



The Relevance of Local Government Financial Report Information in Decision Making on Regional Revenue and Expenditure Budget Planning

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Abstract : The purpose of this study was to test and find out whether the information on the Regional Government Financial Statements (LKPD) is relevant in the decision making by the Makassar city government to plan and compile the Regional Revenue and Expenditure Budget (APBD) throughout the 2011 to 2019 period. Used in this study are LKPD and APBD of Makassar city for the period 2011-2019. This study used multiple regression analysis equations to test the hypothesis. The results of this study indicate that the components of the LKPD, namely the budget realization report and balance report form the basis for planning and preparation of the Makassar City Regional Government APBD during the period 2011 to 2019. These results explain that the Makassar City LKPD information has relevance in planning and preparation of the APBD has met the characteristics of the financial statements stated in the Government Accounting Standards (SAP).

Keywords: Relevance, Public Sector Accounting, Regional Government Financial Statements, Regional Revenue and Expenditure Budget.

I. INTRODUCTION

One of the main goals of the government is to improve the welfare of the community through improving services to the community and increasing regional competitiveness. Based on UU No.23/2014, the regional government is the organizer of government affairs by the regional government and the DPRD according to the principle of autonomy and co-administration with the broadest possible autonomy principle in the system and principles of the Unitary State of the Republic of Indonesia as referred to in the Law of the Republic of Indonesia Year 1945. Regional autonomy regulated in UU No.23/2014 concerning Regional Government which is a renewal regulation from the previous regulation, namely UU No.32/2004 which regulates various regional authorities. Based on UU No.23/2014 local governments are given broad powers in regulating and managing their own regions in terms of extracting and managing regional revenues to finance regional development.

In realizing transparency and accountability in the management of state finances, local governments submit government financial accountability reports based on the SAP Government Accounting Standards. Based on the Governmental Accounting Standards Statement (PSAP) No.1 concerning the preparation of financial reports that the objectives of government financial reporting can be divided into two, namely specific and general objectives. The specific objective is to present information that is useful in making decisions and to show the accountability of the reporting entity for the resources entrusted to the entity concerned, while the general objective is to present information on financial position, budget realization, cash flow and financial performance. This is in line with the statement from the Financial Accounting Standards Board (FASB) which states that financial statements must contain information that has relevant and reliable value for users of financial statements.

Regional Government Financial Statement Information (ILKPD) will be said to be relevant if the information in it can influence the decisions of users of these financial statements in evaluating past, present and future events. The value relevance of ILKPD is an explanatory power of accounting

information (Beaver, 1968). In the accounting literature, a financial statement information can be said to have value relevance if the financial statements can influence users in terms of decision making. (Amir et al, 1993; Beaver, 1998; Francis & Schipper, 1999; Barth et al, 2001).

The characteristics in the presentation of ILKPD must be able to provide benefits of feedback value as well as predictive value. In providing the benefits of feedback value, ILKPD can be used to evaluate past financial performance as well as be used in evaluating budget allocation planning for the following year. Providing predictive value benefits, ILKPD can be evaluated for use in allocating loan installment payments in the following year's budget and also estimating regional revenue from optimizing surplus funds. In measuring the extent to which ILKPD's relevance can provide feedback value and predictive value, the Budget Realization Report (LRA) and Balance Sheet Report (LN) in the previous period can be used as a basis for the current year's Regional Budget Planning (PAPBD). The function of the LRA in ILKPD is to present an overview of the sources and allocations of funds that illustrate the comparison between the budget and its realization in one reporting period. Meanwhile, the function of LN in ILKPD is to describe the financial position regarding assets, liabilities and equity in one reporting period.

Accounting researchers have conducted various studies by developing research variables and methods in assessing the extent to which the value relevance of accounting information in influencing the decision makers of its users. Beaver (1966) developed a bankruptcy prediction model with univariate testing. This study proves that accounting information figures can be used to predict bankruptcy. Ball & Brown (1968); conduct research in the capital market to measure the role of balance sheet and profit / loss financial statements in influencing stock price movements. In his research, it is revealed that the accounting numbers in the balance sheet and profit / loss statements have a significant effect on changes in stock prices. This explains that accounting information can influence investors in making decisions to buy, sell or hold their shares. Gordon and Jordan (1988) developed a multiple discriminant model to test the numbers of accounting information in the banking world. The test results reveal that accounting information figures can be used to predict banks in facing financial problems. Ingram et al (1987); Reck et al (2004) tested the predicted value of accounting information numbers in ILKPD, and revealed the results that the accounting numbers in ILKPD had a relationship with the risk of government failure as measured by interest cost, bond rating, and bond yield. Jones and Walker (2007) conducted tests related to local government distress by using accounting information variables and revealed the results that regional income has an effect on local government distress. Different from previous studies, this study conducted a study on the value relevance of ILKPD by looking at the influence of LRA and LN on government decision making in conducting PAPBD.

In essence, PAPBD is a process of regional financial operation plans that are used as a benchmark in improving public services which is realized in the form of financing within a certain period of time. Halim (2004) states that PAPBD is a regional government operational plan that is stated in the form of rupiah, which shows the estimated income and expenditure to finance government activities in improving services and community needs in a certain period. The PAPBD is prepared by the government and evaluated jointly with the legislature before the current year period. After being discussed, evaluated and approved by the legislature, the government issues a regional regulation regarding the APBD to be applied in the current year period. In the process of preparing and evaluating PAPBD, the role of ILKPD in the previous period was needed to predict the estimated revenue and financing of regional expenditures in implementing regional government program activities. Based on the previous description, the purpose of this study is to test and find out whether the relevance of ILKPD has a significant effect on the decision making of the Makassar city local government in the PAPBD throughout the period 2011 to 2019.

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

This research is based on stewardship theory, which is a theory which describes that the government situation is not motivated by individual goals but rather aimed at their main outcome goals for the benefit of the organization and assumes a strong relationship to organizational satisfaction and success (Yoyo et al, 2017). Hernandez (2008) states that stewardship is an attitude and behavior that places the long-term interests of the organization above personal goals that serve one's personal interests. Stewardship is not created through formal regulations, but rather through an organizational structure that helps leaders to generate interpersonal and institutional trust. Stewardship theory can be applied to public sector accounting research such as government and other non-profits (Vargas, 2004; David, 2006; Thorton,

2009; Wilson, 2010). Where since the beginning of accounting, public sector organizations have been prepared to meet the needs of stewards and principals. In the theory of stewardship, organizational actors aim to balance their obligations to internal and external stakeholders by upholding a wider commitment to the moral norms of society.

Furthermore, the characteristics of financial statement information include relevant, reliable, comparable and easy to understand. Scott (2003) states that the relevance of financial statements is a qualitative characteristic of accounting information that is useful to assist users in predicting future payoff estimates. Beaver (1968) states that the relevance of financial statements is the explanatory power of accounting information, so that users of accounting information are able to predict the decisions they will make. In SAP in paragraph 35 it is explained that the relevant financial statements must have 4 criteria such as feedback value, predictive value, timelines, and completeness. This research is based on feedback value and predictive value, where ILKPD is said to be relevant if the information is based on these two criteria. This is in line with the characteristics of the accounting information itself.

In PSAP No. 1, it is stated that the ILKPD has seven components of information, namely the Budget Realization Report (LRA), the Report on Changes in the Excess Budget Balance, the Balance Sheet Report (LN), the Cash Flow Statement, the Change in Equity Report, and Notes on Financial Statements. This study focuses on LRA and LN in examining the effect of the relevance of ILKPD to PAPBD. Based on UU No.23/2014 PAPBD is the annual financial plan of the regional government which is discussed and mutually agreed upon by the regional government and DPRD, and stipulated by regional regulations. PAPBD functions as authorization, planning, supervision, allocation and distribution. The authorization function illustrates that the regional budget becomes the basis for implementing revenue and expenditure, the planning function describes that the budget becomes a guide for management in planning activities, the supervisory function illustrates that the regional budget becomes a guide in assessing whether government administration activities comply with predetermined provisions, the allocation function illustrates that the regional budget is to reduce unemployment and waste of resources in order to improve the regional economy, and the distribution function illustrates that regional budget policies must pay attention to a sense of justice and compliance. For every reporting implementation, the government has an obligation to report the efforts that have been made and the results achieved in implementing activities in a systematic and structured manner during a reporting period for the interests of accountability, management, transparency and intergenerational balance.

The Relevance of ILKPD in Planning and Preparation of APBD

According to Hernandez (2008), stewardship is an attitude and behavior that places the long-term interests of the organization above personal goals. Stewards are facilitated through the organizational structure to generate interpersonal and institutional trust. In the theory of stewardship, organizational actors aim to balance their obligations to internal and external stakeholders by upholding a broader commitment. According to Halim (2001), PAPBD is structured to carry out local government operations by showing estimated revenue and expenditure to finance the government in improving services and community needs that are better than the previous year. ILKPD criteria that have feedback value and predictive value are indispensable in preparing an effective and efficient APBD for the purposes of planning, controlling and fiscal centralized policy making in improving the regional economy.

In measuring the extent to which ILKPD's role in influencing decision-making in PAPBD, it is necessary to have financial ratios sourced from ILKPD components such as LRA and LN. These financial ratios are Performance Fund (PF), Return on Equity (ROE), and Return on Assets (ROA). According to Plummer et al (2007), PF is a comparison between the difference between total income and total expenditure to total fund revenue from local revenue. If the local government has a high number of differences, it is indicated that the local government has a high PF ratio. A high PF ratio indicates that the local government has a high amount of revenue from funds, so it will produce a high surplus. The surplus must be returned to the state treasury and the government is only allowed to submit a budget equal to the realization of the previous year. So that it illustrates that if the local government has a high surplus, the ILKPD in the previous year is not relevant to the PAPBD. Likewise with the ROE and ROA ratios which use a surplus or deficit figure in measuring the government's financial performance (Cohen, 2006). ROE is a ratio that describes the ratio between the total budget surplus or deficit and the total amount of equity owned by the government, while ROA is a ratio that describes the ratio between the total budget surplus or deficit and the total assets owned by the government.

Several researchers have previously conducted to see the role of government financial statement information on their financial performance. Samson (2001) in his research on indicators of the success of regional financial management in the Barito Kuala district. The results of his research indicate that the Barito Kuala district government has proven to be successful in regional financial management, which is based on indicators of regional financial performance ratios. Simatupang (2007) evaluates the district/city APBD in South Sumatra province using indicators from the ratio of regional financial report figures. Diana (2008) in her research on performance analysis of ILKPD in South Sumatra province by using indicators of regional budget development. The results of his research indicate that the South Sumatra government is in the first rank in the evaluation of the implementation of regional government financial reports and has met the elasticity value in PAD.

Furthermore, Pramono (2014) in his research analyzed financial ratios in assessing the financial performance of local governments carried out in the city government of Surakarta. The results of his research revealed that the Surakarta city government APBD expenditure ratio was efficient and effective as measured by the financial performance ratio of the Surakarta city government. Assidiqi (2014) in his research that measures the financial performance of the Klaten district budget for the period 2008-2012. The results of his research reveal that the Klaten district government has made efficiency in the preparation of the APBD, this can be seen from the harmony of the Klaten district government APBD with regional expenditure funds allocated for regional spending and only a few percent is allocated for capital expenditures. Andini and Yusrawati (2015) in their research which examined the effect of the application of the regional financial accounting system on the quality of ILKPD in Empat Lawang district, North Sumatra. The results of his research reveal that the application of the regional financial accounting system has a significant effect on the quality of ILKPD. Based on the explanation above, this study formulates the following hypothesis.

H1 : *The relevance of information on regional financial reports has a significant effect on regional budget planning for revenues and expenditures.*

H1_a : *Performance fund has a significant effect on planning the regional income and expenditure budget.*

H1_b : *Return on equity has a significant effect on regional revenue and expenditure budget planning.*

H1_c : *Return on asset has a significant effect on the planning of regional income and expenditure budgets.*

III. RESEARCH METHOD

This research was conducted at the local government of the city of Makassar to examine the effect of the relevance of ILKPD on PAPBD for the 2011-2019 period. This type of research is quantitative with secondary data sources consisting of the Makassar city government APBD reports for the period 2011-2019; and the financial reports of the Makassar city government for the 2010-2019 period. The data collection technique in this research is documentation, namely by collecting documents from the Makassar City Regional Financial and Asset Management Agency which can be accessed through the website www.bpkad.kotamakassar.go.id. The data analysis used is as follows.

1. Performance Fund

Performance Fund (PF) is a ratio used to measure the government's financial performance in a one-year period of expenditure (Plummer et al, 2007). The figures in finding the PF ratio are taken from the Budget Realization Report (LRA). The formulation of PF is as follows.

$$PF = \frac{\text{Total Revenues} - \text{Total Expenditures}}{\text{Total Fund Revenues}}$$

2. Return on Equity

Return on Equity (ROE) is a ratio that describes the ratio between the total budget surplus or deficit and the total equity owned by regional governments (Cohen, 2006). The figures in finding the ROE ratio are obtained from the LRA and the Balance Sheet (LN). The formulation of the ROE is as follows.

$$ROE = \frac{\text{Net Surplus (Deficit)}}{\text{Total Equity}}$$

3. Return on Asset

Return on Asset (ROA) is a ratio that describes the ratio between the total budget surplus or deficit and the total assets owned by local governments (Cohen, 2006). The figures for finding the ROA ratio are obtained from the LRA and LN. The formulation of the ROA is as follows.

$$ROA = \frac{\text{Net Surplus (Deficit)}}{\text{Total Assets}}$$

4. Performance on Revenue Budget

on Budget (PRB) is a ratio that describes the performance of the government revenue and expenditure budget in a period of one year of expenditure. The figures for finding the DRR ratio are obtained from the APBD. The formulation of DRR is as follows.

$$PRB = \frac{\text{Total Revenue Budget}_0 - \text{Total Revenue Budget}_{-1}}{\text{Total Revenue Budget}_{-1}}$$

To test the hypothesis in this study, multiple regression analysis was used to test the effect of the independent variable on the dependent variable. The model of hypothesis testing using multiple regression analysis is as follows.

$$PRB_t = \alpha + \beta_1 PF_t + \beta_2 ROE_t + \beta_3 ROA + \varepsilon_t$$

Where :

PRB_t = Performance on Revenue Budget in the period t

α = Constant

$\beta_1, \beta_2, \text{ dan } \beta_3$ = Estimated coefficients of PF, ROE dan ROA

ε_t = Residual value

Furthermore, to test the H1 hypothesis, this study uses the F-statistic value. The value of the F-statistic is used to determine whether the PF, ROE and ROA variables simultaneously affect the PRB variable. This study uses a significance of 5% or 0.05. In determining whether the H1 test results are significant or insignificant, the F-statistic will be compared with a significance value of 0.05. If F-statistic < 0.05, then H1 is accepted, on the contrary, if F-statistic > 0.05, then this study rejects H1.

In testing the hypotheses H1_a, H1_b and H1_c, this study uses the P-value coefficient. The p-value coefficient is used to determine whether the PF, ROE and ROA variables partially affect the PRB variable. This study uses a significance of 5% or 0.05. In determining whether the results of the hypothesis testing H1_a, H1_b and H1_c are significant or insignificant, the P-value will be compared with a significance value of 0.05. If the P-value is < 0.05, then the H1_a, H1_b and H1_c hypotheses are accepted, on the other hand, if the P-value is > 0.05, this study rejects the H1_a, H1_b and H1_c hypotheses.

Then, the coefficient of determination (R^2) is used to see how much influence the ILKPD contributes to the PAPBD. The greater the R^2 value, the greater the contribution of the influence given by the independent variable to the dependent variable.

IV. RESULTS AND DISCUSSION

After testing the hypothesis using multiple regression analysis models, the following results are obtained.

Table 1 Multiple regression analysis results

$$PRB_t = \alpha + \beta_1 PF_t + \beta_2 ROE_t + \beta_3 ROA + \varepsilon_t$$

Variable	Coefficient	Std. Error	Prob.	
α_1	-0.002	0.003	0.520	
PF	0.085	0.021	0.007	Significant
ROE	0.447	0.090	0.003	Significant
ROA	0.627	0.155	0.007	Significant

R²= 0.962
Adj.R²= 0.943
Prob. (F-statistics) = 0.000
*Significant at 0.05

Source : Secondary data processed, 2020

The coefficient of determination (R²) is 0.962, this explains that PF, ROE and ROA simultaneously have an influence on PRB by 96.2%.Partially the coefficients of PF, ROE and ROA have a positive value, namely PF of 0.085, ROE of 0.447 and ROA of 0.627.This explains that the figures derived from ILKPD have a positive influence on PAPBD.The F-statistic value is 0.000 <0.05, this explains that PF, ROE and ROA simultaneously have a significant effect on PAPBD.The result of the P-value of the PF is 0.007 <0.05, meaning that 0.007 is less than 0.05.These results explain that PF has an effect on PAPBD.The p-value of ROE is 0.003 <0.05, meaning that 0.003 is less than 0.05.These results explain that ROE has an effect on PAPBD.Furthermore, the P-value of ROA is 0.007 <0.05, meaning that 0.007 is less than 0.05.These results explain that ROA affects the APBD.

Effect of the relevance of information on regional financial reports on regional revenue and expenditure budget planning

The results of hypothesis testing indicate that H1 is accepted.So that the statement that the relevance of ILKPD has a significant effect on PAPBD has been empirically proven.This is shown from the results of hypothesis testing, where the F-statistic value has a value that is smaller than the significance value, namely 0.000 <0.05.These results also indicate that ILKPD contributed 96.2% of the influence in the preparation of PAPBD.The statement from hypothesis H1 can be interpreted that in the period 2011 to 2019, ILKPD has relevance in compiling PAPBD for the local government of Makassar city.This also explains that the local government of Makassar city in planning and compiling the APBD is always based on financial report information and is not based on certain goals for personal gain.

The results of hypothesis testing indicate that H1_a is accepted.So that the statement that PF has a significant effect on PAPBD has been empirically proven.This is shown from the results of hypothesis testing, where the P-value has a value smaller than the significance value, namely 0.007 <0.05.These results also indicate that PF has a positive effect of 0.085 on PAPBD.The statement from H1_a can be interpreted as saying that the PF generated from the budget realization report figures has an important role in planning and compiling the APBD of Makassar city.This is evidenced by the fact that from 2011 to 2019 PF had a positive influence in planning and preparation of the Makassar City APBD.

Furthermore, the results of hypothesis testing indicate that H1_b and H1_c are accepted.So that the statement that ROE and ROA partially have a significant effect on PAPBD has been empirically proven.This is shown from the results of hypothesis testing, where the P-value has a value that is smaller than the significance value, namely ROE 0.003 <0.05 and ROA 0.007 <0.05.These results also indicate that ROE has a positive effect of 0.447 on PAPBD and ROA has a positive effect of 0.627.The statements from H1_b and H1_c can be interpreted that ROE and ROA generated from the budget realization report figures and balance sheets have an important role in planning and compiling the Makassar City APBD.This can be proven that the financial performance ratios, namely ROE and ROA, have had a positive influence in planning and compiling the Makassar City APBD throughout the period 2011 to 2019.

The results of this hypothesis testing are in line with the stewardship theory which is proven empirically that the Makassar city government has fulfilled their goal of balancing their obligations to internal and external stakeholders by upholding a broader commitment to community moral norms for the progress and welfare of the city of Makassar . The results of hypothesis testing are also in line with the criteria for the relevance of information value which is proven empirically that the information on the

financial statements of the Makassar city government has feedback value and predictive value in planning and compiling an effective and efficient APBD for the purposes of controlling and making fiscal centralized policies in improving the regional economy. Makassar city. The results of this study have also been in line with the results of research from Samson (2001); Simatupang (2007); Diana (2008); Pramono (2014); Assidiqi (2014); Andini and Yusrawati (2015). In their research, they revealed that ILKPD and the ratios of financial performance have a role and function in the efficient and effective APBD management.

V. CONCLUSIONS AND SUGGESTIONS

Based on the results of the testing and discussion above, the following conclusions can be drawn.

1. Empirically the Makassar City ILKPD has relevance in the planning and preparation of the APBD carried out by the Makassar city government during the 2011-2019 period. These results indicate that ILKPD Makassar city meets the characteristics of financial statements stated in the Government Accounting Standards (SAP) that government financial reports must meet the desired quality, namely relevant, reliable, comparable and understandable.
2. Empirically PF, ROE and ROA derived from budget realization report figures and balance sheet reports have a significant effect on PAPBD throughout the 2011 to 2012 period. These results indicate that financial ratios generated from accounting information greatly assist the Makassar city government in making decisions to plan and compile a more effective and efficient APBD.

Furthermore, there are several suggestions for further research related to public sector accounting studies, namely.

1. Future research can conduct a comparative test of the relevance of government financial reports between regions, so that it can compare the government's financial performance and can criticize governments that have poor financial performance.
2. Future research can develop indicators to test the relevance of regional financial report information in APBD preparation. Notes on financial reports have a major role in examining the relevance of local government financial reports for decision making in APBD planning.

VI. IMPLICATIONS AND LIMITATIONS OF THE STUDY

The results of this study can provide empirical evidence to the public that in the preparation of the APBD carried out by the Makassar city government, it has been carried out according to the applicable regulations to realize an efficient and effective APBD. The results of this study also provide empirical evidence to the legislators that the Makassar city government in preparing the APBD has been based on financial statement information that has relevance, reliable, comparable and understandable characteristics. These characteristics have been stated in the Government Accounting Standards (SAP). This study has limitations in conducting research, such as a lack of information on notes on financial reports that are not included in the BPKAD website of Makassar city. So this research is limited to using quantitative data in testing the relevance of LKPD information.

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