REGIONAL INVESTMENT FINANCIAL REPORT ANALYSIS IN BADUNG REGENCY

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ABSTRACT

The purpose of this study was to analyze the effect of financial reports through symmetric information on increasing investment in Badung Regency, Bali Province. This study was designed using quantitative research methods on data sourced from reports on budget realization and income, reports on changes in excess budget balances, balance sheets, operational reports, reports on changes in equity, cash flow reports, and notes to financial statements from 2016 to 2020. The results of the study found that the liquidity ratio is 6.09, the solvency ratio is 0.017, the activity ratio is 27.83, the profitability ratio consists of ROI-6.77 and ROE-0.22, and the ratio of direct spending to indirect spending is 0.88. Specifically, for the investment in capital-output ratio-ICOR, it was found that the average economic growth per year was 5.29 percent. Based on the results of this study, it can be suggested to the Badung Regency Government that (a) the collection of tax and levy receivables be more optimized, (b) there needs to be a policy regarding the budget deficit, (c) increase direct spending at least equal to or more than the apparatus expenditure, and (d) further improve operating cost efficiency. In addition, spending on grants and social assistance should be more directed at spending on goods and services that are truly vital and strategic.

Keywords: *liquidity, solvency, activity, profitability, direct spending, and ICOR*

A. INTRODUCTION

Under Government Regulation Number 58 of 2019 concerning Regional Finance, it mandates that good regional financial management is financial management based on the principles of transparency, accountability, and participation, both at the planning and budgeting stages, implementation, and administration, as well as regional financial accountability.

The planning and budgeting stages use the performance approach. A characteristic of this approach is the process of clarifying the budget by activity as well as by the organizational unit. The budget that has been grouped into activities will make it easier for interested parties to measure performance.

The implementation and administration stage is a process that is bound by various applicable laws and regulations. The process of implementing and administering regional finances in practice must also take into account the performance that has been determined in the APBD. This process must be in line with the performance indicators that have been agreed upon in the APBD document. Thus, the planned budget can be in line as it should and must be able to improve coordination of various parties in the preparation of accrual-based financial reports, which is a new thing for local governments.

The stage of regional financial accountability is realized in the form of financial reports. The financial report is a manifestation of strengthening transparency, accountability, and participation. Regarding financial statements, there are at least seven financial reports that must be made, namely balance sheets, budget realization reports, operational reports, and reports of changes in excess budget balances, reports of changes in equity, cash flow statements, and notes to financial statements.

From the background description of regional financial reports as a form of strengthening transparency, accountability, and participation in the implementation of regional revenue and expenditure budgets for five fiscal years, the main issues of regional financial reports can be formulated as follows. What is the quality of the regional financial reports of the Badung Regency Government on investment from 2016 to 2020?

Based on these issues, the purpose of this study is to analyze the effect of quality financial reports through symmetric information on the investment of the Badung Regional Government from 2016 to 2020.

B. THEORETICAL REVIEW

Finance Theory

From an economist's point of view, money is a stock of assets used for transactions. Money is something that is accepted or trusted by the public as a means of payment or transaction. Therefore, money can take any form, but that does not mean everything is money. Economics money has four functions, namely as a unit of account, a means of transaction, a store of value, and a standard for future payments. Through these four functions, money has become an important element of development. So, money needs to be managed properly. Besides that, it also needs to be directed and controlled through fiscal and monetary policy instruments towards the desired economic conditions (Prathama and Manurung, 2008).

Fiscal policy is an economic policy used by the government to manage/direct the economy to a better or desired condition by changing government revenues and expenditures. Thus, fiscal policy has the same objectives as monetary policy. The difference lies in the policy instruments. If in monetary policy, the government controls the money supply; in fiscal policy, the government controls its revenues and expenditures (Prathama and Manurung).

Regarding the quality of good financial reports, financial reports must be result-oriented, professional, proportional, open, and follow the principles of free and independent financial audits. Financial management as far as possible

considers the principle of efficiency, meaning that it does not cause waste that damages the benefit of the region or the welfare of the people. However, in practice, it is still often found that there is duplication of operating expenditure with direct expenditure, especially in non-physical direct expenditure, so that it is difficult to measure. This happened because the allocation of funds did not reflect the actual allocation. Subsidy spending should be directed at vital and strategic expenditures that control the lives of many people, such as subsidies for fertilizers, gas, fuel, and MSMEs. However, in practice, it does not live up to expectations. In addition, control is also often only administrative in nature, so that it is not in accordance with the aims and objectives of the subsidy. The same thing happened to capital expenditures allocated for the purchase of investment needs in the form of fixed assets and other assets. In other spending practices, the majority consists of personnel expenditures, interest expenditures, and official travel expenses, which are not directly related to investment (Anggara, 2016).

Regarding quality financial reports, Astika (2016) says that financial reports are said to be of quality if they are relevant to decision making, control interests, reporting of resources, and the implementation of social functions, can be verified, free from prejudice, and can be measured. Quality financial reports will provide benefits to the entity by reducing operational costs, investment costs, increasing the efficiency and performance of an entity (Yadiati and Abdulolloh, 2017). Astika, Yadiati, and Abdulolloh's statement is following the findings of research conducted by Verdi (2006) on 38,062 companies for 23 years (1980-2003). The findings suggest that quality reports are negatively related to investment costs. That is, the better the financial statements of an entity, the lower the investment costs. The same research was also conducted by Biddle and Hilary (2006) on 34 countries using secondary financial and accounting data during 1999--2004. Biddle and Hilary found that report quality increases investment efficiency through asymmetric information between management (agent) and shareholders (principal). On the other hand, manipulated financial statements and not complying with accounting rules result in non-optimal or high-cost investment decisions (McNichols and Stubben (2008).

Investment Theory

According to Harrod-Domar (1939-1946), every economy has to save some of its income to replace capital goods, such as buildings, machinery, equipment, and raw materials that are shrinking or damaged. However, to spur economic growth, new investment is needed which is a net addition to the capital stock. That is, it is assumed that there is a direct relationship between the total capital stock (K) and the total Gross Domestic Product (GDP=Y). If $3 of capital is required to generate $1 of GDP, this means that every additional net stock of capital in the form of new investments will increase GDP. This positive relationship is called the investment capital-output ratio-ICOR. The ratio of capital to output is k and the ratio of savings to Y is s. This means the amount of new investment is determined by *s*.

The economic growth model according to Harrod-Domar is formulated as follows. The economic growth model according to Harrod-Domar is formulated as follows.

1. Savings (S) is part of a certain amount of income (Y). The equation of saving to come can be written as below.

$$S = sY \quad (1.1)$$

2. Net investment *(I)* is defined as the change in the capital stock *(K)* represented by *ΔK*, so it can be written as follows.

$$I = \Delta K \quad (1.2)$$

Since the amount of capital stock (K), has a direct relationship with the amount of income (Y), it can be written as follows.

$$\frac{K}{Y} = k$$

or $$\frac{\Delta K}{\Delta Y} = k$$

Finally $$\Delta K = k\Delta Y$$

3. Given that net savings (S) must equal net investment (I), the next equation can be written as follows.

$$S = I \quad (1.3)$$

4. From equation: 1.1 it is known that S = sY and from equation: 1.2 and 1.3 it is also known that it can be written as follows.

$$I = \Delta K = k\Delta Y$$

5. Thus, it can be written that the "identity" of saving is equal to investment in equation 1.4

$$S = sY = k\Delta K = \Delta K = I \quad (1.4)$$

or summarized as follows.

$$sY = k\Delta Y \quad (1.5)$$

Furthermore, if both sides of the equation: 1.6 are divided by *Y* then by *k*, we get as below.

$$\frac{\Delta Y}{Y} = \frac{s}{k} \quad (1.6)$$

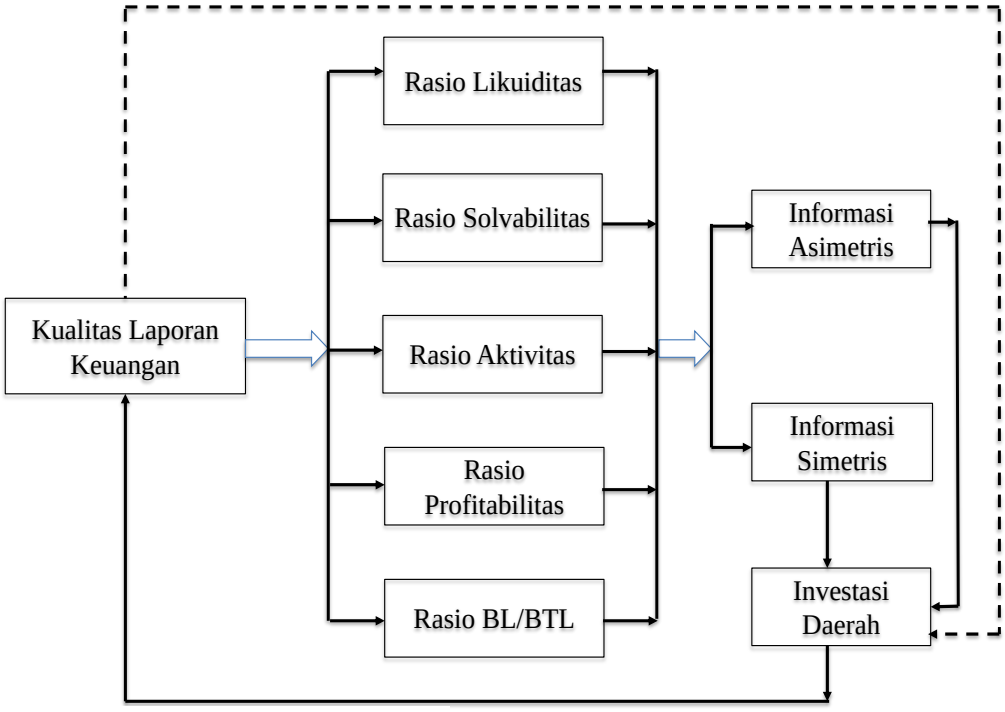
The left-hand equation represents the rate of change of GDP growth, that is, the growth rate determined jointly by the savings ratio and the capital ratio. More specifically, the equation states that without government intervention, the income growth rate is positively proportional to the savings ratio. This means that the more a share of income is saved and invested, the greater the GDP growth generated.

The simple logic of equation 1.6 above is that to grow rapidly, every economy must save and invest as much of its income as possible. The more that can be saved and invested, the faster the rate of economic growth will be. However, the actual rate of growth and investment that can be reached on each savings and the amount of additional output gained from an additional unit of investment can be measured by the inverse of the ratio of capital to output k. So, ICOR = 1/k.

Thinking Framework

Based on the subject matter, research objectives, as well as theoretical studies, and empirical studies, a framework model can be built as a guide in solving research problems. In this case, the quality of financial reports can be measured by the ratio of liquidity, solvency, activity, profitability, and the ratio of direct spending to indirect spending. These ratios can produce two types of information, namely symmetric information and asymmetric information. Symmetrical information can increase investment, while asymmetric information can decrease investment ability.

Figure 1
Report Flowchart Model Quality
Finance



Source: Analyis Result of Research Model ed Back

C. RESEARCH METHOD

This study was designed using quantitative research methods. Quantitative research methods are carried out by determining and measuring between items in one or several types of financial statements for five reporting periods (Kasmir, 2016).

Data Source

The type of data used is quantitative data. The data is sourced from financial reports. There are at least seven types of financial reports that can be a source of data, namely balance sheets, budget realization reports, operational reports,

reports of changes in excess budget balances, reports of changes in equity, cash flow reports, and notes to financial statements (PP 58/2019).

Data Analysis Technique

1. Ratio analysis technique is an analysis used to determine the relationship between items in one financial report. The ratio analysis technique consists of the ratio of liquidity, solvency, activity, profitability, and the ratio of direct expenditure to indirect expenditure (Gill, 2004).
2. Comparative analysis technique, which is done by comparing the financial statements of more than one period so that it can be seen the changes that occur for each item or component.
3. The percentage per component analysis technique is an analytical technique carried out to determine the percentage composition of costs, the percentage of capital expenditures to income, and the ratio of investment to income (ICOR = 1/k).

Based on these analytical techniques, management's strengths and weaknesses can be identified, the position of assets, liabilities, and own capital. In addition, some steps can be suggested to the Regional Government of Badung Regency to improve performance in the future.

D. RESEARCH RESULTS AND DISCUSSION

Liquidity Ratio

The liquidity ratio is a ratio that describes an entity's ability to meet short-term obligations, such as salary payments, income improvement allowances, allowances, and others. Another function of this ratio is to measure the entity's ability to meet short-term obligations that are due, both to outside parties, such as paying bills to suppliers and short-term internal obligations. The liquidity ratio is often also referred to as the working capital ratio which compares all components of total current assets with total current liabilities. The liquidity ratio is calculated by the formula (Fred Welson (2004), below.

$$\textit{Ratio Liquidity} = \frac{\textit{Total Liquid Assets}}{\textit{Total Liquid Liability}}$$

$$\textit{Ratio Liquidity } 2016 = \frac{1{,}966{,}284{,}484{,}172.34}{96{,}347{,}742{,}246.87} = 20.41$$

$$\textit{Ratio Liquidity } 2017 = \frac{2.007{,}655{,}000{,}774.57}{84{,}744{,}409{,}868.56} = 23.69$$

$$\textit{Ratio Liquidity } 2018 = \frac{1{,}166{,}731{,}976{,}000.60}{734{,}758{,}735{,}930.30} = 1.59$$

$$\textit{Ratio Liquidity } 2019 = \frac{963{,}524{,}115{,}734.04}{119{,}049{,}148{,}578.80} = 8.09$$

$$\textit{Ratio Liquidity } 2020 = \frac{1{,}066{,}778{,}138{,}598.16}{142{,}696{,}617{,}690.31} = 7.48$$

The average liquidity ratio per year is 6.09. This means that the short-term liabilities of one unit are guaranteed by liquid assets of 6.09 times. However,

behind the good liquidity ratio, receivable accounts showed an increase from year to year, except in 2018. The details of income receivable accounts can be presented, namely Rp 929,692,984,205.74 in 2016, Rp 941,504,164,456.88 in 2017. Rp 977,651,230,260.53 in 2018, Rp 833,585,471,554.50. Rp 1,018,874,312,968.55 in 2020. This income receivable needs to be considered because it contains an element of default risk and can affect the liquidity ratio in the following years.

Solvability Ratio

In carrying out the operations of an entity, it needs a source of funding to finance its operations. In its operations in addition to using its capital, an entity also often uses capital from outside in the form of loans. The solvency ratio is measured by the debt to asset ratio. The debt to asset ratio formula is as follows.

$$\textit{Debt to Aset Ratio} = \frac{\textit{Total Debt}}{\textit{Total Capital}}$$

$$\textit{Debt to Aset Ratio}_{2016} = \frac{96{,}347{,}742{,}246.87}{11{,}624{,}541{,}360{,}393.80} = 0.008$$

$$\textit{Debt to Aset Ratio}_{2017} = \frac{84{,}744{,}409{,}868.56}{12{,}877{,}211{,}249{,}407.50} = 0{,}007$$

$$\textit{Debt to Aset Ratio}_{2018} = \frac{734{,}758{,}735{,}930.30}{12{,}812{,}512{,}454{,}685.80} = 0{,}057$$

$$\textit{Debt to Aset Ratio}_{2019} = \frac{119{,}049{,}148{,}578.80}{13{,}299{,}030{,}179{,}555.10} = 0{,}009$$

$$\textit{Debt to Aset Ratio}_{2020} = \frac{142{,}696{,}617{,}690.31}{17{,}365{,}793{,}274.865.00} = 0{,}008$$

The average solvency ratio per year is 0.017. This means that short-term liabilities of 0.017 in one unit are guaranteed assets in the form of own capital of one unit. This ratio shows that the entity has a very good average solvency ratio in fulfilling its obligations. A good solvency ratio can be used as a basis for consideration in making loans to strengthen fiscal capacity if deemed necessary.

Ratio of Activities

This ratio is used to measure the efficiency level of resource utilization owned by an entity. From the results of the measurement of the activity ratio, various things related to operating activities, including the level of performance of an entity can be known. The activity ratio is measured by fixed asset turnover. The formula for fixed asset turnover is as follows.

$$\text{Fixed asset turnover} = \frac{\text{Total Revenew}}{\text{Total Fixed Asset}}$$

$$\text{Fixed asset turnover 2016} = \frac{3{,}563{,}459{,}644{,}191.57}{11{,}720{,}889{,}102{,}640.70} = 30.40\%$$

$$\text{Fixed asset turnover 2017} = \frac{4{,}172{,}457{,}395{,}825.25}{12{,}961{,}955{,}659{,}276.00} = 32.19\%$$

$$\text{Fixed asset turnover 2018} = \frac{4{,}555{,}716{,}407{,}353.28}{13{,}547{,}271{,}190{,}616.10} = 33.16\%$$

$$\text{Fixed asset turnover 2019} = \frac{4{,}835{,}188{,}460{,}096.80}{13{,}418{,}079{,}328{,}133.90} = 36.03\%$$

$$\text{Fixed asset turnover 2020} = \frac{2{,}116{,}974{,}302{,}051.93}{17{,}508{,}489{,}892{,}555.30} = 12.09\%$$

The average activity ratio per year is 27.83%. This means that the average ability of total fixed assets to total local revenue is 27.83% or Rp3,848,759,241,903.77 or 2.3% per month compared to total assets of Rp13,831,337,034,644.40 on average. . From the results of the analysis, it was found that the highest activity ratio occurred in 2019 with total local revenue of IDR 4,835,188,460,096.80 or 36.03%. On the other hand, the lowest activity ratio occurred in 2020, which was IDR 2,116,974,302,051.93 or 12.09%. The low activity ratio in 2020 was caused by the Covid-19 pandemic that hit the world.

Profitability Ratio

The ultimate goal of an entity is to increase the value of the entity concerned. One way to increase this value is to increase profitability. However, for the public sector, the terms commonly used are surplus and deficit, not profitability. A surplus will be able to increase capital, while a deficit will be able to reduce capital. The surplus/deficit ratio is useful for measuring the ability to increase revenue and the effectiveness of operations management. The activity ratio is measured by: (a) return on investment, and (b) return on equity.

(a) *Return on Invesment (ROI)* calculated by the following formula.

$$ROI = \frac{\text{Total Surplus/Defisit}}{\text{Total Investment}}$$

$$ROI\ 2016 = \frac{166{,}125{,}687{,}387.46}{1.644{,}518{,}405{,}341.07} = 10.102\%\%$$

$$ROI\ 2017 = \frac{-474{,}550{,}289{,}578.04}{1{,}762{,}537{,}470{,}553.72} = -26.924\%$$

$$ROI\ 2018 = \frac{-379{,}575{,}101{,}692.51}{1{,}826{,}428{,}324{,}830.48} = -20.782\%$$

$$ROI\ 2019 = \frac{59{,}184{,}946{,}824.39}{1{,}835{,}604{,}529{,}053.40} = 3.224\%$$

$$ROI\ 2020 = \frac{28{,}759{,}334{,}730.46}{1{,}784{,}982{,}062{,}58.48} = 1.611\%$$

The average surplus/deficit ratio per year is -6.77%. This means that the average ability to generate a surplus is -6.777%. Based on the results of the surplus/deficit ratio analysis, it can be explained that the average deficit per year is -6.777% due to the significant increase in grant and social assistance spending, which is Rp. 1,018,305,817,154.70 or 18.787% of the total gross income of Rp. 5 .420,009,298,379.53 in 2018.

(b) *Return on Equity(ROE)* dihitung dengan rumus di bawah ini.

$$ROE = \frac{Total\ Surplus/Defisit}{Total\ Equity}$$

$$ROE\ 2016 = \frac{166,125,687,387.46}{11,624,541,360,393.80} = 1.429\%$$

$$ROE\ 2017 = \frac{-474,550,289,578.04}{12,877,211,249,407.50} = -3,685\%$$

$$ROE\ 2018 = \frac{-379,575,101,692.51}{12,812,512,454,685.80} = -2,963\%$$

$$ROE\ 2019 = \frac{59,184,946,824.39}{13,299,030,179,555.10} = 0.445\%$$

$$ROE\ 2020 = \frac{28,759,334,730.46}{17,365,793,274,865.00} = 0.166\%$$

The average surplus/deficit ratio per year is calculated based on total equity -0.922%, while the average surplus/deficit ratio is calculated based on total investment:-6.777%. This means that the resulting surplus/deficit is significantly affected by the net investment value, not by total equity. Based on the results of this analysis, it can be concluded that there are still unproductive equities that do not affect the increase in the budget surplus.

The relationship between investment and economic growth can be explained as follows. The average capital expenditure (K) per year is IDR 924,114,249,756.06, while the average income (Y) per year is IDR 4,876,927,264,796.19. Thus, the average investment ratio is K/Y = 0.189, while the average investment ratio to average income is 1/k = 1/0.189 = 5.29. So, ICOR = 5.29. The number 5.29 means that the average investment during the period 2016 to the period of 2020, 924 billion is more capable of creating an average economic growth of 5.29 percent per year. The results of this study are following the argument put forward by Harrod-Domar that investment has a positive and significant relationship to economic growth.

The Ratio of Direct Expenditure to Indirect Expenditure (BL/BTL)

BL/BTL is used to measure the extent to which local governments take sides with the public interest. If BL/TBL = 1, it means that the expenditures carried out are the same or more oriented to the public interest. If BL/BTL = 1, it means that the implementation of the budget is the same or less oriented to the public interest. The calculation of the BL/BTL ratio uses the formula below.

$$Indeks\ BL/BTL = \frac{Total\ Belanja\ Langsung}{Total\ Belanja\ Tidak\ Langsung}$$

$$Indeks\ BL/BTL\ 2016 = \frac{2.061,925,907,260.81}{2,100,194,081,122.73} = 0.98$$

$$Indeks\ BL/BTL\ 2017 = \frac{2,671,781,510,035.59}{2,742,154,913,454.54} = 0.97$$

$$Indeks\ BL/BTL\ 2018 = \frac{2,575,218,294,940.07}{3,224,366,105,131.97} = 0.79$$

$$Indeks\ BL/BTL\ 2019 = \frac{2,697,734,876,871.47}{3,036,047,767,711.70} = 0.88$$

$$Indeks\ BL/BTL\ 2020 = \frac{1,729,362,381,720.69}{2,147,806,666,422.64} = 0.80$$

The average BL/BTL ratio per year is 0.88. This means that public policy is still not optimal for the public interest compared to the interests of the apparatus. The average BL/BTL ratio: 0.88 will be even smaller if expenditures, such as civil servant honoraria, non-civil servant honoraria, and overtime pay are removed from public expenditure accounts.

E. CONCLUSION

Based on the subject matter, research objectives, theoretical studies, empirical studies, liquidity ratio analysis techniques, solvency, activity, profitability, direct expenditure index to indirect expenditure, as well as comparison and percentage analysis techniques, it can be concluded as follows.

1. Financial liquidity shows a good ratio, but in this account there are still receivables that show an increasing trend and contain a potential risk of default.
2. The ability to pay for short-term obligations, both for internal and external obligations, is in the good or safe category.
3. The ability to generate surplus is in the poor category. This is due to the high cost of operations, grants, and social assistance in the period 2017 to d. 2018 so the profitability ratio is -6.777 percent.
4. The ability to encourage the rate of economic growth is in the fairly good category. This is indicated by the ICOR of 5.28 percent.
5. Direct spending for the public interest is still lower when compared to personnel spending (BL/BTL = 0.88).

Based on the conclusion, so it can be suggest as follows.

1. Efforts should be made to collect receivables from taxpayers by optimizing online payments, monitoring, and improving tax and levy administration services.
2. Efficiency measures need to be taken in operating expenditures, grants and social assistance expenditures so that goods and services expenditures are truly vital and strategic.

3. There needs to be a policy regarding budget deficit limits so that entities can consistently set aside a share of income for savings/investment as a prerequisite for economic growth.
4. Efforts should be made to ensure that public expenditures are at least equal to or more than those for apparatus.

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