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**FINANCIAL MANAGEMENT AS THE SUCCESS MEASUREMENT
OF FINANCIAL PERFORMANCE OF REGIONAL
GOVERNMENT**

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ABSTRACT

This research aims at to analyze, study, and find out of the financial performance of regional governments in eastern Priangan through the optimization of financial management. This research uses descriptive and verification approaches, the research method used is descriptive survey and explanatory survey. A sample of this study is 180 Regional Work Unit (SKPD). The method of analysis in this study is Path Analysis. The results show that the financial performance of local governments in East Priangan can be increased by optimizing the financial management.

INTRODUCTION

Many of the financial performance of regional governments are still in the category of a qualified opinion, it means that it is not fulfilled yet the criteria that set by the State Audit Agency (BPK) based on the Government Accounting Standards and based on the legislation in force. By looking at the findings of the examination of the State Audit Agency (BPK) on Regional Government Financial Reports and most opinions given are Fair With Exceptions, therefore it shows that the financial performance of regional governments has not been optimal in Regional financial management. As stated by Mardiasmo (2004) that one of the aspects of the regional governments that should be regulated carefully is the issue of regional financial managements and regional budgets. Related to financial management, then in accordance with the mandate set out in article 3, paragraph (1) of Law Number 17 of 2003 on State Finances are managed orderly, and are obedient to laws and regulations, efficient, economical, effective, transparent and accountable with respect to the sense of justice and propriety. The research question in this study is how financial performance of Regional Government is affected by the financial management in East Priangan. The purpose of this study is to provide an overview and explain the relationship of the financial performance with the financial management. The advantage of this study is to develop the science of management regarding financial management. The advantage for the Regional government is that it can improve Financial Performance of The Regional government by optimizing the financial management. It encompasses the use of the budget, the financial administration (administrative procedures of financial receipts/payments of cash), and reporting or accounting procedures. Ahmad Yani (2013) argues that “financial management is the overall activities that include planning, implementation, administration, reporting, accountability, and regional financial oversight. Suhadak (2007) argues that “the problem of financial management and regional budget is an aspect that must be regulated carefully by the regional government”. Regional financial management is the overall activities that include planning, implementation, administration, reporting, accountability, and regional financial oversight were a very important aspect in regional financial management.

In addition, Financial Performance of the Regional Government is one measure that can be used to look at the regional ability in carrying out regional autonomy. Indra Bastian (2006) states that financial performance is an overview about the level of achievement of the implementation of an activity or program or wisdom in realizing the goals, objectives, mission and vision of the organization as stated in the formulation of strategic planning (strategic planning) a general organization, the performance is achievement which can be achieved by the organization in a certain period. While Mahsum (2006) states that “The financial performance of government is an overview of the level of achievement of the implementation of an activity/program/policy in achieving the goals, objectives, mission and vision of the organization as stated in the strategic planning of an organization”.

To achieve good financial performance it is determined in the financial management undertaken. This is in accordance with Article 4 of the Government Regulation No. 105 of 2000 which point out that regional financial management should be carried out in orderly, law-abiding, efficient, effective, transparent and responsible manner by taking into account the principles of justice and propriety.

From the study of theory and framework can be portrayed the relationship between the variables studied as follows:

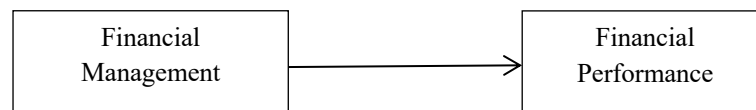


Figure 1. The Framework of The Variable Relationship

This picture describes that to achieve good financial performance is determined by the financial management. Financial management should be carried out in orderly, law-abiding, efficient, effective, transparent and responsible manner by taking into account the principles of justice and propriety.

The submitted hypothesis is financial management which strongly influences financial performance.

OBJECTIVES

This study aims to analyze, assess, identify and give an overview of the capabilities of Regional Government in Eastern Priangan in improving financial performance by optimizing financial management.

MATERIALS AND METHODS

This study uses descriptive approach and verification, the research method used in this study is a descriptive survey and explanatory survey. The descriptive survey is conducted to gain an overview of the variables studied. While the explanatory survey is used to obtain a causal relationship between the variables studied by testing the hypothesis based on the data obtained in the field. In this study, the unit of analysis is the regional and city governments at East Priangan and the observation unit is The Chief of Regional Work Unit (SKPD), it takes 180 Regional Work Unit (SKPD). To obtain quantitative research data used questionnaires to 180 respondents and conduct interviews to an expert to produce qualitative data.

The analysis method of this study is Path Analysis to analyze the data descriptive and verification.

1. Results

DESCRIPTIVE RESULTS

FINANCIAL MANAGEMENT is measured with the 19 item statement by 4 (four) dimensions, namely: 1) planning, 2) administration, 3) accountability and 4) supervision. As in table 4:15 there are the results of 19 submitted statement items to measure variables of financial management. Based on data collection that refers to the questionnaire, obtained a score range of values for the variables financial management of data represented by 19 statement items to 180 Regional Work Unit (SKPD). The description of the respondents to the variable financial management which consists of 19 statement items with details of frequency as follows: Number of items answering respondents are stated respond a scale of 1 is 1.401 percent, respond a scale of 2 is 0.96 percent, respond the third scale of 7.63 percent, respond a scale of 4 is 24.89 percent, and respond scale of 5 is 91.78 percent. This means that the data is scattered from the smallest to the largest, with an average value of 3.326 with a standard deviation of 0.861 with response categories that are in the range of 2.465 to 4.187 with low criteria towards the better. Looking at the average score of each dimension, it is noted that: 1) the dimensions of planning gain value by an average of 2.854 with the criteria fairly well, 2) the dimensions of administration obtained an average value of 3.765 with the criteria fairly well, 3) the dimensions of accountability gain value an average of 3.681 with the criteria fairly well, and 4) the dimensions of surveillance obtain an average value of 3.524 with the criteria fairly well. Of the four dimensions mentioned above, dimension planning derives the lowest average value of 2.854. It can be seen from several aspects, namely: statement item no. 5 is applied the principle of Discipline In planning, the Regional Government Budget plan must be submitted according to the schedule specified time so that need to be considered when drafting and authorization, with an average value of 2.448, no.7 statement item that is in principle applicable planning priorities, namely budgeting is striving to sharpen the primacy of the use of funds available to finance programs and activities with an average value of 2.517, the statement item no. 6 In planning applied the principle of flexibility, namely because it was realized that the budget is still basically a plan so that in practice it is possible to changes in the average value of 2,810 and statement item No. 2 is In planning applied the principle of comprehensive, all the activities to be carried out and has a financial consequence to be included in the budget with an average value of 2.871. While the dimensions of which have the highest average value are the dimension of the administration with an average value of 3.765. It can be seen from several aspects, namely: item No.10 statement that any expenditure recorded in the books with average values of 3.858 and statement item No. 11 any regional assets recorded in the books with an average value of 3.858.

Financial Performance Financial Performance was measured by 19 items of statements with four (4) dimensions, namely: 1) Compatibility with SAP, 2) Adequacy of Disclosure, 3) Obedience to laws and regulations, and 4) the effectiveness of controls. As presented in the tables 4.16, it shows the results of 19 items of statements filed to measure financial performance variables. Based on data collection that refers to the questionnaire, it shows that a score range of

data values for the variables of financial performance which is represented by 19 items of statements for 180 SKPD. The overview of the respondents' responses to the financial performance variables consisted of 19 items of statement with details of frequency as follows: The respondents who answered a scale of 1 is 1.11 percent, answered a scale of 2 is 0.52 percent, then those who answered a scale of 3 is 6,89 percent, answered a scale of 4 is 49.52 percent, and the respondents who answered scale of 5 is 68.63 percent. This means that the data is scattered from the smallest to the largest, with an average value of 3.343, the standard deviation of 0.891, with response categories that are in the range of 2.452 to 4.234, and with low criteria towards the better. Referring to the average score of each dimension, it is noted that: 1) the dimension of compatibility with government accounting standards obtained an average value of 3.562 with the adequately good criteria, 2) the dimensions of obedience with laws and regulations obtained an average value of 3.426 with adequately good criteria, 3) the dimensions of the adequacy of disclosure obtained an average value of 3.407 with the fairly well criteria, and 4) the dimensions of internal control effectiveness obtained an average value of 3.023 with the fairly well criteria.

Based on those four dimensions aforementioned, those revealed that the effectiveness dimensions obtained the lowest average value for 3023. It can be seen from several aspects covering: an item of statement no. 18. It says that all assets have been protected against loss caused by the taking over, the extrication or the use of the rights of the unauthorized average value of 2.465. Then, the item of statement no.17. It says that the whole transaction has been summarized adequately for the preparation of financial statements in conformity with accounting principles which generally accepted with an average value of 2.871. On the other hand, the dimension which had the highest average values was the dimension of compatibility with governmental accounting standards in which it reached the average value of 3,562. It can be seen from the item statement aspect no. 4, namely recognition of the financial statements with an average value of 3.858.

Table 1. Score Achievement Criteria of Each Variable

Variable	N	Mean	Std. Dev	Range	
Financial management	180	3,326	0.861	2.465	4.187
Financial performance	180	3.343	0.891	2,452	4.234

Source: Data Processing Results

a. Verificative Results

Based on the calculation of correlation and path coefficient values that has been done, the degree of contribution from Regional Financial Management toward Financial Performance was obtained, as can be seen in Table 4.24 below:

Table 2. The Effect of Regional Financial Management toward Financial Performance

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	DF1	DF2	Sig. F Change
1	,839 ^a	,703	,702	5.26396	,703	422.204	1	178	.000

a. Predictors: (Constant), Financial Management

Source: Data Processing Results

Variable path analysis results of the Financial Management toward Financial Performance can be described in Figure 4.3 below:

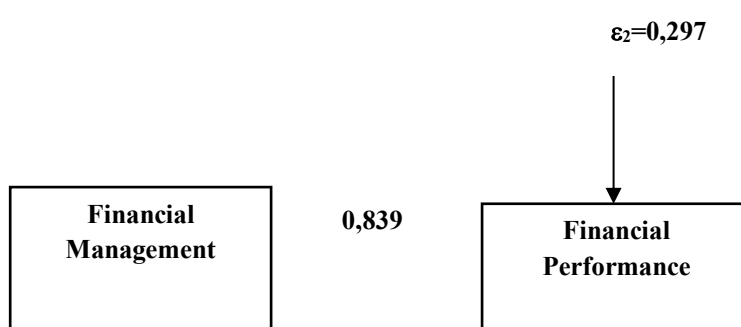


Figure 2. The Effect of Regional Financial Management toward Financial Performance

Based on Figure 2, then the equation tracks were presented as follows:

$$Z = \rho_{zy} \cdot Y + \varepsilon_2$$

$$Z = 0,839 Y + \varepsilon_2$$

Where:

Y = Financial Management

Z = Financial Performance

Based on the calculation of correlation and path coefficient value that has been done, the results showed that degree of contribution from the Financial Management toward the Financial Performance is 0.839. Thus, the better the Financial Management, the better Financial Performance with a contribution value of 0.839. The Effect of Financial Management toward Financial Performance was 0,703. This indicated that the Financial Performance was affected by the Financial Management of 70.3%, it means that the higher the level of Financial Management, the better the Financial Performance, since the high level of Financial Management will create a good Financial Performance.

DISCUSSION FINANCIAL MANAGEMENT

Based on of the processing of descriptive data results, the Regional Financial Management variables are in the low criteria for the better. Measurement of Regional Financial Management Variables refers to Ahmad

Yani' theory (2013, p. 348) with four dimensions: 1) planning, 2) administration, 3) accountability and 4) supervision.

Regarding the average score of each dimension, it is noted that: 1). Dimensional planning with the adequately good criteria, 2) the dimensions of administration with the adequately good criteria, 3) dimensions of accountability with the adequately good criteria, and 4) the dimensions of supervision with the adequately good criteria. Among those four dimensions, the dimension which gains the highest average value is the dimension of administration. Meanwhile, the lowest dimension was the planning dimension. This is because there are some aspects of the planning which are still lower in its implementation, such as the implementation of the principle of discipline that is still lacking implemented, the budget planning has not been on time in accordance with the schedule that has been set, the implementation of the principle of priority in the budget planning has not been fully implemented, as well as inflexible principle and comprehensive have not been yet fully held. The same case is expressed by the expert judgment Prof. Dr. Sadu Wasistiono, M.Si, that planning in financial management was still low. According to him, there are several reasons that become the cause, those are: 1) the inconsistency between long-term planning, medium-term and short-term national planning, 2) Parliament has always asked for rations of unplanned reasons aspirations of the community, and 3) planning is made not based on needs but based on desire. Meanwhile, according to Dr. Iwan Saputra, MM, the lack of planning is caused due to in planning, the principle of 3 E (Efficient, Economical and Effective) has been not fully applied. Besides, their unfamiliarity with the rules also become one of the causes.

FINANCIAL PERFORMANCE

Based on the processing of descriptive data results which show that a variable of the Regional Financial Performance is on good criteria. Measurement of Financial Performance Variables referring to the Law No. 15, 2006 consists of four dimensions, namely: 1) compatibility with the Government Accounting Standards, 2) adequacy of the disclosure, 3) Obedience to laws and regulations, 4) Internal control effectiveness. The overview of financial performance variable, the results of research from the whole respondents appreciates the performance of regional finance in which it is in good enough category. It can be seen from 1) compatibility with Government Accounting Standards, this can be seen from the components of financial statements prepared in accordance with government accounting standards, financial statements made by the qualitative characteristics of financial statements, and the financial statements is based on the financial statements, 2) Obedience to laws and regulations, it can be seen that the financial statements are arranged as the implementation of other laws and regulations concerning responsibility of financial management, 3) the adequacy of disclosure, this can be seen with the disclosure in the notes to the financial statements. From the data processing results, the highest variable dimensions of financial performance lie in the dimension of compatibility with government accounting standards, while the lowest dimension is the dimension of the effectiveness of internal control. Moreover, the low aspect is on: the asset

is not yet fully protected from loss caused by invalid taking over, the use or extraction of rights and all transactions have not been summarized adequately to the financial statements. As proposed by *the expert judgment*, Dr. Iwan Saputra, MM, that the low effectiveness of controls which are caused not mastering financial rules therefore there are often the findings found, administration of assets that have not been managed properly which resulted in the assets that are difficult to explore, so that it leads to the differences in the value of assets listed in the balance with the inventory book.

That condition is in accordance with the results of observation, analysis, and interviews with some of the heads of SKPD in which the weakness of the internal control system is caused by a) the planning of activities is inadequate, b) deviation of the legislation in the certain technical field or the provision of internal organization examined about revenue and expenditure, c) determination/implementation of policy is not appropriate or have not been implemented so that it leads to the loss of potential revenue/income, d) the mechanism of collection, remittance and reporting. Besides, the use of state revenues and grants are not in accordance with the provision, e) determination/implementation of policy is not accurate or has not been performed resulted so that it leads to the rise of costs /expenditure, and f) the implementation of expenditure out of the budget mechanism. Based on the result of weaknesses, there are still many local governments that obtain reasonable opinion with the exception. Therefore, it shows that the regional financial performance is still not optimal.

CONCLUSION

The financial performance of local government in the eastern region of Priangan still obtains qualified opinions so that they try to improve it by optimizing financial management. With financial performance which improves through optimal financial management is expected to be able to improve the welfare of the community. To optimize financial management, it should be consistent with long-term planning, short-term and national planning. Planning should be made based on the needs, as well as in making the planning it must apply the efficiency, economical and effective principle.

This methodology is not limited only in one area, it can be implemented in another regional governments area. For further research, it is suggested to work on the same topic but in different regional governments area.

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