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## ANALYSIS OF CENTRAL GOVERNMENT FINANCIAL PERFORMANCE BASED ON LKPP

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### **ABSTRAK**

*The objectives of the Central Government Financial Performance Analysis based on LKPP 2015 to 2019 are as follows: Comparing financial ratios based on government financial reports from the 2014 to the 2019 period. Find out more about the financial performance of the central government during one period of government leadership. Find out more about the condition of government debt, which is currently a hot issue among the public. Knowing that Indonesia's economic development is linked to the government's financial performance. The research approach used is quantitative, which means it emphasizes systematic calculations. The Result The Indonesian government's tax ratio ranged above 10 percent during the last presidential term. However, it should be noted that the government needs other efforts to increase this ratio to 15% as is the international standard*

**Keyword:** state financial performance, central government financial reports, financial management.

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## INTRODUCTION

Indonesia is an archipelagic country with a large population. Unique geographic and demographic characteristics make the implementation of public interests more complex and full of challenges. This has implications for the size of the budget that the government must spend to finance all strategic programs in the public interest. In simple terms, the policies that can be chosen then leave two options, namely increasing revenues or reducing expenditure.

The main source of government income comes from the taxation sector, which is levied on certain activities and/or objects. Based on the central government's financial report, the amount of tax revenue that was realized in 2019 was more than 1,546 trillion Rupiah or 86.55% of the target set. With a percentage of that size, the government is expected to be able to meet all needs effectively and efficiently.

The Indonesian government has an expansive state budget policy. This means that the government will maximize government spending, especially capital spending, which has a big impact and provides long-term benefits. In the end, this policy will cause the budget to become a deficit. To cover the deficit, the government then borrows through the issuance of debt securities and/or loans. Existing policies have been implemented during one leadership period. It is interesting to know the financial performance of the central government in this period so that an assessment can be carried out to obtain adequate conclusions.

The Indonesian government's funding or debt activities are a topic that is always hotly discussed. Starting from political elites, businessmen, even discussions in coffee shops sometimes do not escape discussing the issue of state debt. In general, the public only knows that the Indonesian government has a large and mounting state debt. Meanwhile, based on assessments from several international financial organizations, Indonesia's government debt still has a relatively lower ratio compared to other countries in the world. As if it were contradictory, this then became a subject that always gave rise to debate. Financial performance is less relevant if an assessment is made based on one aspect of the financial report. It is necessary to carry out a thorough analysis of the financial reports to find out the real financial performance.

Based on this, the author is interested in conducting a Central Government Financial Performance Analysis Based on LKPP from 2015 to 2019, to determine the condition of the government's financial performance in one leadership period.

From the existing background, the author formulates the problems that will be researched, including:

- a. What is the condition of the financial ratios based on government financial reports from the 2014 to 2019 period?
- b. How was the financial performance of the central government during one period of government leadership?
- c. What is the condition of government debt, which is currently a hot issue among the public?
- d. What will Indonesia's economic development look like if it is linked to the government's financial performance?

The objectives of the Central Government Financial Performance Analysis based on LKPP 2015 to 2019 are as follows:

- a. Comparing financial ratios based on government financial reports from the 2014 to the 2019 period.
- b. Find out more about the financial performance of the central government during one period of government leadership.
- c. Find out more about the condition of government debt, which is currently a hot issue among the public.
- d. Knowing that Indonesia's economic development is linked to the government's financial performance.

## **LITERATURE REVIEW**

### **Central Government Financial Report**

One concrete manifestation of implementing transparency and accountability is through the preparation of relevant and reliable government financial reports, which are prepared based on Government Accounting Standards (SAP) and an accounting system that provides procedures for processing transactions to become financial reports.

Central Government Financial Reports are financial reports prepared by the Central Government in the context of transparency and accountability for the implementation of the State Revenue and Expenditure Budget (APBN).

#### Accounting Standards

In 2006 at the Xth IAI (Indonesian Accountants Association) congress in Jakarta it was determined that full IFRS convergence would be completed. This means that the standards applicable in Indonesia will lead to the International Financial Reporting Standards (IFRS) which were formed by the International Accounting Standard Board (IASB) based in London, England.

The IFRS approach focuses more on the business or economic objectives of a transaction and the underlying rights and liabilities. Apart from providing rules, IFRS provides guidance in the form of principles. IFRS is very flexible because it follows current developments, with the very rapid development of the economic level, IFRS principles are very useful for users of financial reports. Until the end of 2008, the number of IFRS adopted had only reached 10 IFRS standards out of a total of 33 standards.

#### Government Accounting Standards

Government Accounting Standards (SAP) are accounting principles applied in preparing and presenting Government Financial Reports consisting of Central Government Financial Reports (LKPP) and Regional Government Financial Reports (LKPD). The main financial reports according to Government Accounting Standards are the Budget Realization Report, Balance Sheet, Cash Flow Report and Notes to Financial Reports.

#### Financial Ratios

Financial ratios are the activity of comparing numbers in financial reports by dividing one number by another number. Comparisons can be made between one component and another component in one financial report or between components in financial reports. The results of these financial ratios are used to assess management performance in a period. The focus of the ratios used for analysis are ratios that are related to the cash flow report.

## METHOD

The research approach used is quantitative, which means it emphasizes systematic calculations. This approach is then supported by a research design in the form of a comparison of past (historical) data. Research is enriched with library methods which obtain information from all forms of libraries such as books, standards, regulations and related articles. The review is carried out using financial ratios that are relevant to assessing financial performance.

### Population and Sample

The population taken for this research is the Central Government Financial Report. The sample is then drawn from the existing population. To present relevant research results, the sample chosen was the 2015-2019 audited central government financial report.

### Types and Techniques of Data Analysis

Financial report data is obtained from the official government website, namely [www.kemenkeu.go.id](http://www.kemenkeu.go.id) in the publications section. On this website there are central government financial reports from year to year. Apart from that, the author also uses GDP data obtained through the publication of state income via the official website of the Central Statistics Agency, namely [www.bps.go.id](http://www.bps.go.id). In conducting data analysis, the author uses financial ratios which are used to assess the figures contained in the central government's financial reports. Financial ratios are then compared to assess the level of ratios in each year's financial reports.

## RESULTS AND DISCUSSION

### Financial Ratios

Financial ratio calculations have been carried out in the 2014 to 2019 Audited central government financial reports with the following results.

Ratio Keuangan										
	Liquidity Ratio	Solv Ratio.	(debt to Equity) Solv Ratio.	(debt to assets) Debt to GDP	ratio Income effectiveness	Ratio Income Growth	Ratio Expenditure	Growth Ratio	Tax Ratio	
2015	69,64%	209,22%	67,66%	30,31%	85,08%	91,05%	-2,74%	1,65%	11,64%	
2016	78,62%	248,25%	71,29%	31,37%	86,70%	89,50%	3,18%	3,20%	10,88%	

2017	56,75%	286,03%	74,09%	32,43%	95,49%	94,10%	7,10%	7,67%	10,70%
2018	58,35%	349,30%	77,74%	33,14%	101,83%	99,66%	16,64%	10,25%	11,45%
2019	69,80%	104,15%	51,02%	33,73%	90,32%	93,83%	0,87%	4,35%	10,74%

Based on the table above, the analysis of financial ratios is as follows:

- Liquidity Ratio

Liquidity ratios provide information about an entity's ability to meet short-term obligations. Liquidity Ratio is calculated by dividing Current Assets by Current Liabilities. Liquidity Ratios are a standard measure of assessing an entity's finances.

If you look at the calculations carried out, the highest liquidity ratio data was found in 2016, namely 78.62 percent, and the lowest liquidity ratio was in 2017, namely 56.75%. This ratio shows that the government had the best ability to finance its needs in 2016 and had the lowest ability in 2017.

- Solvency Ratio (Debt to Equity)

Solvency Ratios provide information about the extent to which the acquisition of an entity's assets is financed. In broad terms, it can be interpreted that this ratio is used to measure an entity's ability to fulfill its obligations. In addition, this ratio is useful for assessing the balance between the value of assets, liabilities and equity. Solvency Ratio is calculated by dividing Total Liabilities by Total Equity or Total Assets.

Based on the calculations that have been carried out, the results show that the government's highest solvency ratio (debt to equity) occurred in 2018 with a value of 349.30%, while the lowest value occurred in 2019 with a value of 104.15%. Then, if you look at the solvency ratio (debt to assets), the results show that the highest value occurred in 2018 with a value of 77.74% and the lowest value occurred in 2019 with a value of 51.02%.

- Debt to GDP Ratio

Based on Law Number 17 of 2003, the government is mandated to maintain the debt to GDP ratio at below 60%. This refers to the Maastricht Treaty which is the law for European Union countries. The pact explains that the APBN deficit must be below 3 percent and government debt not more than 60 percent. The Indonesian government then

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adopted it in Law Number 17 of 2003 to provide guidelines regarding state debt management.

The debt ratio calculation in this research refers to the debt value contained in the LKPP. This ratio is calculated by dividing the value of liabilities listed on the LKPP by GDP. If you look at the calculation results, the results show that the highest ratio occurred in 2019 with a value of 33.73% and the lowest value occurred in 2015 with a value of 30.31 percent.

- **Revenue Effectiveness Ratio**

The effectiveness ratio describes the government's ability to realize state income other than grant income with targets set based on real potential. The effectiveness ratio measures the success of government programs by assessing whether the output produced is in accordance with what was previously determined. The Income Effectiveness Ratio is obtained by comparing the realization of income other than grants with the target income other than grants.

Based on the results of the calculations carried out, the result was that the effective income occurred in 2018 with a value of 101.83% and the least effective result occurred in 2015, namely only around 85.08%. It is interesting to see that effective government revenue only occurred in 2018. Apart from that year, government revenue did not exceed 100 percent of the target set.

- **Shopping Efficiency Ratio**

The expenditure efficiency ratio is used to measure the level of budget savings made by the central government. The level of efficiency of central government activities can influence the financial performance of the central government by showing whether the central government has used all its production factors effectively and efficiently. There is no standard formula for assessing efficiency, but in measuring government budget performance there is a limit of 90 percent for government absorption at the end of the year. Based on these assumptions, it can be concluded that the budget is more efficient if actual expenditure approaches 90% of the set expenditure target.

Based on calculations, it was found that the most efficient central government spending occurred in 2015 with a value of 91.05% and the least efficient occurred in 2018 with a

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value of 99.66%. Government spending in 2016 can be said to be poor because it did not meet the year-end budget absorption standard of 90%.

- Revenue Growth Ratio

This ratio is used to assess improvements in government revenue performance. If the ratio shows positive results then the realization of government revenue can be said to have increased every year. Vice versa, a ratio with negative results indicates a decline in the government's revenue realization performance. The growth ratio is measured by calculating the difference in realized income for this year and the previous year and then compared with the realized income for the previous year.

Based on calculations, the results showed that the government's highest revenue growth ratio occurred in 2018 with a value of 10.25% and the lowest ratio occurred in 2015 with a value of -2.74%. The results of these calculations show that realized income in 2015 decreased compared to the previous year.

- Expenditure Growth Ratio

Government spending has an important influence on Gross Domestic Product (GDP). The growth in government spending will more or less contribute to economic growth through its role in GDP calculations. In general, this ratio increases from year to year, influenced by inflation, exchange rates and adjustments to macroeconomic factors. The spending growth ratio is measured by calculating the difference in actual spending this year and the previous year and then comparing it with the actual spending in the previous year. The realization of spending growth will also encourage national economic growth. From this, it can be concluded that government spending performance can be said to be good if actual spending experiences growth in line with the increase in national GDP.

Based on calculations, the results showed that the highest spending growth ratio occurred in 2018 with a value of 10.25% and the lowest ratio occurred in 2015 with a value of 1.65%. GDP has increased from year to year, so it can be concluded that the growth in government performance is in line with the increase in GDP.

- Tax Ratio

Tax ratio measures the government's ability to collect taxes from the total economy, on the basis of total gross domestic product. The size of the tax ratio shows how capable the

government is of financing needs that are the responsibility of the state. The ideal standard for the tax ratio is 15 percent. The tax ratio calculation uses a comparison of tax income plus natural resource royalty income divided by gross domestic product.

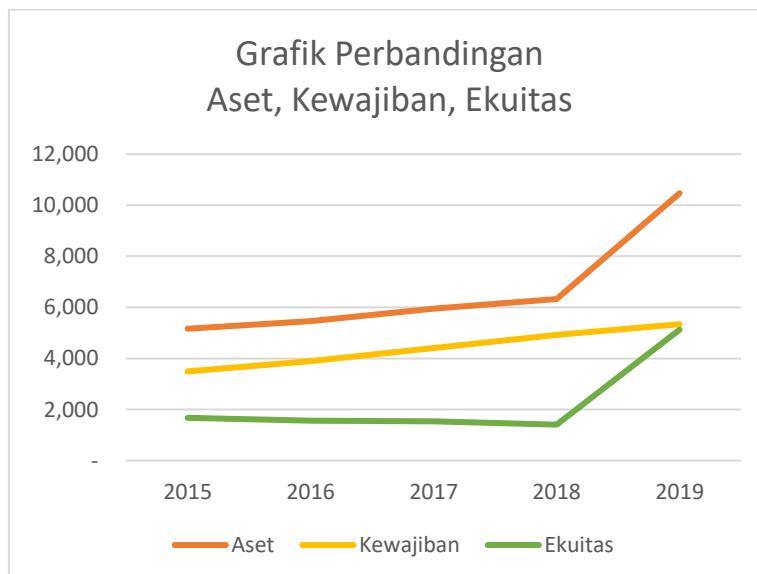
Based on calculations, the results showed that the highest value of the tax ratio occurred in 2015 with a value of 11.64% and the lowest ratio occurred in 2017 with a value of 10.70%. From these results, the tax ratio is not considered ideal because from year to year it is still below 15%.

#### Increase and Decrease in Balance Sheet Components

The following is an overview of the Balance Sheet in the Central Government Financial Report

	Current Assets	Total Assets	Current Liabilities	Total Liabilities	Equity
2015	326,75	5163,32	469,23	3493,53	1669,79
2016	304,61	5456,88	387,44	3889,95	1566,93
2017	336,81	5947,84	593,45	4407,05	1540,78
2018	437,88	6325,28	750,5	4917,48	1407,81
2019	491,87	10467,53	704,68	5340,22	5127,31

#### Comparative chart of Assets, Liabilities and Equity



Based on the graph, it shows that assets and equity experienced a significant increase in 2019. If you look further at the 2019 LKPP, you can find information that the significant increase in assets and equity was caused by a revaluation of assets on government-owned land. Valuation of assets based on historical value requires periodic revaluation of assets to obtain an asset valuation at fair value. This is expected to produce relevant financial reports.

The number of assets has increased from year to year. Indicates that the government's performance in generating assets tends to increase. The amount of liabilities has increased from year to year. The composition of liabilities and equity also tends to increase based on the solvency ratio (debt to equity). The composition of liabilities over equity experienced a decline in 2019 due to a significant increase in assets as a result of asset revaluation. However, the resulting ratio is still above 100 percent. This indicates that the government uses more debt to generate assets. Even though debt is still within safe limits as per the debt to GDP ratio, the government needs to be alert to the amount of liabilities which is always increasing.

#### Audit Opinion

The Central Government's Financial Reports received the title of Fair Without Exception starting in 2016 and successively obtained the same results until 2019. This shows that the financial reports are considered to provide information that is free from material misstatement. The auditor believes that based on the audit evidence collected, the company/government is deemed to have implemented generally accepted accounting principles well, and even if there are errors, the errors are considered immaterial and do not have a significant impact on decision making.

The following is a table of the Financial Audit Agency's opinions on the Central Government's Financial Reports during one period of presidential leadership from 2015 to 2016.

Tahun	Opini BPK
2019	Reasonable Without Exceptions
2018	Reasonable Without Exceptions
2017	Reasonable Without Exceptions

2016	Reasonable Without Exceptions
2015	Reasonable With Exceptions

The Government's performance in presenting financial conditions has increased since 2016, marked by the acquisition of WTP opinions on LKPP. WTP's opinion on LKPP can then be maintained until 2019.

## CONCLUSION

From the research that has been carried out, the author can draw several conclusions as follows:

- The highest Liquidity Ratio in Government Financial Reports occurred in 2016 with a value of 78.62%. The higher the liquidity ratio, the more capable the government will be of meeting its operations and current obligations. In this period, the liquidity ratio value was still below 100%.
- The highest Solvency Ratio in Government Financial Reports occurred in 2018, where the debt equity ratio was around 348.30% and the debt to asset ratio was 77.74%. The composition of debt to capital is more dominant, this needs special attention for the government.
- The debt to GDP ratio based on LKPP liability data for the 2015 to 2019 period is around below 40%. This is still in accordance with the standards set by Law Number 17 of 2003 which requires debt at a ratio of 60% to GDP.
- Income always increases from year to year, as does the income target. Based on the revenue effectiveness ratio, only in 2018 will government revenue reach the target. This needs to get the government's attention so that it can find a solution to achieve the income target without having to reduce the target set.
- The highest government spending efficiency ratio occurred in 2015, where spending was less but was at a standard above 90% as per the guidelines for calculating budget implementation indicators. However, it should be emphasized that this ratio does not take into account the output achieved.

- The government's Revenue Growth Ratio has been positive in the last 4 years. Negative growth only occurred in 2015 with the highest growth rate occurring in 2018 with a value of 16.64%.
- Expenditure Growth Ratio is always growing. This is characterized by a ratio value that is always positive. The highest increase in spending occurred in 2018 with a value of 10.25%. Government spending is directly related to GDP, so it is necessary to maintain the growth of government spending so that it can support economic growth in Indonesia.
- The Indonesian government's tax ratio ranged above 10 percent during the last presidential term. However, it should be noted that the government needs other efforts to increase this ratio to 15% as is the international standard.

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