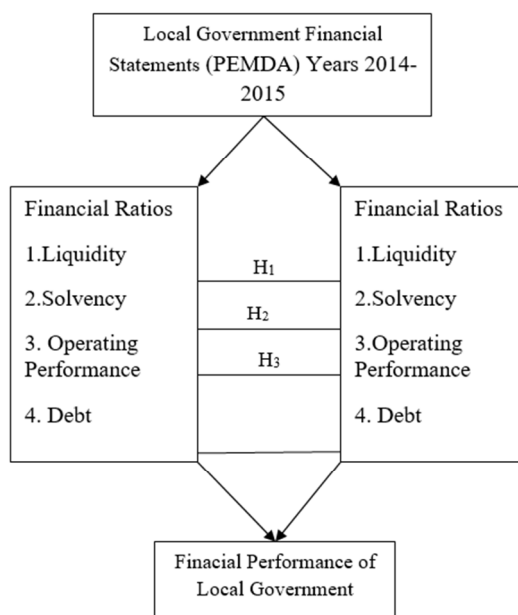
According to Mahmudi (2010: 105) financial ratio analysis is asset information in the balance sheet which is also very important to calculate certain financial ratios. Some types of financial ratios are less relevant for the public sector such as receivable turnover analysis, inventory turnover, asset turnover, ROA, and ROI. However, there are also the analyses of financial ratios that can be used in both the business and public sectors such as liquidity and solvency analysis.

Mahmudi (2010: 107) argued that the liquidity ratio shows the ability of local governments to meet their short-term liabilities. Although local governments have drawn up cash budgets, but liquidity analysis will be more beneficial to management than if only based on cash budget. To perform this liquidity analysis, there are several ratios that can be used, namely: Current ratio, cash ratio, quick ratio and working capital ratio of total assets ratio.

Mahmudi (2010: 109) also argued that solvency ratio can be used to see the ability of local government in fulfilling all its obligations, both short-term and long-term liabilities. Mahmudi (2010: 108) stated that debt ratio is very important for potential creditor of local government in making credit policy. These ratios will be used by creditors to gauge the local government's ability to pay its debts. There are several types of debt ratios, including debt to equity ratio, debt to total capital asset ratio, Times interest earned ratio

Operating performance is the difference between the income and the disbursement in a certain period. Turley, Robbins & McNena (2014) argued that to measure the performance of local operations, some indicators are used: surplus/deficit operation, surplus/deficit per population operation, and surplus/deficit ratio operation.

3. Theoretical Framework



Picture 1.1: Theoretical Framework

4. Hypothesis

One way the governments use to analyze the financial performance of central government is financial ratio analysis. Financial ratio analysis is done by comparing the results achieved from one period with the previous period so it can show the real financial condition.

Based on the above logic then the hypothesis to be tested in this study stated as follows:

H₁: Liquidity levels before and after the implementation of Law No. 71 year 2010 on accrual basis of government accounting standards are significantly different.

H₂: The level of solvency before and after the implementation of Law No. 71 year 2010 on accrual basis of government accounting standards are significantly different.

H₃: Rate of Debt ratio before and after the implementation of Law No. 71 year 2010 on accrual basis of government accounting standards are significantly different.

H₄: Operating Performance levels before and after the implementation of Law No. 71 year 2010 on accrual basis of government accounting standards are significantly different.

5. Research Method

This research is quantitative descriptive research. It will describe phenomenon or data characteristic that is going on at the time of the research is done or during certain period to answer formulation of research problem (Sugiyono, (2008: 47). The population in this study is the local government (PEMDA) of Aceh province consisting of 23 districts/cities, while the sample is the Local Government Financial Report (LKPD) of Aceh Province.

6. Operationalization of variables

1. Local government's financial performance

The local government's financial performance is the ability of a district to explore and manage financial resources in meeting its needs to support the running of the government system, service to the community and its development without being totally dependent on the central government and in the use of funds for the benefit of the local community within the restrictions determined by laws and regulations.

2. Current Ratio

The current ratio is a standard measure for assessing the financial health of an organization. The current ratio illustrates the ability of the central government to fulfill its short-term obligations (Mahmudi, 2006).

3. Solvency ratio

Solvency ratio is the ratio between the amounts of central government assets to total liabilities owned by the central government. Solvency ratio describes the ability of the central government to pay all the obligations of the central government, both short and long term (Mahmudi, 2006).

4. Debt ratio

The debt ratio (leverage/indebtedness) is the ratio used to determine the portion of each rupiah equity fund used as collateral for the entire debt.

5. Operating Performance Ratio

The surplus/deficit operation is the difference between the earnings of an income and the expenditure of a given period.

7. Method analysis

Data is processed by using SPSS program (statistical package for social sciences). The testing of hypotheses is by using Paired Sample T-Test while the data in this research is formulated into two parts, i.e. data of 2014 and 2015. This is done to investigate the financial performance of local government.

8. Results and discussion of research

The result of *Paired Sample T-Test*

a. Liquidity Ratio

Table 4.1

Hypothetical Test of Liquidity Ratio before and after the enactment of Law No. 71 year 2010 on accrual-based accounting standards.

Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	2014 – 2015	4,14347	6,51459	1,35839	1,32635	6,96059	3,050	22	0,006

Source: Output SPSS 20 (2017)

The result of the hypothesis test above shows the significance value of the liquidity ratio before and after the enactment of Law No. 71 year 2010 on accrual based accounting standard of 0.006. The value of significance (two-tailed) 0.006 < 0.05 then H_0 accepted which means that the financial performance of local governments in the form of liquidity ratios before and after the enactment of law No. 71 year 2010 on accrual-based accounting standards is significantly different.

b. Solvency Ratio

Table 4.2

Hypothesis Testing of Solvency Ratio before and after the enactment of Law No. 71 year 2010 on accrual-based accounting standards.

Paired Samples Test

	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Pair 1 2014 – 2015	2,10454	7,59830	1,58436	-1,18121	5,39030	1,328	22	0,198

Source: Output SPSS 20 (2017)

The result of the hypothesis test above shows the significance value of the solvency ratio before and after the enactment of Law No. 71 year 2010 on accrual based accounting standard of 0.198. The value of significance (two-tailed) $0.198 > 0.050$ then H_0 is rejected which means that the financial performance of local government in the form of liquidity ratios before and after the enactment of law No. 71 year 2010 on accrual-based accounting standards is not significantly different.

c. Debt Ratio

Table 4.3

Hypothesis Testing of Debt Ratio before and after the enactment of Law No. 71 year 2010 on accrual-based accounting standards.

Paired Samples Test

	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Pair 1 2014 – 2015	7,77427	13,32950	3,33238	0,67148	14,87706	2,333	15	0,034

Source: Output SPSS 20 (2017)

The result of the hypothesis test above shows the significance value of debt ratio before and after the enactment of Law No. 71 year 2010 on accrual based accounting standard of 0.034. The value of significance (2-tailed) $0.034 < 0.050$ then H_0 is accepted which means that the financial performance of local government resources in the form of solvency ratios before and after the enactment of Law No. 71 year 2010 on accrual-based accounting standards is significantly different.

d. Operating Performance Ratio

Table 4.4

Hypothesis Test of Operating Performance Ratio before and after the enactment of Law No. 71 year 2010 on accrual-based accounting standards.

Paired Samples Test

	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Pair 1 2014 – 2015	-18,21757	20,03744	14,16861	-198,24680	161,81166	-1,286	1	0,421

Source: Output SPSS 20 (2017)

The result of the hypothesis test above shows the significance value of the operating performance ratio before and after the enactment of Law No. 71 year 2010 on accrual based accounting standard of 0.421. The value of significance (two-tailed) $0.421 > 0.050$ then H_0 is rejected which means that the financial performance of local government in the form of debt ratio before and after the enactment of law No. 71 year 2010 on accrual-based accounting standards is not significantly different.

9. Conclusions and Suggestions

a. Conclusions

Based on the research that has been done, it can be concluded that:

1. Not all of the financial performance measures of local governments in Aceh on the years before and after the enactment of Law No. 71 year 2010 on accrual based of accounting standards show significant differences. Only liquidity ratio and debt ratio which are significantly different when compared between 2014 and 2015.
2. The use of financial ratio analysis consisting of liquidity ratio, solvency ratio, debt ratio, and ratio of operating performance is one good way to measure financial performance of local government.

b. Suggestions

Based on the results of the analysis, conclusions and limitations of research obtained in this study, there are suggestions that can be recommended:

For further research,

1. It is desirable for subsequent research to add some other dependent variables that can be used to analyze the financial performance of local government.
2. It is expected that other researchers will expand the variable of financial performance not only to local government, but also on all District Working Unit (SKPD) of regencies/cities.
3. It is expected for other researchers to expand the observation period of the research.

For regencies/cities in Aceh province,

In terms of improving the financial performance of local governments, local governments (PEMDA) should be more active in exploring more sources.

References

- Azhar, M. K. S. (2008) "Analisis kinerja keuangan pemerintah daerah kabupaten/kota sebelum dan setelah otonomi daerah." *Master Thesis*. Program Magister Akuntansi Sekolah Pascasarjana Universitas Sumatera Utara.
- Bastian, I. (2015) „Akuntansi Sektor Publik.“ Jakarta: Erlangga.
- Boyne, G.A. (2003) "Sources of public service improvement: a critical review and research agenda." *Journal of public administration research and theory*, 13 (3), 367-394. doi:10.1093/jopart/mug027.
- Ghozali, I. (2005) "Aplikasi Analisis Multivariate dengan Program SPSS." Semarang: Badan Penerbit Universitas Diponegoro.
- Halim, A. (2002) „Akuntansi Sektor Publik : Akuntansi keuangan Daerah“. Jakarta :Salemba Empat.
- Hariyadi, B. (2002) "Pengaruh kebijakan fiscal stress terhadap kinerja keuangan pemerintah kabupaten/kota dalam menghadapi pelaksanaan otonomi daerah (Suatu kajian empiris di Propinsi Jawa Timur)". *Proceeding Simposium Nasional Akuntansi V* in Semarang, Indonesia.
- Jelin, R., and Victorina, T. (2016) "Pengukuran Kinerja Keuangan Pada Pemerintah Kabupaten Minahasa Selatan Tahun 2011-2014", *Jurnal EMBA* Vol.4 No.1 Maret 2016, pp. 982-989
- Maisyuri. (2015) "Analisis Kinerja Keuangan Pemerintah Kota Lhokseumawe." *Bachelor Thesis*. Universitas Syiah Kuala
- Mahmudi. (2010) „Analisis Laporan Keuangan Pemerintah Daerah.“ Yogyakarta: SKTIM YKPN
- Government Regulation No. 71 on Accrual-based Government Accounting Standards (2010). Department of Interior Affairs of the Republic of Indonesia, Jakarta.
- Government Regulation No. 24 on Government Accounting Standards (2005)
- Rainey, HG, & Steinbauer, P. (1999). „Berderap gajah: elemen mengembangkan teori organisasi pemerintah yang efektif.“ *Jurnal Penelitian Administrasi Publik dan Teori*, 9 (1), 1-32
- Sekaran, U. (2013) "Research Method For Business., Metode Penelitian Untuk Bisnis", Edition 4. (translated) Kawan Men Yon, Jakarta: Salemba Empat
- Stanwick, P.A. and Stanwick, S.D. (1998). "The relationship between corporate social performance, and organizational size, financial performance, and environmental performance: an empirical examination." *Journal of Business Ethics*, 17 (2), 195-204. doi: 10,1023 / A: 1005784421547
- Sugiono (2007) „Metode Penelitian Bisnis.“ Bandung, CV ALFABETA
- Turley, G., Robbins, G., and McNena, S. (2015) "A Framework to Measure the Financial Performance of Local Governments." *Local Government Studies*