



The Influence of Government Financial Performance on Government Financial Reporting Accountability

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Abstract: Accountability in regional financial management is the main foundation of effective and transparent governance. This study aims to examine the influence of effectiveness and efficiency ratios on financial reporting accountability in the central government during the 2012-2022 period. This research is a quantitative descriptive study. The independent variable is financial performance, measured by effectiveness and efficiency ratios. The dependent variable is financial reporting accountability, measured by the auditor's opinion on the financial statements. The sample used in this study is the central government (the Government of the Republic of Indonesia). The data used are secondary. The information used is central government financial reports from 2012 to 2022. The results of this study provide evidence that effectiveness and efficiency ratios do not have a significant influence on central government financial reporting accountability. The government needs to promote accuracy, transparency, and efficiency in regional financial management and increase public trust in the government.

Keywords: effectiveness ratio, efficiency ratio, financial reporting accountability, central government.

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1. Introduction

Government financial performance can be used as a benchmark for assessing government accountability, effectiveness, and efficiency. This accountability assessment not only addresses how the government absorbs and utilizes the budget, but also examines how the budget allocation aligns with predetermined plans and adheres to the principles of effective, efficient, and economical budget allocation (Susanto, 2019). Accountability demonstrates that all work is carried out in accordance with applicable standards and procedures, with fair and accurate reporting of performance results in line with the plans (Ariyadi et al., 2019). One measuring tool for assessing financial performance and enforcing financial accountability is the presentation of financial reports (Soleh et al., 2019).

The government is required to maintain effective and efficient governance. Government financial reporting aims to provide information on resources, allocations, and utilization (Aulia et al., 2023). The central government is accountable to the public for its financial performance through the Central Government Financial Report (LKPP), which has been audited by the Supreme Audit Agency (BPK). Government financial performance is a focus in state financial management (Mardiasmo, 2017). This means that

government financial performance indicates the financial condition and ability to obtain and use funds for national development. To measure government financial performance, it is necessary to conduct an analysis of the central government's financial performance in managing state finances (Mirza and Rohman, 2012). One tool used to analyze government performance in managing state finances is financial ratio analysis. The results of this financial ratio analysis will then be used as a benchmark to assess the government's financial independence in financing state administration, measure the effectiveness in realizing revenue, measure spending efficiency, and measure the extent of financial performance from the growth of revenue and spending each year (Mirza and Rohman, 2012).

The results of Tanan and Duri's (2018) research stated that the financial ratio analysis obtained by the PAD Contribution to Jayapura City's regional revenue showed that the higher the PAD contribution, the average ratio of the degree of decentralization from 2011/2017 was 11.56 percent, but it was still in the very low category. The Jayapura City Government's dependence ratio on the Central Government continued to decline but was still in the high category, due to the continued dominance of central transfer revenue in regional revenue. The regional independence ratio then showed that the independence ratio was still very low and there

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needed to be efforts made by the Jayapura City Government to increase its independence from central transfer revenue. The Effectiveness Ratio showed that the realization of Jayapura City's PAD in 2011 to 2017 showed very effective results because the achievement of PAD realization was above the set target. The efficiency ratio of the Jayapura City government was included in the very Efficient criteria because the comparison between the cost of collecting Regional Original Revenue and the realization of PAD revenue from 2011 to 2017 averaged 3.21 percent or <5 percent which was included in the very Efficient category. The contribution of regional-owned enterprise (BUMD) revenue to total regional revenue is still relatively small, averaging 0.29 percent.

Research by Rais (2023) indicates that the financial performance of the Baubau City regional government, when viewed from the regional financial independence ratio, is very low, falling within the 0%-25% range. From 2018 to 2022, the ratios were: 9.99%, 11.86%, 11.93%, 13.13%, and 14.10%. When viewed from the effectiveness ratio of Regional Original Income (PAD), it is known that the financial effectiveness of the Baubau City Regional Government in 2018, 2020, 2021 and 2022 is quite effective as indicated by the ratio value between 90% -99% respectively at 92.63%, 84.63%, 85.50% and 93.50%, but in 2019 it was very effective with a ratio value reaching 107.3%. The activity ratio in terms of the operating expenditure ratio is classified as good, namely with a ratio value between 50% -100% or with an average value of 75.78% per year, while the capital expenditure ratio is classified as not good because it has a ratio value of less than 50% or with an average value per year of 22.64% per year). The growth of Local Original Income (PAD) in Baubau City has developed from year to year with a low growth category (1.20%) for 2020, but the growth ratio in 2019 experienced an increase, namely with a moderate growth category (27.71%), and in 2021 it experienced an increase again although with a low growth category (9.83%) and in 2022 it experienced an increase again although with a low category (12.01%).

Research by Sari et al. (2023) assessed the financial performance of the Bogor Regency Government, as seen from the contribution of transfer revenue to total revenue received, which remained quite high, with an average percentage of 62%, indicating that regional autonomy still relies heavily on transfer revenue. Furthermore, using the Degree of Decentralization Ratio, 38.54% was considered moderate, the regional financial independence ratio of 70.28% was considered moderate, the effectiveness ratio of 114.65% was considered very effective, and the expenditure efficiency ratio of 93.57% was considered less efficient. Another study by Rinaldy (2023) found that the use of financial statement analysis as a measure of Bireuen Regency's financial performance was good.

Research by Berizky and Kurniawan (2024) stated that the financial performance of the Central Java provincial government was considered effective, efficient, accountable, and transparent. The financial ratios used were the financial independence ratio, the regional financial effectiveness ratio, the efficiency ratio, and the harmony ratio. Sabono and Sahusilawane's (2024) research shows that Waai Village in 2021 and 2022 has a level of effectiveness that can be categorized as quite effective, based on the average effectiveness ratio produced above 80%, namely, 85% and 99%. The efficiency of Waai Village in 2021 and 2022 from the average

efficiency ratio is categorized as inefficient, because the average efficiency is above 85%, namely, 102.5% and 104.3%. The results of Hadinata et al.'s (2024) research show that the financial performance of the Pematang Siantar City Government for the level of effectiveness ratio of PAD revenue of Pematang Siantar City is very effective and for the level of efficiency ratio still above 90% indicating that the Regional financial performance is less efficient.

Research by Fitri and Kotimah (2022) shows that solvency has no effect on improving financial reporting accountability, while revenue effectiveness and cost efficiency improve financial reporting accountability. Research by Sari (2018) shows that financial reporting quality influences government agency performance accountability. Research by Muraiya and Nadirsyah (2018) shows that budget absorption efficiency has no effect on financial reporting accountability, but budget absorption effectiveness does.

Regarding the evaluation of central government financial performance and government financial reporting accountability, researchers are interested in assessing central government performance using financial report ratio analysis, consisting of effectiveness and efficiency ratios from 2012 to 2022, and government financial reporting accountability. The research aims to evaluate the financial performance of the central government by using financial report ratio analysis (effectiveness and efficiency) which influences the accountability of government financial reporting.

2. Literature Review

2.1 Government Performance Evaluation

Government performance evaluation, one of which is the evaluation of government agency performance accountability, as stipulated in Article 2 of the Minister of Administrative and Bureaucratic Reform Regulation Number 88 of 2021, aims to:

1. Obtain information regarding the implementation of the Government Agency Performance Accountability System (SAKIP).
2. Assess the level of SAKIP implementation.
3. Assess the level of performance accountability.
4. Provide suggestions for improvements to improve the AKIP.
5. Monitor follow-up on recommendations from previous evaluation periods.

According to Sari et al. (2023), financial performance assessments can be used as evaluation material and can improve performance by providing benchmarks for implementation. They also serve as benchmarks for regional government performance in subsequent periods. Performance measurement systems can be used as organizational control tools (Tanan and Duri, 2018).

2.2 Financial Accountability

Financial accountability demonstrates the results of accountability reports on the economic, effective, and efficient use of state funds (Mardiasmo, 2009). Accountability is a public concern and requires public institutions to present transparent and accountable periodic financial reports. According to Afriyadi (2008), accountability is closely related to instruments for control activities, particularly

regarding the achievement of results in public services and their transparent communication to the public.

2.3 Government Financial Reports

According to Mahmudi (2016), financial reports aim to provide financial information for decision-making and performance measurement and evaluation. Financial reports become more meaningful when subjected to further analysis. The government, both central and regional governments, is obliged to submit audited financial reports as a form of transparency and accountability to the public, in accordance with Government Accounting Standards (KSAP, 2021). Financial reports in accordance with Government Accounting Standards consist of:

1. Budget Realization Report (LRA)

The Budget Realization Report (LRA) covers funding sources, budget allocations, and the use of economic resources managed by the government. The LRA contains information on government revenues, expenditures, and financing.

2. Report on Changes in the Excess Budget Balance

The report on changes in the excess budget balance contains information on the government budget balance.

3. Balance Sheet

The balance sheet contains information on assets, liabilities, and equity funds held by the government.

4. Operational Report (LO)

The operational report contains information on operational and non-operational activities.

5. Cash Flow Statement

The cash flow statement contains information on the sources, uses, and changes in cash and cash equivalents at the reporting date.

6. Statement of Changes in Equity

The statement of changes in equity contains information on government fund equity.

7. Notes to the Financial Statements (CALK)

The Notes to the Financial Statements (CALK) contain additional notes provided to the financial statements.

2.4 Financial Report Ratio Analysis

Financial ratio analysis is a comparison between two numbers, the data of which is taken from elements of financial reports (Tanan and Duri, 2018). Financial ratio analysis can be used to measure and evaluate financial performance from year to year and compare it with the performance of other similar organizations. There are various types of financial ratio analysis, including: Degree of Decentralization, Regional Dependency Ratio, Regional Independence Ratio, Regional Original Revenue Effectiveness Ratio, Regional Original Revenue Efficiency Ratio, Tax Effectiveness Ratio, Tax Efficiency Ratio, Regional-Owned Enterprise Contribution Ratio, Regression Analysis, Trends, and Predictions. Ratio analysis is one tool used to analyze government financial performance, including: Degree of Decentralization, Regional Dependency Ratio, Regional Independence Ratio, Regional Original Revenue Effectiveness Ratio, Regional Original

Revenue Efficiency Ratio, Tax Effectiveness Ratio, Tax Efficiency Ratio, and Regional-Owned Enterprise Contribution Ratio (Mahmudi, 2016). According to Halim (2007), the effectiveness ratio reflects a government company's ability to achieve planned revenue compared to the set target. The efficiency ratio reflects the comparison between the costs incurred to generate revenue and the actual revenue received (Handayani, 2019).

3. Methodology

3.1 Research Approach

This research is a descriptive analysis using a quantitative approach. Descriptive data analysis in this study was conducted to evaluate the influence of central government financial performance using financial statement ratio analysis on corporate financial reporting accountability.

3.2 Research Variables

The independent variables (X) in this study are effectiveness and efficiency ratios. Central government financial performance is measured using financial statement ratio analysis, which consists of:

1. Effectiveness Ratio

This ratio illustrates the central government's ability to realize planned revenue compared to the PAD target set based on actual potential. The central government's ability is considered effective if the effectiveness ratio is at least 100%. The higher the ratio, the better.

Effectiveness ratio analysis uses the ratio of realized revenue to the set target multiplied by one hundred percent (Susanto, 2019).

2. Efficiency Ratio

This ratio reflects the comparison between the amount of costs incurred or expenditures to obtain revenue and the actual revenue received. Government performance in revenue collection is categorized as efficient if the ratio is less than one or below 100%. The lower the efficiency ratio, the better the performance of the regional government. Efficiency ratio analysis uses the comparison between actual expenditures or expenditures and revenues multiplied by 100 percent (Susanto, 2019).

3.3 Data Collection Techniques

The data for this study consisted of central government financial information contained in the Central Government Performance Report (LKPP) from 2012 to 2022 and the Audit Report on Central Government Financial Statements from the official website of the Republic of Indonesia Audit Board.

4. Finding and Analysis

4.1 Descriptive Statistics

Descriptive analysis in this study was used to provide an overview of the characteristics of each variable. Based on the descriptive statistical analysis results table above, it can be seen that the number of samples (N) that have been studied is 11 samples, starting from 2012 to 2022. The average effectiveness ratio is 98% (said to be effective) and the average efficiency ratio is 122% (said to be inefficient).

4.2 Multiple Linear Regression Analysis

Multiple linear regression analysis is a method used to determine the influence of independent variables on dependent variables. This study examines the influence of financial performance (effectiveness ratio and efficiency ratio) on the accountability of central government financial reporting from 2012 to 2022. Based on the results of the multiple linear regression analysis in the table above, the following equation is obtained:

$$ALK = 0.507 + 1.450 \text{ EFTF} + 1.393 \text{ EFIS} + e$$

From the explanation of the linear regression above, it can be concluded that the constant value is positive at 0.507. A positive sign indicates a directional relationship between the independent and dependent variables. This means that if the independent variable is constant or has a value of 0, then the dependent variable is 0.507.

The effectiveness regression coefficient is 1.450, indicating a positive relationship between effectiveness and financial reporting accountability. The positive sign indicates that effectiveness aligns with financial reporting accountability. This means that if the effectiveness ratio increases by one unit, financial reporting accountability will increase by 1.450.

The efficiency regression coefficient is 1.393, indicating a positive relationship between efficiency and financial reporting accountability. The positive sign indicates that efficiency aligns with financial reporting accountability. This means that a one-unit increase in the efficiency ratio will result in a 1.393 increase in financial reporting accountability.

5. Discussion

5.1 The Effect of Effectiveness on Financial Reporting Accountability

Based on the results of the statistical tests conducted, effectiveness, as proxied by financial ratios, has no effect on financial reporting accountability, with a significance level of $0.377 > 0.05$, indicating a positive trend with a regression coefficient of 1.450. From these results, it can be concluded that effectiveness does not significantly influence financial reporting accountability in the central government. Therefore, the first hypothesis, which states that effectiveness has a positive effect on financial reporting accountability, is rejected or cannot be accepted.

This indicates that central government management related to regional revenue (as measured by effectiveness ratios) does not directly influence financial reporting accountability as measured by the government auditor's opinion.

The results of this study align with those of Muraiya and Nadirsyah (2018), who stated that financial performance, as measured by the effectiveness ratio, has no effect on financial reporting accountability. This is because the effectiveness of government revenue is more closely related to the government's internal conditions in fulfilling its obligations. This study disagrees with those of Fitri and Khotimah (2022) and Faizah et al. (2024), who found that revenue effectiveness has a positive and significant effect on central government financial reporting accountability, and those of Erryana and Setyawan (2016), who found that effectiveness negatively impacts financial reporting accountability.

5.2 The Effect of Efficiency on Financial Reporting Accountability

Based on the results of the statistical tests conducted, financial performance, as proxied by the efficiency ratio, has no effect on financial reporting accountability, with a significance level of $0.256 > 0.05$, indicating a positive trend with a regression coefficient of -1.393. These results indicate that efficiency has no significant effect on financial reporting accountability in the central government from 2012 to 2022. Therefore, the second hypothesis, which states that efficiency has a positive effect on firm value, is rejected or cannot be accepted.

The regression results in this study indicate that the efficiency ratio indicates inefficient government spending management. Government financial management does not have a direct impact or guarantee an impact on the auditor's opinion.

The results of this study align with those of Muraiya and Nadirsyah (2018) and Faizah et al. (2024), which stated that financial performance, as measured by the efficiency ratio, does not significantly impact the accountability of central government financial reporting. However, this study disagrees with the research of Fitri and Khotimah (2022), which found that spending efficiency has a positive and significant impact on the accountability of central government financial reporting.

6. Conclusion

This study was conducted to examine the effect of government financial performance on financial reporting accountability. The sample used in this study was the central government (Government of the Republic of Indonesia) from 2012 to 2022. The results showed that Revenue Effectiveness did not have a positive and significant effect on financial reporting accountability. The results of the revenue effectiveness ratio indicate that central government financial management does not guarantee that the auditor's opinion is in accordance with the government's financial performance. In addition, Spending Efficiency showed no positive and significant effect on financial reporting accountability. This illustrates that the central government's performance was inefficient in managing the budget from 2012 to 2022 and therefore would not impact the level of audit opinion given by the auditor.

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