

Effectiveness and Efficiency Analysis of Regional Financial Management of Kutai Kartanegara

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Abstract: *Effectiveness and efficiency of regional financial management is one of the indicator of regional success in the era of regional autonomy. The purpose of this study was to analyze the level of effectiveness and level of efficiency of financial management from the aspect of realization to target and input to output aspects in financial management of Kutai Kartanegara. The data used was secondary data in the form of Regional Revenue and Expenditure Budget period 2014-2015 and analyzed by efficiency ratio analysis and effectiveness ratio. The ratio of efficiency of financial management of the region worsened from less efficient 99.74% in 2014 to inefficient, it was 133.39% in 2015 and the effectiveness ratio of very effective it was 113.60% to less effective equal to 77.8%.*

Keywords: Efficiency, effectiveness, revenue, expenditure, regional finance

1. Introduction

Effectiveness and efficiency is one part of the effort to realize good governance. Issues related to good governance have been appearing since the start of the era of regional autonomy. However, in implementation there were still many areas that consider only a slogan. At the time a region obtains the authority of the Central Government to take care of all mandatory duties and assistance was not a bit less optimal in financial management, not to mention, Kutai Kartanegara that since the regional autonomy in 1999 to now or 16 years of autonomy but the level of regional independence from the central government was still low. For that we need to find out the root cause of the problem through the analysis of effectiveness and efficiency of financial management with samples of the last 2 (two) years, it was 2014-2015. The purpose of this research was to analyze and prove the level of effectiveness and efficiency of financial management as measured by the ratio of realization and target of regional revenue

2. Regional Autonomy

One of the most prominent phenomena in the relationship between the Central Government and the Regional Government is the very high regional dependence on the Central Government. Local Governments still have a high dependence with the Central Government in terms of finance, and the intervention of the Central Government in making important decisions. Decentralization is a tool to achieve the goals of the state, especially in providing better public services and create a more democratic process of decision-making. The success of decentralization often depends on regionalism which involves local communities with greater influence and direct participation in decision-making that impact their region and their future (Dore and Woodhill, 1999). Decentralization means devolution that significantly transfers decision-making, finance, and management authority to quasi-regional autonomous units (Litvack and Seddon, 1998: 3).

3. Regional Financial Management

3.1 Revenue and Expenditure Budget

The budget is a planning tool on future revenue and expenditures, generally arranged for one year (Suparmoko, 2002: 26). The budget has the functions of authorization, planning, supervision, allocation, and distribution and stabilization. The regional revenue and expenditure budget or better known as APBD is the basis of local financial management within one budget year. APBD is a plan for the implementation of all regional revenue and all regional expenditures in the framework of the implementation of decentralization within a certain fiscal year. The collection of all regional revenues aims to meet the targets set out in the APBD. Similarly, all regional expenditures and ties that burden the regions in the context of decentralization are carried out in accordance with the number and targets set forth in the APBD.

Regional revenue becomes a measurement orientation because in practice between target and realization are rarely the same. Why is that? Meanwhile, the lack of achievement of regional revenue targets influences regional development fund. Local revenue is one of the indicators of regional autonomy. This means that the higher the proportion of local revenue or better known as PAD from the total regional revenue shown in the APBD shows the higher the level of regional independence. APBD located at the regency or municipality level shall be jointly determined by the regent/mayor with the regional parliament or DPRD located at the level II. APBD is determined through regional regulation no later than one month after the national revenue and expenditure budget or APBN is determined. The purpose of the APBD is to regulate the regional expenditure which has already planned. The structure of APBD is a unity consisting of regional income, regional expenditure, and financing.

Regional revenue includes all receipts of money through the Regional General Treasury Account, which adds equity of current funds, which is a regional right within a budget year

which is not required to be repaid by the regions. Regional expenditures cover all expenditures from the Regional General Treasury Accounts that reduce the current equity of funds, which is a regional obligation within a budget year that the Regional Government will not repay. Regional expenditure is used in the framework of execution of government affairs which become the authority of provinces or districts/municipalities consisting of compulsory affairs and affairs of choice established by the provisions of legislation. Regional financing includes all revenues that need to be repaid and / or expenditures to be reimbursed both in the relevant fiscal year and in subsequent fiscal years. Regional financing consists of financing receipts and financing expenditures.

3.2. Effectiveness and Efficiency

Effectiveness is the level of achievement of program results with the target set. In simple terms, effectiveness is the ratio between outcome and output. Effectiveness is the relationship between output and purpose. An activity or program of the organization is said to be effective if the output contribution towards achievement of the goal of getting bigger.

While efficiency is the achievement of maximum output with a particular input or the lowest input use to achieve a certain output. Efficiency is the ratio of input or output that is associated with predetermined performance or target standards (Mardiasmo, 2004: 4).

3.3. Regional Financial Management

Regional finance shall be all rights and obligations of regional governments which can be assessed with money, as well as everything in the form of money and goods which may be the property of the region in connection with the exercise of such rights and obligations. According to the Regulation of the Minister of Home Affairs Number 13 of 2006, the management of regional finance constitutes the whole activity which includes the planning, implementation, administration, reporting, accountability and supervision of regional finances

4. Equations

Effectiveness is a measure of success or failure of an organization to achieve its objectives. Effectiveness does not state how much it costs to achieve the goal, so just see a program or activity has reached the intended purpose (Mardiasmo 2004; 134). Thus the effectiveness level is measured between the expected results and the results achieved by the formulation as follows:

$$\text{Effectiveness} = \frac{\text{Revenue Realization}}{\text{Target}} \times 100\% \quad (1)$$

Table 1: Financial Performance Criteria (Effectiveness)

Financial Performance Percentage Criteria
≥ 100% very effective
≥ 90% - 100% Effective
≥ 80% - 90% fairly effective
≥ 60% - 80% less effective
< 60% Not effective

Sources: Home affair Ministerial Role No.690.900.327/1994

While the level of efficiency is measured by the ratio of input and output. The greater the output than the input, the higher the efficiency level of an organization (Mardiasmo 2004; 133). The efficiency level is formulated as follows:

$$\text{Efficiency} = \frac{\text{Routine Expenditure}}{\text{Revenue}} \times 100\% \quad (2)$$

Table 2: Financial Performance Criteria (Efficiency)

Financial Performance Percentage Criteria
≥ 100% not efficient
≥ 90% - 100% less efficient
≥ 80% - 90% fairly efficient
≥ 60% - 80% efficient
< 60% very efficient

Sources: Home affair Ministerial Role No.690.900.327/1994

5. Result and Discussion

5.1. The Comparison of Revenue Target and Realization

Table 3: Revenue Target and Realization (in billion rupiah)

Year	Target	Realisation	effectiveness ratio	Remark
2014	5,686. 2	6,459.6	113.60%	very effective
2015	6,527.5	5,079.5	77.8%	Less effective
average ratio 2014-2015			95.7%	effective

Data source: Data processed from the origin APBD

Based on the results of the calculation of the ratio of financial management effectiveness by comparing between realized and target of overall revenue in 2014 reaches 100% ≥ 113.60% meaning that is very effective. This is possible because at the time of drawing up the budget using the assumption of income from funds for only results amounted to 80% of the target and its realization turns out far beyond the above target. Why, because the main income of Kutai Kartanegara Regency comes from the revenue sharing from the Central Government. While the effectiveness ratio in 2015 decreased drastically to 77.8% or decreased by 35.8% from the previous year. This indicates that in 2015 Kutai Kartanegara Regency will experience financial problems. Because the realization of income decreases while the amount of expenditure is relatively the same as the previous year so that the impact on the decreased ability of regional fiscal to fund activities or programs. If viewed on average for two years observation that is 2014-2015 level of effectiveness of local financial management was still in the range of criteria

"effective" because it was at 95.7% position. But it did not reflect the real condition and safe, because the main revenue of Local Government Kutai Kartanegara still dominated by funds transfer from the Central Government in the form of Revenue Sharing Fund of Oil and Gas. The decline in revenues in 2015 was due to the drop in oil and gas price per barrel on the world market which resulted in the decrease of regional oil and gas revenue sharing. The source of local revenue that depends on natural resources without accompanying efforts to explore and develop other local economic potentials was not the right planning. Due to the continuous exploitation of natural resources and the exploration of its reserves will continue to diminish and the longer it will be exhausted and the nature of the natural resources is a non-renewable resource. This fact needs to be realized by the stakeholders in Kutai Kartanegara to immediately improve the local financial management by reorienting the planning, organizing, actuating and controlling of each APBD structure.

5.2. The comparison of revenue and expenditure

Further efficiency ratio can be shown through Table 4 below

Table 4: Revenue and expenditure (in billion rupiah)

Year	Routine expenditure	Revenue	Efficiency Ratio	Remark
2014	6,443.1	6,459.6	99.74%	less efficient
2015	6,775.4	5,079.5	133.39%	not efficient
The average ratio 2014-2015			116.56%	not efficient

Data source: Data processed from the origin APBD

The level of efficiency of the financial management of Kutai Kartanegara Regency for the period 2014-2015 shows an inefficient condition with a ratio of 99.74% in 2014. This means that the amount of routine expenditure was greater than the revenue or in other words the regional financial capacity to finance the generic expenditure decreases. Similarly, what happened in 2015 was worse than the previous year. Efficiency ratio at 133.39% \geq 100% was inefficient. The average performance efficiency ratio of Kutai Kartanegara regional financial management in 2014-2015 was in an inefficient position of 116.56%. Revenue was less than expense means deficit. Conditions of financial deficits that take place continually if not immediately resolved it will get worse. Local governments should immediately improve themselves by implementing a tight budget and based on priority scale, streamline routine expenditures, optimize existing revenue sources and locate sources of local revenue. A large element of routine expenditure lies in personnel expenditure; this becomes a complex problem because the large number of regional government employees or PNSD should be the element of regional power rather than burden. This means that the local government should be able to streamline personnel expenditure associated with the original revenue. It means that any expenditure in the form of personnel expenditure in particular remuneration in the form of additional employee income (TPP) must be directly proportional to PAD in other words every expense for TPP paid to employees must have implications on the performance that directly or indirectly impact on increasing PAD. In

addition, local governments continue to improve productivity of all non-oil and non-coal mining potentials.

6. Conclusion

The financial management of Kutai Kartanegara Regency for the period 2014-2015 shows the effectiveness of the trend was less effective than the ratio of 113.60% decreased to 77.8% or from the very effective position turned into less effective, although if averaged over 2 years of 95.7% was still in effective criteria. This means the ability of the region to realize the target revenue, especially the original revenue in accordance with the target set based on the real potential of the region decreased.

The performance efficiency ratio of regional financial management shows the worrisome condition of less efficient position, it was 99.74% in 2014 and deteriorated in 2015 increased to 133.39% meant inefficient. The average efficiency ratio of regional financial management in 2014-2015 was in an inefficient position (116,565). This indicated the weakening of regional capability in financing the generic program or in other words Kutai Kartanegara's fiscal capacity was weakened and regional finance is in budget deficit condition.

Kutai Kartanegara Government needs to improve the effectiveness and efficiency of its regional financial management by exploring and empowering the potential of regions outside oil and gas and mining and developing other creative economy as a source of revenue. Efficiency needs to be improved through strict budgeting, on a priority scale, implementing performance-based employee spending with locally revenue indicators.

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Author Profile



Dr. Indah Martati as a permanent lecturer at the POLNES Business Administration Department since 1989. I was graduated from STIE Muhammadiyah

Samarinda in 1991, and graduated Master of Management from Gadjah Mada University in Yogyakarta in 2001 and completed a doctorate of economics at UNHAS in 2010. I as a head of international office and partnership in Polnes. During the last 5 years I have been actively conducting research in economics, business and management with funding resources through a competition grant from DIPA campus, DP2M of Directorate of Higher Education and Local Government with an average of 2 research titles annually. The results of the study are published in national and international scientific journals reputed and delivered at the conferences international event. The focus of research is always to pay attention to the phenomenon in the field that occurred and associated with the field of teaching. This is intended to sharpen the competence of applied science as a learning enrichment material in the classroom.