

Financial Performance Analysis of Regional Original Income, General Allocation Funds and Special Allocation Funds Based on The Ratio of Independence, Effectiveness, and Efficiency in Districts/Cities The Province of North Sumatra

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ABSTRACT

This research was conducted for the following purposes: (1) To determine and analyze the financial performance of district/city regional governments in North Sumatra Province. (2) To determine and analyze the impact of the General Allocation Fund on the financial performance of district/city regional governments in North Sumatra Province. (3) To identify and analyze the impact of Special Allocation Funds on the financial performance of district/city governments in North Sumatra. This research uses secondary data in the form of data on the realization of the North Sumatra Province Regency/City APBD for the 2022-2023 period. This research uses descriptive research using analysis of independence ratios, effectiveness ratios, and efficiency ratios and ratios to assess the performance of districts/cities in North Sumatra Province, Sumatra. The results of this research show that, based on the analysis of these three ratios, they can influence the financial performance of district/city governments in North Sumatra.

Keywords:

Financial Performance; Independence Ratios; Effectiveness Ratios; Efficiency Ratios

1. Introduction

The challenges faced by autonomous regions are generally related to the lack of significant contribution from regional tax and levy collections to overall regional income. The role of Original Regional Income in meeting regional expenditure needs varies between less than 10% to 50% depending on each region (Hartiningsih and Halim, 2015).

Through several laws to provide solutions, such as Law Number 22 of 1999 and Law Number 25 of 1999 which were later revised. However, implementation does not always run smoothly. Even though there has been a policy of decentralization and regional autonomy since 2001, only a few regions have sufficient resources to finance development projects.

Regional financial management and accountability have been stipulated in Government Regulation (PP) Article 4 Number 106 of 2000 which confirms that regional financial management must be carried out in an orderly manner, in compliance with applicable laws and regulations, efficiently, effectively, transparently and responsibly by observing the principles justice and propriety. (GOVERNMENT REGULATION OF THE REPUBLIC OF INDONESIA NUMBER 105 OF 2000, 2000).

Financial ratio analysis in the APBD is carried out by comparing the results of one period with the previous period to see the trends that occur. Apart from that, comparisons can also be made with the financial ratios of other regional governments that have similar characteristics, to see the position of the regional government's financial ratios in comparison with others. (MUHAYANAH, 2016).

Original Regional Income (PAD) is the key to overcoming this problem, with various sources of income such as regional taxes and levies. However, success in extracting PAD is very dependent on the ability of local governments to manage their local resources. In addition, the aim is to improve the quality of public services in the region, reduce disparities in public services between regions, and increase efficiency in the use of capital resources. (Padang and Padang, 2023).

However, obstacles still exist, such as regional spending priorities which tend to be indirect spending, even though there are efforts to increase direct spending in accordance with regulations. This gap shows that even though there are regulations in place, their implementation is still not optimal.

Minister of Home Affairs Regulation Number 25 of 2009 also states that direct spending should be greater than indirect spending. Meanwhile, data released by the North Sumatra Province Central Statistics Agency shows that indirect spending is greater than direct spending.

In the 2023 budget year, the total revenue of district/city governments throughout North Sumatra Province will be IDR. 49,307,981,981,742. Meanwhile, the total realization of district/city government spending in North Sumatra Province is IDR. 39,863,972,294,783, of which Rp. 34,058,880,470,318 (64.97%) of which are regional indirect expenditures. Then, Rp. 9,326,374,039,253 (17.79%) is direct expenditure/expenditure of district/city regional governments throughout North Sumatra Province and Rp. 263,915,554,137 (0.5%) are regional costs which are included in regional financing.

Regional financial management can be used as an instrument to create regulations for regional development so that regional financial accountability reports must be provided every year (Dyta, 2019). The tool for measuring regional government financial performance is to apply the ratio of independence, effectiveness and efficiency (Halim, 2012:230).

Based on previous research, regional government financial performance can be influenced by various factors, including PAD, intergovernmental revenue, regional government size, and leverage. Previous research on these factors states that PAD influences financial performance and intergovernmental revenue influences financial performance (Rochmah, 2015).

Research conducted by Sumarjo (2010) indicates that the larger the size of a regional government, the better the regional government's financial performance. Sumarjo (2010) also stated that the leverage factor influences financial performance. Therefore, this research refers to research

conducted by Sumarjo (2010) by adding indicators to the measurement of financial performance which was carried out by analysis of independence, efficiency and activity ratios (Sari & Rofika, 2016).

The independence ratio shows the ability of local governments to fund government activities, development, and services to communities that pay retribution taxes (Halim, 2012:232). The high level of Original Regional Income (PAD) reflects the region's ability to finance development (Florida, 2016). Several studies show that the financial independence ratio has a positive effect on economic growth (Astuti, 2015; Sari et al, 2015), but Siregar (2016) found different results (Sinurat, 2023).

Then, the effectiveness ratio describes the regional government's ability to realize PAD compared to the targets set (Halim, 2012:234). Research shows that the effectiveness ratio has a positive effect on economic growth (Astuti, 2015; Sari et al, 2015; Sari, 2016).

Meanwhile, the efficiency ratio is used to assess the costs incurred by the government to generate regional income (Marsudi et al, 2019). Research shows that efficiency ratios have a positive effect on economic growth (Astuti, 2015; Nurlita and Hamdani, 2018; Kumpangpune et al, 2019).

For this reason, the ratio of independence, effectiveness and efficiency is an indicator of the performance of implementing the Regional Revenue and Expenditure Budget (APBD) in accordance with Minister of Home Affairs Regulation Number 13 of 2006 which was updated with Government Regulation Number 12 of 2019 concerning Guidelines for Regional Financial Management (Nurhayati, 2015).

Based on the description above, it shows that the level of regional government financial performance is still low. The government's financial performance is low because the government does not explore regional resources and potential properly. Data released by the North Sumatra Province Central Statistics Agency noted that almost all districts/cities in North Sumatra Province experienced a decrease in the realization of regional income and expenditure in the 2023 budget compared to the 2022 budget.

2.1 Theoretical Foundations

2.1.1 Agency Theory (Agency Theory)

Agency theory is used to analyze the relationship between principals (owners) and agents (managers). According to Scott, quoted by Tandiontong (2016:4) in Saepudin (2018), agency theory is a development of a concept that studies contract structures in which agents act on behalf of principals when their goals or interests are not aligned. When the principal does not fully trust the authorized agent, agency costs will arise. Saepudin (2018), also explains that agency costs are the costs required to monitor the agent's behavior or actions so that it can be ensured that these actions are in accordance with the interests of the principal.

Saepudin (2018) states that the main aim of agency theory is to resolve agency problems that arise due to parties collaborating having different goals. These differences in interests give rise to a conflict of interest between the principal and the agent. The principal has an obligation to provide wages for the services provided by the agent to maximize profits.

2.1.2 Locally-generated revenue

According to Darise (2007: 43) believes that Regional Original Income is income obtained by the region which is collected based on regional regulations in accordance with statutory regulations. Nurcholis (2007: 182), states that "original regional income is income obtained from regional taxes, regional levies, regional company profits, etc. which are legitimate. Halim (2007: 96) states that regional original income is revenue obtained by a region from sources within its own territory which is collected based on regional regulations in accordance with applicable laws and regulations. This originates from regional taxes, regional levies, the results of the management of separated regional assets. , etc. valid PAD.(Pradana and Handayani, 2023).

According to Law no. 33 of 2004 article 1, PAD is income obtained by the region which is collected based on regional regulations in accordance with applicable laws and regulations. The aim of PAD is to give authority to regional governments to fund the implementation of regional autonomy in accordance with regional potential as an embodiment of decentralization.

2.1.3 General Allocation Fund

According to Ahmad (2009: 142) General Allocation Funds (DAU) are funds sourced from APBN revenues which are allocated with the aim of equalizing financial capacity between regions to identify regional needs in the context of implementing decentralization. DAU is a "block grant" which means its use is handed over to the regions in accordance with regional priorities and needs to improve services to the community in the context of implementing regional autonomy. In other words, the purpose of DAU allocation is to equalize the ability to provide public services between regional governments in Indonesia.

In Government Regulation no. 55 of 2005 concerning Balancing Funds, explains that General Allocation Funds (DAU) are funds originating from the State Revenue and Expenditure Budget (APBN), which are allocated with the aim of equalizing financial capacity between regions to fund regional needs in the context of implementing decentralization. The distribution of DAU to regions that have relatively large capabilities will be smaller and conversely, regions that have relatively small financial capabilities will receive relatively large cDAU (Sidik, 2004: 96). The DAU for a particular district/city area is determined based on multiplying the amount of DAU for the entire district/city area determined in the APBN with the portion of the district/city area concerned.

2.1.4 Special Allocation Fund

According to Darise (2009: 91) special allocation funds (DAK) are funds sourced from APBN revenues which are allocated to certain regions with the aim of helping to fund special activities which are regional affairs and in accordance with national priorities in accordance with the functions specified in the APBN. Special allocation funds (DAK) are funds originating from the state revenue and expenditure budget which are allocated to regions to finance certain needs.

2.1.5 Financial performance

2.1.5.1 Definition of Financial Performance

Financial performance is the basis for an assessment related to the financial condition of a company in the form of a description of the financial condition in a certain period which can be seen based on analysis of financial reports (Sukmawati et al., 2022). Furthermore, financial performance

is also referred to as one of the achievements achieved by companies in the financial sector in achieving performance goals (Faisal et al., 2017). On the other hand, financial performance also describes the number of assets owned by the company and how much the company is able to achieve profits.

In line with the previous explanation, Fahmi (2017) also explains that financial performance is an analysis carried out to see the extent to which a company has used financial implementation rules properly and correctly. Furthermore, financial performance is a representation of the company's financial condition which is assessed using financial analysis tools to identify weaknesses and achievements that have been achieved by the company in the current period (Marsheline AP et al., 2023).

2. Methods, Data and Analysis

The research approach used in this research is a descriptive approach. Nazir (2017) explains that descriptive research aims to create a systematic, factual and accurate description or picture of the facts, characteristics and relationships between the phenomena being investigated. Furthermore, the descriptive approach is research that only collects, compiles, classifies and interprets data so that you can get a clear picture of the problem being studied.

According to Adiputra et al (2021), the descriptive research type is tasked with describing, summarizing various conditions, situations or phenomena of social reality that exist in society which is the object of research and attempts to draw that reality to the surface as a feature, character, trait, model, sign. , or a description of the conditions of a particular situation or phenomenon. The aim of descriptive research is to obtain data that describes the topic of interest (Sekaran, 2016:43).

This research was carried out at the Regional Government of Medan City. This research process will be carried out from January 2024 until completion.

According to Sugiyono (2017:61) research variables are attributes or traits or values of people, objects and activities, which have certain variations determined by researchers to be studied and then drawn conclusions, namely as follows:

Table 2.1 Operational Definition of Variables

N O	Variable	Variable Definition	Indicator	Scale
1	Regional Original Income (PAD)	Revenues from sources within the territory of a particular area, which are collected based on applicable laws.	Regional financial capability ratio	Ratio

2	General Allocation Fund (DAU)	A certain amount of funds must be allocated by the Central Government to each Autonomous Region in Indonesia every year as development funds.	DAU dependency ratio on regional finances	Ratio
3	Special Allocation Fund (DAK)	Allocations from the State Revenue and Expenditure Budget to certain provinces/districts/cities with the aim of funding special activities.	DAK dependency ratio on regional finances	Ratio
4	Dependent (Y) Financial Performance	Achievements achieved by a company are expressed in monetary terms and are usually described in the company's financial statements.	Regional financial independence ratio	Ratio

In this research the data used is secondary data. This secondary data is in the form of reports on Regional Original Income (PAD), General Allocation Funds (DAU) and Special Allocation Funds (DAK). The data sources are available on the website <http://prp2sumut.sumutprov.go.id/>. The secondary data used by researchers is data for the period 2022 to 2023 which was processed using descriptive data processing methods.

Independence Ratio Analysis

The steps to analyze the independence ratio are carried out as follows following:

1. Collect, identify and tabulate data on PAD realization and total income from the Districts/Cities of North Sumatra Province for the 2022-2023 fiscal year.
2. Calculate the independence ratio based on each budget year which is formulated as follows (Halim, 2002:128)

$$Rasio Kemandirian = \frac{\text{Pendapatan Asli Daerah}}{\text{Total Pendapatan}}$$

3. Determine the relationship pattern with regional capabilities (from a financial perspective) based on the independence ratio guided by table 2.2 Relationship Patterns and Regional Capacity Levels as follows:

Table 2.2 Relationship Patterns and Regional Capacity Levels

Independence	Financial Capabilities	Relationship Patterns
0%-25%	Very low	Instructive
25%-50%	Low	Constructive
50%-75%	Currently	Participative
75%-100%	Tall	Delegative

4. Analyze the calculated independence ratio.

PAD Effectiveness Ratio Analysis

The steps to calculate the effectiveness ratio are carried out as follows following:

1. Collect, identify and tabulate budget data and PAD realization from the districts/cities of North Sumatra Province for the 2022-2023 fiscal year.
2. Calculate the PAD effectiveness ratio based on each budget year. The effectiveness ratio formula is:

$$\text{Rasio Efektivitas PAD} = \frac{\text{Realisasi Penerimaan PAD}}{\text{Target Penerimaan PAD}}$$

3. Determine the PAD effectiveness value by referring to table 2 below:

Table 2.3 Relationship Patterns and Level of Financial Capability

Financial Capabilities	Relationship Patterns
Very effective	> 100
Effective	100
Effective enough	90-99
Less effective	75-89
Ineffective	< 75

4. Analyze the calculated PAD effectiveness ratio.

Efficiency Ratio Analysis

The steps to analyze the efficiency ratio are carried out in the following way:

1. Collect, identify and tabulate data on total PAD acquisition and total PAD realization from the Regencies/Cities of North Sumatra Province for the 2022-2023 fiscal year.

2. Calculate the PAD efficiency ratio based on each budget year. According to Mahmudi (2010:143), the efficiency ratio is formulated as follows:

$$\text{Rasio Efisiensi PAD} = \frac{\text{Biaya Pemerolehan PAD}}{\text{Realisasi Penerimaan Daerah}}$$

3. Determine the value of PAD efficiency towards APBD realization by referring to the following table:

Table 2.4 Regional Capabilities in PAD Efficiency

Financial Capabilities	Efficiency Ratio
Very Efficient	< 10
Efficient	10 - 20
Quite Efficient	21 - 30
Less efficient	31 - 40
Not efficient	>40

4. Analyze the calculated PAD efficiency ratio.

3. Results and Discussion

Medan is the capital of North Sumatra Province. The government center of North Sumatra is located in the city of Medan. North Sumatra is divided into 25 districts, 8 cities, 325 sub-districts and 5,456 sub-districts/villages.

Regency/City Independence Ratio of North Sumatra Province

a. Research data

The regional independence ratio is calculated by comparing the realization of PAD with the realization of total regional income. The PAD and total income of the Regency/City of North Sumatra Province for the 2022-2023 fiscal year can be seen in Table 3.1 as follows:

Table 3.1 PAD and total income of District/City Province. North Sumatra

Year	PAD	Total income
2022	46,190,901,674,884	7,848,508,336,992
2023	49.333.776.888.128	9,570,226,151,361

Source : <http://prp2sumut.sumutprov.go.id/kabupaten-kota-2022>

b. Calculation of the Regency/City Independence Ratio of North Sumatra Province

Based on the data above, it can be seen the value of the independence ratio, financial capacity, and relationship pattern of the District/City of North Sumatra Province with the central government in table 3.2 as follows:

Table 3.2 Financial Capabilities and Relationship Patterns of Provincial Districts/Cities. North Sumatra

Year	Independence Ratio	Financial Capabilities	Relationship Patterns
2022	5.88%	Very low	Instructive
2023	5.15%	Very low	Instructive
Average ratio		5.51%	

Source : <http://prp2sumut.sumutprov.go.id/kabupaten-kota-2022>

District/City Effectiveness Ratio of North Sumatra Province

The effectiveness ratio describes the regional government's ability to realize planned regional original income compared to targets set based on the region's real potential.

1. Research Data

Targets and Realization of North Sumatra Province Regency/City PAD for the 2022-2023 fiscal year are presented in Table 3.3 below:

Table 3.3 Realization of PAD and PAD Targets for Regency/City Province. North Sumatra

Year	Realization of PAD	PAD targets
2022	46,190,901,674,884	44,112,852,715,713
2023	49.333.776.888.128	44,368,554,832,331

Source : <http://prp2sumut.sumutprov.go.id/kabupaten-kota-2022>

2. Calculation of the District/City Effectiveness Ratio of North Sumatra Province

Based on the PAD target and realization data presented previously, it can be seen the PAD effectiveness ratio value and the interpretation of the North Sumatra Province Regency/City PAD effectiveness value in table 3.4 below:

Table 3.4 Financial Capability of Provincial District/City. North Sumatra

Year	Effectiveness Ratio	Financial Capabilities
2022	104.71%	Very effective
2023	111.19%	Very effective
Average Ratio		107.95%

Source : <http://prp2sumut.sumutprov.go.id/kabupaten-kota-2022>

District/City Efficiency Ratio of North Sumatra Province

The performance of local government can be said to be efficient if it has achieved the stated goals with minimal costs incurred.

1. Research Data

The costs of acquiring PAD and Realization of PAD for Districts/Cities of North Sumatra Province for the 2022-2023 fiscal year are presented in table 3.5 as follows:

Table 3.5 PAD Acquisition Costs and Provincial District/City PAD Realization. North Sumatra

Year	PAD Acquisition Costs	Realization of PAD
2022	44,112,852,715,713	46,190,901,674,884
2023	44,368,554,832,331	49.333.776.888.128

Source : <http://prp2sumut.sumutprov.go.id/kabupaten-kota-2022>

2. Calculation of PAD Efficiency Ratio for District/City North Sumatra Province

Based on the data on the cost of acquisition and realization of PAD presented previously, the PAD efficiency ratio value and the interpretation of the PAD efficiency value for the Regency/City of North Sumatra Province can be seen in table 3.6 as follows:

Table 3.6 PAD Acquisition Costs and Provincial District/City PAD Realization. North Sumatra

Year	Efficiency Ratio	Financial Capabilities
2022	9.5%	Very Efficient
2023	8.9%	Very Efficient
Average Ratio		9.2%

Source : <http://prp2sumut.sumutprov.go.id/kabupaten-kota-2022>

The level of independence of the Regencies/Cities of North Sumatra Province for the 2022-2023 fiscal year is as follows:

- a. In 2022, the independence ratio of the Regency/City of North Sumatra Province will be 5.88%, which shows that the PAD contribution to total income is only 5.88% or Rp. 46,190,901,674,884. In that year, the level of independence of the districts/cities of North Sumatra Province was classified as very low, showing a pattern of instructive relations with the central government. The contribution of funds from the central government through the Balancing Fund is very dominant, namely Rp. 7,848,508,336,992 of total regional income.
- b. In 2023, the North Sumatra Province Regency/City independence ratio will decrease by 0.73% from the previous year to 5.15%. This decrease was caused by PAD and total income increasing to 49,333,776,888,128 and 9,570,226,151,361. However, the independence of the districts/cities of North Sumatra Province is still relatively low, showing a pattern of instructive relationships with the central government.

Level of effectiveness of North Sumatra Province Regency/City PAD the 2022-2023 fiscal year is described as follows:

- a. In 2022, the effectiveness ratio of the District/City of North Sumatra Province will be 104.71%. The financial performance of the Regency/City of North Sumatra Province based on the PAD effectiveness ratio is classified as very effective because it is in the range of more than 100%. This illustrates that the achievement of PAD in 2022 exceeds the target set at Rp. 44,112,852,715,713. PAD realization in 2022 is IDR. 46,190,901,674,884, while the target set was IDR. 44,112,852,715,713.
- b. In 2023, the effectiveness ratio of the District/City of North Sumatra Province will increase by 6.48% from 2022, namely to 111.19%. The financial performance of the Regency/City of North

Sumatra Province in 2023 based on the PAD effectiveness ratio is classified as very effective. The realization of PAD for the Regency/City of North Sumatra Province has succeeded in exceeding the PAD target set based on regional regulations of IDR. 98,442,632,628 from the total PAD budget of Rp. 44,368,554,832,331. PAD realization in that year increased by 6.48% from 2022.

Analysis of District/City Efficiency of North Sumatra Province in the 2022-2023 fiscal year is described in the following discussion:

- a. In 2022, the North Sumatra Province Regency/City PAD efficiency ratio will be 9.5%. The financial performance of the Regencies/Cities of North Sumatra Province based on PAD efficiency this year is classified as very efficient, because the PAD efficiency ratio is in the range of >10%. This efficiency shows that the Regency/City of North Sumatra Province in obtaining PAD has succeeded in reducing the costs incurred. The cost of collecting PAD in 2022 is IDR. 44,112,852,715,713 or 9.5% of the total realized PAD, namely Rp. 46,190,901,674,884.
- b. In 2023, the PAD efficiency ratio of the Regency/City of North Sumatra Province will be 8.9% or a decrease of 0.6% from 2022. So that in 2023 the financial performance of the Regency/City of North Sumatra Province based on the PAD efficiency ratio is classified as very efficient, because it is in the range below 10%. The cost of collecting PAD this year is IDR. 44.368.554.832.33.

Discussion

Based on previous research methods, financial performance in terms of analysis of effectiveness ratios, efficiency ratios and independence ratios in financial management of village fund allocation (2018-2021) shows that there are similarities in this research, namely that the ratios analyzed have increased significantly. However, this increase cannot necessarily be categorized as an indication of good performance. These results are in line with previous research which found that although there was an increase in the effectiveness ratio, efficiency ratio, and independence ratio, other factors such as operational efficiency and cost management also need to be considered to provide a more accurate picture of village financial performance.

Current research which analyzes the financial performance of Regional Original Income (PAD), General Allocation Funds (DAU), and Special Allocation Funds (DAK) based on the ratio of independence, effectiveness and efficiency in districts/cities throughout North Sumatra Province also shows an increasing trend these ratios. However, from an agency theory perspective, an increase in this ratio does not automatically reflect good performance or the best interests of the main stakeholders, namely the community and local government.

Connecting these findings with agency theory, research in North Sumatra relating to the analysis of financial performance of Regional Original Income (PAD), General Allocation Funds (DAU), and Special Allocation Funds (DAK) in districts/cities throughout North Sumatra Province shows that Even though there is an increase in the ratio of independence, effectiveness and efficiency, this does not always mean that the regional government's financial performance is good overall. As

in previous research, increasing these ratios needs to be analyzed further by considering other factors that can influence overall financial performance.

Therefore, further analysis is needed to ensure that the increase in the ratio of effectiveness, efficiency and independence truly reflects an increase in long-term value and benefits for society. This involves a more comprehensive assessment that considers both operational and managerial aspects, as well as ensuring that the principal's long-term interests are not sacrificed for the agent's short-term gains. In this way, the research results can provide a more accurate and holistic picture of financial performance at both the village and district/city levels.

Suggestion

The author realizes that this research is not free from errors and shortcomings due to the limitations experienced while carrying out this writing, therefore the suggestions that can be given for research related to the performance of Regional Government are:

1. Regional governments should increase collection, supervision and control efforts as well as increase human resources (HR) managing PAD.
2. Regional governments must continue to increase and optimize regional original income (PAD), as well as pay attention to government performance so that a good level of effectiveness can be maintained consistently and can help in efforts to increase the efficiency of regional financial management.

4. Conclusion

Based on the analysis and discussion that has been described, the author obtains the following conclusions:

- a. The Regency/City Independence Ratio of North Sumatra Province from 2022 to 2023 is classified as very low and shows an instructive relationship pattern.
- b. The average PAD effectiveness ratio for districts/cities in North Sumatra Province is 107.95%. This shows that the financial performance of the Regency/City of North Sumatra Province based on the PAD effectiveness ratio is classified as very effective.
- c. The financial performance of the Regency/City of North Sumatra Province for the 2022-2023 fiscal year based on the PAD efficiency ratio is classified as very efficient with an annual average of 9.2%.

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