



Analysis of Factors That Influence the Financial Performance of the Regional Government of North Padang Lawas Regency

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Abstract

Financial performance is one measure that describes the level of achievement of local governments in managing finances under the law. This research aims to determine the influence of local revenue, balancing funds, and capital expenditure on the financial performance of the North Padang Lawas Regency government. This research uses quantitative methods in the form of secondary data obtained from the official website of the Directorate General of Fiscal Balance. Data analysis uses multiple linear regression analysis with Eviews. The partial research results show that regional original income significantly affects regional government financial performance, and balancing funds has a negative and significant effect on regional government financial performance. In contrast, capital expenditure does not influence regional government financial performance. Simultaneously, local original income, balancing funds, and capital expenditure significantly affect the financial performance of the North Padang Lawas Regency regional government.

Introduction

Law Number 23 of 2014 concerning Regional Government¹ and Law Number 1 of 2022² concerning Financial Relations between the Central Government and Regional Government are the main foundations for implementing regional autonomy. Through this law, regional governments in Indonesia are given the rights, authority, and responsibility to regulate and manage local regional governments and communities independently in accordance with statutory regulations (Verawaty et al., 2020). The implementation of regional autonomy authority is expected to allow all regions in Indonesia to manage regional finances by utilizing regional potentials, which are used to advance the region. However, in fact, the level of regional government dependence on the central government is still high, which has a negative impact on government management, which is disrupted due to the regional government's inability to finance its apparatus expenditure (Nauw & Riharjo, 2021).

Financial performance measurement comes from financial information that has been measured based on the budget that has been made, which can be used to improve further programs to produce better and better quality public services. Regional governments have full authority to increase their areas based on funding and income from regional revenues to increase the APBD. In carrying out its authority, regional governments are required to explore and manage the potential of natural resources, which can be used as a source of regional finance to fulfill regional development through Regional Income. Regional income is a source of income consisting of regional taxes, regional levies, separate regional wealth management results, and other legitimate regional original income. Regional original income is used to run the government to support community welfare. The higher the regional original income, the higher the regional ability to meet needs and improve services to the community. The ability to optimally explore and utilize regional potentials will produce a source of income originating from regional original income (Sari & Mustanda, 2019).

The main problems that regional governments in Indonesia still frequently face in relation to regional government financial performance are low Original Regional Income and high dependence on transfer funds from the central government (Lathifa & Haryanto, 2019). One of them occurred in North Padang Lawas Regency, which is one of the regions in North Sumatra Province. North Padang Lawas Regency has much regional potential, but the level of regional dependence on the central government is still high. The North Padang Lawas Regency Government, which plays a role in managing regional finances, is very important in increasing its ability to explore regional potential to produce financial resources in order to minimize the decline in regional income growth.

Table 1. Realization of Regional Income, Balancing Funds and Capital Expenditures for North Padang Lawas Regency 2010-2023 (Billions of Rupiah)

Year	Regional Income	Balancing Funds	Capital Expenditure
2010	5.33	304.94	86.31
2011	8.72	337.79	161.46
2012	12.79	415.65	232.91
2013	15.8	454.23	193.42
2014	22.17	482.25	171.95
2015	26.44	504.65	170.63
2016	30.45	736.69	228.44
2017	74.52	709.33	312.57
2018	74.3	700.7	196.03
2019	42.92	763.03	247.48
2020	51.97	695.57	152.15
2021	43.31	729.64	159.56
2022	43.15	751.21	337.95
2023	46.89	792.72	119.38

Source: *Direktorat Jenderal Perimbangan Keuangan, 2023*

¹ Undang-Undang Nomor 23 Tahun 2014 Tentang Pemerintahan Daerah

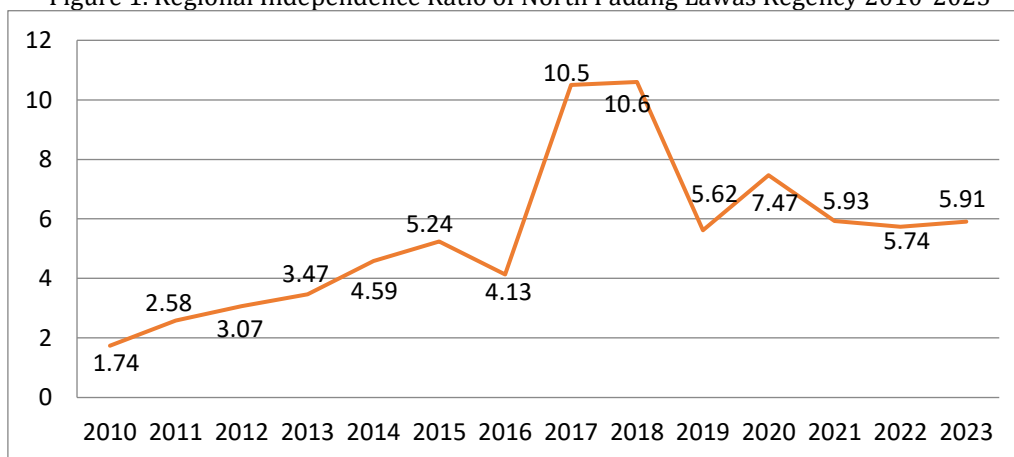
² Undang-Undang Nomor 1 Tahun 2022 Tentang Hubungan Keuangan Antara Pemerintah Pusat Dan Pemerintahan Daerah

Table 1 it shows that the realization of equalization fund revenues is still very large compared to the realization of original regional revenue. This is because the original regional revenue has not been able to finance capital expenditure. The Balancing Fund is also a source of regional revenue that has made a large contribution to the APBD structure. According to Prastiwi and Aji (2020), the large amount of Balancing Fund receipts from the central government will show a higher level of regional government dependence on the central government to meet regional needs.

Capital Expenditures also affect the financial performance of local governments. Capital expenditure is consumption used to increase government resources or wealth and will encourage an increase in the budget for operational and maintenance costs. Capital expenditure is used to provide the best possible public services. Good service indicates better management of local government spending. Good expenditure management creates good value for money, so the assessment of Regional Government Financial Performance is also good. Capital expenditure shows long-term plans and expenditure on fixed assets such as buildings, equipment, vehicles, furniture, and so on (Joni Fernandes, 2022).

Financial performance is one measure that can be used to ensure a region's ability to implement financial implementation regulations properly and correctly to maintain the desired services, where a higher assessment is a demand that must be met so that external parties decide to invest in the region. Regional government financial performance is important for regional governments and external parties (Saraswati & Rioni, 2019). The performance ratio used in this research to measure regional government performance is the Regional Independence Ratio. The regional independence ratio describes the dependence of the regional government on the central government. The higher this ratio indicates that the regional government has higher regional financial independence.

Figure 1. Regional Independence Ratio of North Padang Lawas Regency 2010-2023



Source: processed data, 2023

It can be seen that the Regional Independence Ratio of North Padang Lawas Regency is very low, meaning that the level of dependence of the regional government on the central government is very high. Awani and Hariani (2021) said that the high level of dependency is due to regional governments still being unable to independently finance government activities in terms of services to the community. Also means that the active role of the community in supporting regional development is still very low, which, in this case, is in the form of public awareness of paying taxes and levies.

An empirical study conducted by Padang & Padang (2023) shows that regional original income and balancing funds have a positive and significant effect on regional government financial performance, while capital expenditures do not affect regional government financial performance. Meanwhile, research conducted by Salain et al. (2022) found that local revenue had a significant negative effect on the financial performance of the Badung Regency Regional Financial and Asset Management Agency. Meanwhile, balancing funds and capital expenditures has a significant positive effect on the financial performance of the Badung Regency Regional Financial and Asset Management Agency.

Based on the problems and indications that there are differences in previous research, researchers are interested in conducting a research entitled "Analysis of Factors that Influence the Financial Performance of the Regional Government of North Padang Lawas Regency". The formulation of the research problem is how regional original income, balancing funds, and capital expenditure influence the financial performance of the North Padang Lawas Regency regional government, and this research aims to determine the influence of regional original income, balancing funds, and capital expenditure on the financial performance of the North Padang Lawas Regency regional government.

Literatur Review

Stakeholder Theory

In 1963, the Stanford Research Institute (SRI) introduced the Stakeholder Theory, which assumes that the government's relationship as the holder of power in government must prioritize the people as stakeholders (Freeman et al., 2010). Stakeholder theory states that local government is not an entity that only operates for its interests but must provide benefits to stakeholders (community and central government) (Chariri & Ghozali, 2014). With good financial management, local governments can meet stakeholder needs effectively. Efficiently managing budgets and resources by regional governments can provide public services to the community and provide support to the business sector and community organizations which can help improve regional welfare (Putri & Yuniarta, 2023).

Regional Government Financial Performance

According to Riani & Hrp (2022). Regional government financial performance is the level of achievement of a work result in the field of regional finance, which includes revenue from using a system. It is hoped that regional governments will be more active in developing their regions and making decisions as widely as possible to realize community welfare through improving services, empowerment, and community participation as a whole. Democratic, fair, equitable, and sustainable.

One tool for analyzing regional government financial performance is to carry out a financial ratio analysis. In this research, the Regional Independence Ratio is used. Regional financial independence shows the ability of regional governments to finance their own government activities, development, and services to the community, which has paid taxes and levies as income needed by the region. The regional independence ratio is calculated by comparing the amount of Original Regional Income revenue divided by the amount of transfer income from the central and provincial governments as well as regional loans. The higher this ratio indicates that the regional government has higher regional financial independence (Mahmudi, 2011). The regional independence ratio is formulated as follows:

$$\text{Regional Independence ratio} = \frac{\text{Regional Original Income (PAD)}}{\text{Central Transfer} + \text{Provincial Transfer} + \text{Regional Loan}} \times 100\%$$

Regional Original Income (PAD)

Original Regional Income is the ability of regional governments to generate regional finances through managing regional original wealth sources. Original regional income consists of regional taxes, regional levies, results from the management of separated regional assets, and other legitimate regional original income. An increase in original regional income in each budget will show the success of the regional government's financial performance in managing Original Regional Income. The greater the amount of Original Regional Income in the APBD, the less dependent the regional government will be on transferring funds from the central government, which, in the end, can improve the financial performance of the regional government. Research by Padang & Padang (2023) and Digdowiseiso et al. (2022) shows that Original Regional Income has a positive and significant effect on the financial performance of local governments. Meanwhile, research by Salain et al. (2022) shows that Original Regional Income has a negative and significant effect on the financial performance of local governments.

H1: Regional Original Income has a positive and significant influence on Regional Government Financial Performance

Balancing Fund

Balancing funds are funds originating from the APBN that are intended to assist regional governments in financing development and also aim to reduce the imbalance in funding sources between the central government and regional governments. If the realization of regional expenditure is higher than regional income, a deficit will occur. Therefore, the central government provides assistance funds to the central government in the form of balancing funds to cover regional spending shortfalls. The greater the balancing funds received from the central government, the stronger the regional government's dependence on the central government to meet its regional needs. This causes the financial performance of local governments to decline. Research by Digdowiseiso et al. (2022) and research by Prastiwi and Aji (2020) show that balancing funds has a negative and significant effect on the financial performance of local governments. Meanwhile, research by Salain et al. (2022) and Padang & Padang (2023) shows that balancing funds has a positive and significant effect on the financial performance of local governments.

H2: Balancing Funds Have a Positive and Significant Influence on Regional Government Financial Performance

Capital Expenditures

Capital expenditure is government expenditure on fixed assets used for government activities that increase regional assets or wealth. The more capital expenditure used for regional development, the more regional income will be increased through taxes, levies, and investors, thus having an impact on improving the financial performance of regional governments. Research by Digdowiseiso et al. (2022) shows that capital expenditure has a positive and significant effect on local government financial performance. Meanwhile, research by Bilqis & Priyono (2023) and Widajanto et al. (2022) shows that capital expenditure has a negative and significant effect on the financial performance of local governments.

H3: Capital Expenditures Have a Positive and Significant Influence on Regional Government Financial Performance

Methodology

This research uses quantitative research methods. Quantitative methods are research methods based on the philosophy of positivism, used to research certain populations or samples (Sugiyono, 2022). The research objects used in the research are Regional Original Income, Balancing Funds, and Capital Expenditures as independent variables and Regional Government Financial Performance as the dependent variable. The unit of analysis in the research carried out is the organization located at the research location, namely North Padang Lawas Regency. The dataset in this study uses secondary data from North Padang Lawas Regency from 2009-2021 obtained from the Directorate General of Financial Balance (<http://www.djpk.depkeu.go.id>).

The operational definition in this research is as follows:

Variable	Definition	Indicator
Regional financial performance (Y)	Indicators to assess local government performance in managing finances in accordance with the law (Digdowiseiso et al., 2022).	Regional Independence Ratio $\frac{\text{Regional Income}}{\text{Central transfer} + \text{Province} + \text{Loan}} \times 100$
Regional Original Income (X1)	According to Law Number 1 of 2022, Original Regional Income is income obtained from regional taxes, regional levies, results from the management of separated regional assets, and other legitimate regional original income in accordance with statutory regulations.	Regional Original Income = Regional Tax + Regional Levy + Separated Wealth Management Results + Other Legitimate regional income
Balancing Fund (X2)	According to Law Number 33 of 2004, balancing funds are funds given to regional governments sourced from the APBN to help finance regional needs in the context of implementing decentralization.	Balancing Fund = Profit Sharing Fund + General Allocation Fund + Special Allocation Fund
Capital Expenditures	Capital expenditure is APBD expenditure used	Capital Expenditure = Expenditure on Land + Expenditure on Equipment and Machinery +

Variable	Definition	Indicator
(X3)	to procure tangible fixed assets that have a useful value of more than twelve months. (Badrudin, 2017).	Expenditure on Buildings and Structures + Expenditure on Roads, Irrigation and Networks + Expenditure on Other Fixed Assets

The data analysis method used in this research uses multiple linear regression analysis with Eviews. The method used is to analyze the data using steps, namely Descriptive Statistical Analysis Test, Classical Assumption Test, Multiple Linear Regression Analysis, and Hypothesis Testing. Multiple linear regression is used to test the influence of two or more independent variables on one dependent variable and is generally expressed in the following equation:

$$Y = \alpha + \beta_1 RI + \beta_2 BF + \beta_3 CE + \mu$$

Description: Y is Regional Financial Performance, RI is Regional Income, BF is Balancing Fund, CE is Capital Expenditure, α : *intercept*/ Constanta, $\beta_1.. \beta_3$ n is the Regression Coefficient for variable X, μ : Error term

Result and Discussion

Descriptive Statistical Analysis

Descriptive statistics aims to explain the description of the maximum value, minimum value, mean value (average), and standard deviation value of each dependent and independent variable. Based on the results of descriptive statistics, the variables can be described as follows:

- 1) The financial performance of the North Padang Lawas Regency regional government, as measured using the regional independence ratio, has a maximum value of independence ratio of 10.60 in 2018 and a minimum value of independence ratio of 1.74 in 2010, with an average value of 5.47 and a standard deviation value of 2.64.
- 2) North Padang Lawas Regency's Original Regional Income (PAD) has a maximum value of 74.52 in 2017 and a minimum value of 5.33 in 2010, with an average value of 35.62 and a standard deviation value of 22.22.
- 3) North Padang Lawas Regency's balancing fund has a maximum value of 792.72 in 2023 and a minimum value of 304.94 in 2010, with an average value of 598.45 and a standard deviation value of 172.59.
- 4) Capital expenditure for North Padang Lawas Regency has a maximum value of 337.59 in 2022 and a minimum value of 86.31 in 2010, with an average value of 197.87 and a standard deviation value of 69.24.

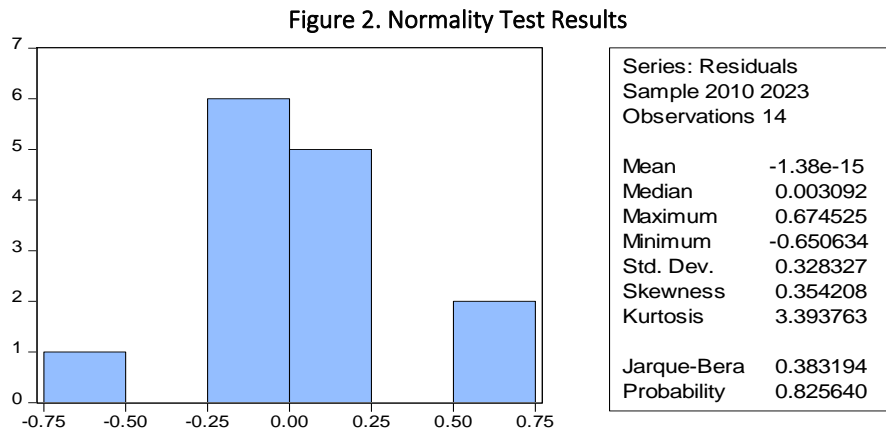
Table 2. Descriptive Statistical Test Results for Variables

	Ratio Independence	Regional Income	Balancing Fund	Capital Expenditure
Mean	5.470714	35.62571	598.4571	197.8743
Median	5.430000	36.68500	698.1350	182.6850
Maximum	10.60000	74.52000	792.7200	337.9500
Minimum	1.740000	5.330000	304.9400	86.31000
Std. Dev.	2.642352	22.22240	172.5986	69.24261
Observations	14	14	14	14

Source: Eviews output results, 2024

Classic assumption test

In the normality test, if the significant value of JB is > 0.05 or 5%, then the data is normally distributed. However, if the significant value of JB is < 0.05 or 5%, then the data is not normally distributed. It can be seen in the image of the output results of the normality test that the Jarque-Bera probability value is 0.825640, which is greater than the JB significant value, namely 0.05 or 5%, meaning that the data is normally distributed so that the normality assumption is met.



Source: Eviews output results, 2024

Table 3. Heteroscedasticity Test Results
Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	1.690778	Prob. F(3,10)	0.2315
Obs*R-squared	4.711458	Prob. Chi-Square(3)	0.1942
Scaled explained SS	2.877070	Prob. Chi-Square(3)	0.4110

Source: Eviews output results, 2024

In the heteroscedasticity test, if the value of Prob. Chi-Square > 0.05 (significant value), then the regression model is heteroscedasticity free; conversely, if the value of Prob. Chi-Square < 0.05 (significant value), then the regression model is subject to heteroscedasticity. Based on Table 4.1, it can be seen that the value of Prob. Chi-Square of 0.1942 means that the regression model does not have heteroscedasticity problems.

Table 4. Multicollinearity Test Results

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.218684	21.84682	NA
RI	6.25E-05	10.79303	2.864568
BF	1.05E-06	40.39052	2.895958
CE	2.75E-06	11.96426	1.221514

Source: Eviews output results, 2024

In the multicollinearity test, if the Variance Inflation Factor (VIF) value is less than 10, it can be said that the model does not have multicollinearity. Based on Table 4.3 shows that the Variance Inflation Factor (VIF) seen from the centered VIF value of all variables is smaller than 10, meaning it can be concluded that this model does not have multicollinearity.

Table 5. Autocorrelation Test Results

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	1.939751	Prob. F(2,8)	0.2057
Obs*R-squared	4.571995	Prob. Chi-Square(2)	0.1017

Source: Eviews output results, 2024

In the autocorrelation test, if the value of Prob. Chi-Square > 0.05 (significant value), then the regression model is free of autocorrelation; conversely, if the Prob. Chi-Square value < 0.05 (significant value), then the regression model does not have autocorrelation. Based on the results of the Breusch-Godfrey LM Test, it is known that the Prob. Chi-Square value is 0.1017 > 0.05, meaning that the regression model does not have autocorrelation.

Based on Table 6, the multiple linear regression equation is obtained as follows:

$$Y = 2.996321 + 0.144573 RI - 0.004760 BF + 0.000872 CE$$

Table 6. Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.996321	0.467637	6.407370	0.0001
PAD	0.144573	0.007908	18.28277	0.0000
DP	-0.004760	0.001024	-4.649946	0.0009
BM	0.000872	0.001657	0.526259	0.6102
R-squared	0.984561	Mean dependent var		5.470714
Adjusted R-squared	0.979929	S.D. dependent var		2.642352
S.E. of regression	0.374351	Akaike info criterion		1.107708
Sum squared resid	1.401383	Schwarz criterion		1.290296
Log likelihood	-3.753957	Hannan-Quinn criter.		1.090806
F-statistic	212.5636	Durbin-Watson stat		0.779798
Prob(F-statistic)	0.000000			

Source: Eviews output results, 2024

The constant value is 2.996321, meaning that if local original income, balancing funds, and capital expenditure are constant, the financial performance of the North Padang Lawas Regency regional government will increase by 2.996321 or 2.99%. The coefficient value of the Regional Income is 0.144573. The direction of the relationship between local original income and regional government financial performance is positive, meaning that if local original income increases by 1 billion Rupiah, the financial performance of the North Padang Lawas Regency regional government will increase by 0.144573 or 0.14%. The coefficient value of the Balancing Fund is -0.004760. The direction of the relationship between the balancing fund and the regional government's financial performance is negative, meaning that if the balancing fund increases by 1 billion, the financial performance of the North Padang Lawas Regency regional government will decrease by 0.004760 or 0.004%. The capital expenditure coefficient value is 0.000872. The direction of the relationship between capital expenditure and regional government financial performance is positive, meaning that if capital expenditure increases by 1 billion, the financial performance of the North Padang Lawas Regency regional government will increase by 0.000872 or 0.0008%.

The F test aims to see the influence of Regional Original Income, Balancing Funds, and Capital Expenditures on Regional Government Financial Performance simultaneously. The F-statistics value is 212.5636, and the F-table value is 3.59, meaning that F-statistics > F-table with a probability value of $0.000000 < 0.005$, meaning that simultaneously Regional Original Income, Balancing Funds, and Capital Expenditures have a significant effect on the financial performance of the regional government of Padang Lawas Regency. North. Based on the results of multiple linear regression, the R2 value seen from the Adjusted R-Square is 0.979929, indicating that the influence of local revenue, balancing funds, and capital expenditure on the financial performance of the North Padang Lawas Regency regional government is 98%. The remaining 2% is influenced by factors others not included in the research.

The Influence of Regional Income on Regional Government Financial Performance

Based on the regression results, the coefficient value of the Original Regional Income variable is 0.144573. It has a positive sign, indicating that every time the original regional income variable increases by 1 billion, it will increase the financial performance of the regional government by 0.144573 or 0.14%. Partially, the t-statistic is $18.28277 > 1.81246$ with a significance value of $0.0000 < 0.05$, which means that Original Regional Income has a positive and significant effect on the financial performance of the North Padang Lawas Regency regional government in 2010-2023.

The results of this research are in accordance with stakeholder theory, which states that local governments are not entities that only operate for their interests but must provide benefits to stakeholders (the community and central government). Regional original income influences the regional government's financial performance. Shows that the regional government has succeeded in managing sources of original regional income for regional development which aims to improve community welfare and also encourage good government performance (Chariri & Ghozali, 2014).

The results of this research are consistent with research conducted by Prastiwi & Aji (2020) and Digdowiseiso et al. (2022), which stated that Regional Original Income has a positive and significant effect on regional government financial performance. However, this research is not consistent with research conducted by Salain et al. (2022), which states that Original Regional Income has a negative and significant effect on regional government financial performance.

The Effect of Balancing Funds on Regional Government Financial Performance

Based on the regression results, the coefficient value of the balancing fund variable is -0.004760. It has a negative sign, indicating that every time the balancing fund variable increases by 1 billion, it will reduce the regional government's financial performance by 0.004760 or 0.004%. Partially, the t-statistic value is $4.649946 > 1.81246$ with a significant value of $0.0009 < 0.05$, which means that the balancing fund has a negative and significant effect on the financial performance of the North Padang Lawas Regency regional government in 2010-2023.

This research is in line with stakeholder theory, which states that local governments are not entities that only operate for their interests but must provide benefits to stakeholders (community and central government) (Chariri & Ghozali, 2014). Balanced funds that are managed optimally will encourage regional growth and improve community welfare. However, suppose the receipt of balancing funds from the central government is very high. In that case, it shows that regional governments depend on balancing funds from the central government to finance their regional development. Shows the low performance of local government.

The results of this research are consistent with research conducted by Digdowiseiso et al. (2022) and Widajanto et al. (2022), which stated that balancing funds has a negative effect on local government financial performance. However, this research is not in line with research conducted by Salain et al. (2022) and Padang & Padang (2023), which stated that balanced funds have a positive effect on local government financial performance.

The Influence of Capital Expenditures on Regional Government Financial Performance

Based on the regression results, the coefficient value of the capital expenditure variable is 0.000872. It has a positive sign, indicating that every time the capital expenditure variable increases by 1 billion, it will increase the financial performance of local governments by 0.000872 or 0.0008%. Partially, the t-statistic value is $0.526259 < 1.81246$ with a significant value of $0.6102 > 0.05$, which means that capital expenditure has no significant effect on the financial performance of the North Padang Lawas Regency regional government in 2020-2023.

This research is in line with stakeholder theory, which states that local governments are not entities that only operate for their interests but must provide benefits to stakeholders (the community and central government). Regional governments can manage regional expenditure, especially capital expenditure, to encourage regional development and increase the welfare of the community as stakeholders and also encourage increased regional government financial performance (Chariri & Ghozali, 2014). However, the results of this research are not significant because regional governments have not optimized capital expenditure for providing infrastructure and increasing regional development, so capital expenditure has not been able to increase regional income, which results in capital expenditure not affecting regional government financial performance.

The results of this research are consistent with research conducted by Prastiwi & Aji (2020) and Padang & Padang (2023), which stated that capital expenditure does not affect the financial performance of local governments. However, this research is not consistent with research conducted by Digdowiseiso et al. (2022), which states that fashion spending has a positive and significant effect on local government financial performance.

Conclusion

Based on the results of research and discussion regarding the factors that influence the financial performance of the regional government of North Padang Lawas Regency in 2010-2023, it can be concluded that partially original regional income has a positive and significant effect on the financial performance of the regional government of North Padang Lawas Regency in 2010-2023, funds balance has a negative and significant effect on the financial performance of the North Padang Lawas Regency regional government in 2010-2023, capital expenditure does not affect the financial performance of the North Padang Lawas Regency regional government in 2010-2023. Simultaneously, local original income, balancing funds, and capital expenditure had a positive and significant effect on the financial performance of the North Padang Lawas Regency regional government in 2010-2023.

Based on the results of the discussion and conclusions that have been described, the researcher provides suggestions for the regional government of North Padang Lawas Regency to explore new sources that have the potential to increase local original income so that gradually it can reduce dependence on balancing funds from the central government and can make North Padang Lawas Regency an Independent district. It is hoped that future researchers can use other performance measures such as dependency ratio,

degree of decentralized, effectiveness ratio, efficiency ratio, and growth ratio. As well as adding research periods and reviewing more than one district/city.

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