The Effects of PAD, Balance Funds, Capital Expenditures, and Audit Findings on the Financial Performance of the Provincial Government of Bali

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Abstract: The success of the government can be seen through financial performance. Local own revenues, balance funds, capital expenditure and audit findings will show how the local government's financial performance. This study aims to determine the effect of regional own-source revenue (PAD), balance funds, capital expenditure and audit findings on the financial performance of local governments. The sample used in this study was 8 districts and 1 city for five years 2014-2018 in the Province of Bali with saturated sampling method. Data collection is done by non-participant observation methods. Data analysis uses multiple linear regression analysis techniques. Based on the results of testing the region's original income and capital expenditure has a significant negative effect, the audit findings have a significant negative effect and the balance fund has no positive significant effect on the financial performance of the provincial government of Bali

Keywords: Local revenues, balance funds, capital expenditure, audit findings, financial performance.

I. INTRODUCTION

The shift of the government system to a decentralized system causes local governments to manage their government independently. This system shift aims to accelerate community welfare (Mangantar, 2018). Good governance is reflected in good financial management or good financial performance. Halim (2012: 232) defines financial performance as a tool to assess the ability of regions to run their government.

Improving financial performance is important in governance to assess organizational accountability (Kluvers & Tippett, 2010). Suryantini (2018) financial performance to measure the effectiveness and efficiency of the organization. Financial growth reflects the local government annually has been optimal in managing its government, but in fact financial growth does not necessarily increase.
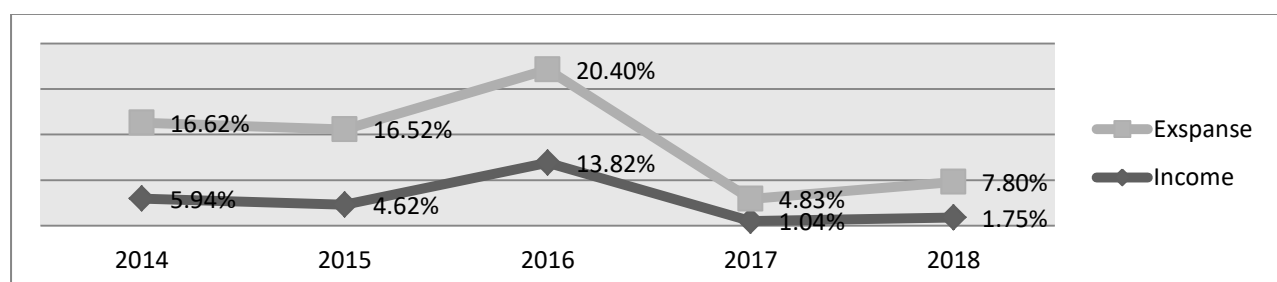
Source: BPS, 2019

Figure 1: Financial Growth of All Regencies / Cities in Indonesia in 2014-2018

Figure 1 shows the financial growth for the five years 2014-2018. 2016 was the year with the highest financial growth compared to 2014, 2015, 2017 and 2018. Financial growth or financial decline reflects the government's financial performance during one period. An increase in finances indicates that the regional government has optimally explored its financial resources and manages its finances, but conversely a financial decline means that the regional government is not optimal in exploring its financial resources and is not effective and efficient in managing its government finances. According to Putri and Darmayanti (2019) the ineffectiveness and inefficiency of local governments in exploring their financial resources causes a decrease in financial performance. The increase and decrease in financial performance is influenced by several things, according to the research of Apridiyanti (2019), Budianto and Alexander (2016), Astiti and Mimba (2016) PAD, balance funds and capital expenditure have an effect on increasing or decreasing financial performance.

Sumawan and Sukartha (2016) the increase in PAD is influenced by the ability of local governments to explore and exploit the potential of their regions. This statement is in line with Apridiyanti's research (2019) to show that PAD results have a positive effect on financial performance. The high PAD obtained reflects that the local government has been independent in managing its finances, but if the central transfer fund is higher than the PAD then it reflects that the regional government is still dependent on the central government. High and low balance funds obtained by the region shows the low performance of regional finances. If the acquisition of a balanced fund is low then the regional financial performance is getting better, this opinion is in accordance with research conducted by Budianto and Alexander (2016). Balancing funds have a negative effect on regional financial performance.

The revenue obtained will be used to meet regional needs, the allocation of capital expenditure is an important expenditure to show that the local government has served the public well (Ganaie et al 2018) (Albehadili, 2018). Emihare et al., (2014) the high allocation of capital expenditure will improve financial performance, this opinion is in line with the research of Astiti and Mimba (2016) capital expenditure has a positive effect on regional financial performance.

Local governments as public sector organizations must provide financial accountability to the parties concerned in order to be able to assess the performance of local governments for a period. The BPK is an independent body that assesses the reasonableness of the financial statements made by local governments, if the local government finds high audit findings then the local government financial management is low, conversely if the audit findings are low then high financial performance. This opinion is in line with the research of Tama and Priyo (2018) audit findings have a negative effect on regional financial performance.

Based on the explanation above, it can be formulated a research problem, namely whether PAD, balance funds, capital expenditure and audit findings affect the financial performance of local governments. The purpose of this study was to determine the effect of PAD, balance funds, capital expenditure, audit findings on financial performance. The results of the study are expected to contribute to the assessment of financial performance.

In this study agency theory illustrates the relationship between local government and society, the central government and local governments. Agency theory is practiced in the preparation of public budgets (Jubery et al, 2017). The contractual relationship between the principal and the agent does not achieve the goal because the agent and the principal have different interests (Panda and Leepsa, 2017). The success of an agent in managing finances can be seen in the ability of agents to explore the original income of the region. Agents must always increase the original income of their regions every year so that the economy of a region can be implemented well (Eka and Nugraha, 2019). Increased PAD plays an important role in improving financial performance and therefore must be used effectively and efficiently (Tarmizi et al., 2015) (Rachim, 2013). PAD obtained must be used efficiently. The higher the PAD, the regional financial performance will increase. From this description the research hypothesis is obtained:

H_1: PAD has a positive effect on the financial performance of the provincial government of Bali

The high acquisition of PAD will reduce the dependence of the central government. The transfer fund is lower than the PAD, indicating that the regional government has managed its area well and the agency relationship has been implemented well (Mulyani and Wibowo, 2017). Obtained the research hypothesis as follows:

H_2: Balance funds has negative effect the financial performance of the provincial government of Bali

Revenues obtained by local governments will be used to meet all regional needs, one of which is adequate infrastructure needs (Irene, 2014) (Macerinskiena, 2017). The community has completed its obligations to the regional government, so the regional government must provide adequate infrastructure by allocating high capital expenditure annually. Increased

infrastructure development will reflect an increase in blood performance which can later improve the economy of a region (Astiti and Mimba, 2016). From this explanation the research hypothesis was obtained:

H$_3$: Capital expenditure has a positive effect on the financial performance of the provincial government of Bali.

Changes in the government system have an impact on the preparation and reporting of the budget (Siregar, 2017). Local government revenue and expenditure must be accounted for at the end of the period. To assess whether local governments have managed finance effectively and efficiently, it is necessary to examine regional financial reports (Farouk and Hassan, 2014). The independent body that checks the financial statements is BPK RI, the high audit findings obtained by BPK indicate the lower financial performance of local governments and if the audit findings are lower the higher the regional financial performance (Qowi and Prabowo, 2017). From the description above, the research hypothesis is obtained:

H$_4$: Audit findings has a negative effect the financial performance of the provincial government of Bali
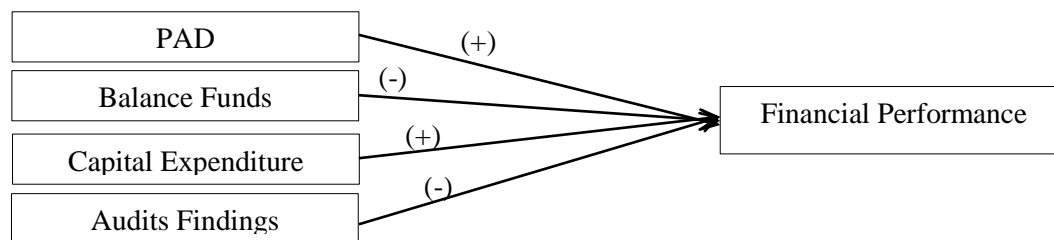

Figure 2: Conceptual Framework

II.   RESEARCH METHODS

The data analysis technique is multiple linear regression analysis. The approach used is a quantitative approach in the form of associative by taking research sites in Bali Province with 8 districts and 1 city for five years 2014-2018. Quantitative data obtained from official government-owned bodies. The method of determining the sample is saturated side when all members of the population are used as samples. Data collection methods are non-participant observation.

The independent variable is calculated on a nominal scale in the form of rupiah while the dependent variable is calculated using a ratio scale. To measure regional financial performance, four financial ratios are used, effectiveness ratio, efficiency ratio, harmony ratio and dependency ratio.

III.   RESULT AND DISCUSSION

This study uses 45 samples obtained from the APBD and LPKD reports that have been audited by BPK. Descriptive analysis is used to explain each variable used in this research.

Table 1: Results of descriptive statistical analysis

	N	Minimum	Maximum	Mean	Std. Deviation
Financial performance	45	1, 00	5, 34	3, 6093	0,99936
PAD	45	25, 06	29, 15	26, 5407	1,10354
Balance Funds	45	20, 82	27, 90	27, 1860	1,01262
Capital Expenditures	45	24, 97	27, 85	26, 2193	0,62676
Audit Findings	45	19, 55	27, 46	23, 6120	1, 98798

Four ratios are used to measure regional financial performance, then the four ratios must be used as a score in the form of financial performance, then a factor analysis is performed to look for financial performance variables.

Table 2: Results of factor analysis

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.500
	Approx. Chi-Square	69,443
Bartlett's Test of Sphericity	Df	6
	Sig.	.000

To be able to continue the factor analysis the minimum KMO MSA value is 0.5 and the significant value is below 0.05. From the results of the factor analysis, the value of KMO MSA is 0.500 with a significant value of 0.000, so the factor analysis in this study can be continued.

Prior to the stage of multiple linear regression analysis, research data must be free from the classical assumption test. The classic assumption test is explained as follows:

Table 3: Test results for normality

One-Sample Kolmogorov-Smirnov Test	
Kolmogorov-Smirnov Z	1, 255
Asymp. Sig. (2-tailed)	0, 086

Whether the data is normally distributed or not is shown in the Kolmogorov-Smirnov and Asymp sig 2 tailed values, these two values must be greater than 0.05. Table 3 shows that the value of Kolmogorov Smirnov and Asymp sig 2 tailed is greater than 0.05, this means that the research data is normally distributed.

Table 4: Test results of A utocorrelation

Model	Adjusted R Square	Durbin-Watson
1	0.905	1,967

DW value of 1.967 is greater than the upper limit (dU) of 0.72 and less than 4-dU of 3.28, it can be concluded that the research data is free from autocorrelation symptoms.

Table 5: Results of ultikolinieritas Test

	Tolerance	VIF
PAD	0.262	3,810
Balance Funds	.953	1,049
Capital Expenditures	.284	3,519
Audit Findings	0.755	1,324

The tolerance value and VIF value of the independent variable is greater than 10 percent and less than 10, so it can be concluded that the research data is free from multicollinearity symptoms.

Table 6: Heteroscedasticity Test Results

Model	Sig.
PAD	0.631
Balance Funds	.979
Capital Expenditures	0.766
Audit Findings	0.056

Significant values of all the independent variables from the heteroscedasticity test results are 0.631, 0.979, 0.766, and 0.056 above 0.05, which means that the research data is free from heteroscedasticity symptoms. The research data is free from all classical assumption testing , then multiple linear regression analysis is performed.

Table 7: Results of Multiple Linear Regression

Model	Unstandardized Ciefficient		Standardized Ciefficient			
	B	Std.Error	Beta	T	Sig	Ket
Constant	38,750	2,877		13,468	0,000	
PAD	- 0, 325	0.082	-0,389	-4,278	0,000	Rejected
Balance Funds	0.006	0.047	0.006	.135	.893	Rejected
Capital Expenditures	- 0, 942	0.140	-0,590	-6,748	0,000	Rejected
Audit Findings	- 0.0 54	0.0 27	-0,107	-1,994	0.053	Rejected

Regression equation Y = 38.750 - 0.352X1 + 0.006X2 - 0.942X3 - 0.054X4 + e

Table 8: Model Feasibility test results

ANOVA [a]					
Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	40, 180	4	10, 045	105, 190	0, 000 [b]
Residual	3, 820	40	0, 095		
Total	44, 000	44			

Significant value of 0,000, which means that this study is appropriate to be used as an analysis tool the influence of independent variables on the dependent variable.

In table 7 the PAD shows the negative direction of -0,352 with a significant value of 0,000. This means that PAD has a negative and significant influence on the financial performance of the provincial government of Bali, in accordance with research (Mulyani and Wibowo, 2017). The original regional revenue that was obtained by the provincial government of Bali in 2014-2018 did not contribute to the increase in regional finances. This is because from the calculation of the efficiency ratio obtained a value of 421.8942, this value means that the regional government is not efficient in exploring the financial resources of the local government. PAD obtained is not proportional to the costs incurred to collect PAD, this is what can cause the region's original revenue obtained to have a negative direction. Another thing that can cause regional own-source revenues to have a negative influence on financial performance is that local government-owned regional revenues are smaller than the transfer funds obtained by local governments. The low regional original income, the regional government is not optimal in managing financial finances, causing the delegation of power is not in accordance with the contractual objectives. The success of agency theory can be seen if the local government is able to provide a positive direction between local own-source revenue and financial performance, but in reality the field of regional own-source revenue has a negative direction on performance, which means that the contractual relationship between provincial and agency is not achieved.

Table 7 shows the balance fund has a positive direction of 0.006 with a significant value of 0.893. This result means that the balance fund has an insignificant negative effect on the financial performance of Bali Province in 2014-2018, the results are in line with Nugroho and Prasetyo's research (2018). This positive result shows that the higher the transfer funds, the financial performance will increase. The high balance funds owned by the regional government, the regional government will manage more finances, with adequate finances, the regional government will be able to carry out government activities optimally (Kapidani, 2018). The achievement of better public services will create prosperity for the people in accordance with the objectives of the decentralized system. However, this positive effect does not have a significant effect, this can be caused by the equalization fund provided by the central government to the regional government which is not used in accordance with the provision of the balancing fund. Balancing funds consist of general allocation funds, special allocation funds, and revenue sharing funds, each fund has different rules and regulations. In the regulations, each fund has explained its uses, functions and benefits, but in the field of general allocation funds because they are still public, they are still misused for purposes outside of the functions and benefits as much as the general allocation funds.

Table 7 provides the results that capital expenditure has a negative direction of -0.942 with a significant value of 0,000. This means that capital expenditure has a negative and significant effect on financial performance during 2014-2018, the results of this study are consistent with research conducted by Antari and Sedana (2018). The results of this study give the meaning of high capital expenditure will cause a decrease in the financial performance of local governments. This significant negative result can be caused by capital expenditure by the government not necessarily for profit, capital expenditure by the government to carry out public services. The community wants adequate infrastructure so the government allocates high funds for infrastructure development, infrastructure development such as roads are not for profit but only intended for community services. Another thing that can cause capital expenditure does not contribute to improving financial performance is the high allocation of capital expenditure, not accompanied by adequate changes in infrastructure, this can be caused by budget gaps in capital expenditure. High capital expenditure allocations but accompanied by budgertary slack, the capital expenditure budget is not in accordance with the allocation.

Table 7 of the audit findings has a negative influence of -0.054 with a significant value of 0.053 greater than 0.05. This shows that the audit findings have a negative but not significant effect on the financial performance of the provincial government of Bali in the 2014-2018 period. In line with research conducted by Masdiantini and Erawati (2016), the audit findings have a negative effect on the performance of regional quota but not significant. Negative results give the meaning

is not unidirectional, ie if the audit findings are high then the financial performance decreases but if the audit findings are low then the performance decreases. Having a negative but not significant direction is caused because in this study the audit findings do not necessarily lead to state losses, in this study all audits consist of deficits or excess acceptance, ineffectiveness, inefficiency and all irregularities that make financial management not in accordance with the provisions. Another thing that can cause a negative but not significant direction is because the BPK always encounters audit findings with different nominal each year, should the inspection, recommendations from the BPK and not follow up on the audit findings can reduce the large number of findings obtained, but in fact local governments always make mistakes in financial management.

IV. CONCLUSION

Based on the discussion of the above research results, it can be concluded that the regional income variable (PAD) and capital expenditure have a negative and significant effect on regional financial performance. Bali in 2014-2018. From the conclusions above, the researchers provide advice, for local governments are expected to pay attention to the costs and revenues from local original revenues so that regional authentic revenues have a contribution to improving regional financial performance. the next researcher is expected to pay attention again to the effect of capital expenditure in the field on the financial performance of local governments, and for future researchers if using the same variable to assess financial performance is expected to use more ratios to measure financial performance so that the results obtained are more accurate.

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