JAS (Jurnal Akuntansi Syariah)
June 2024, Vol.8, No.1: 84-100

MEASURING LOCAL GOVERNMENT FINANCIAL PERFORMANCE WITH FINANCIAL RATIOS

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https://doi.org/10.46367/jas.v8i1.1835
Received: Apr 28, 2024 **Revised:** May 22, 2024 **Accepted:** May 25, 2024 **Published:** Jun 21, 2024

ABSTRACT

This research aims to analyze the financial performance of local government in the Toba Regency. The data source uses secondary data in the form of Toba Regency government financial reports for 2020-2022. Data were analyzed using a quantitative descriptive approach. The financial performance of the Toba Regency government is measured using eight financial ratios. The results of the research show that the financial performance of the Toba Regency government in terms of regional financial independence, regional financial dependence, and the degree of fiscal decentralization obtained meagre results. The level of effectiveness of local original revenue (LOR) and the effectiveness of local taxes obtained very effective results. The level of LOR efficiency and regional tax efficiency obtained very efficient results. The degree of contribution of regionally owned enterprises (ROEP) resulted in low contribution results. Overall, the Toba Regency needs to improve at implementing and managing finances. This research can be a reference for the Toba Regency government in improving financial performance through eight financial ratios so that budget use is effective and efficient.

Keywords: financial performance, financial ratios, local goverment.

INTRODUCTION

Toba Regency is in North Sumatra province, with the capital Balige. This regency was established based on Law 12 of 1998 concerning the establishment of Toba Samosir level II regional districts and Mandailing Natal regency in North Sumatera level I province. In the past, this Regency was called Samosir, but a division was carried out from the level II region of North Tapanuli Regency. Furthermore, on March 3, 2020, Toba Samosir Regency changed its name by government regulation number 14 of 2020 concerning the change of name of Toba Samosir Regency to Toba Regency in North Sumatra. Toba Regency is one of the rice and corn-producing areas in North Sumatra (Henry 2022).

The unemployment rate in Toba Regency has remained relatively high compared to other districts in North Sumatra (BPS 2023). The highest unemployment rate was 3.47 percent in 2015. This also happens to the Toba regency's poverty rate, which has never been at the highest level compared to other districts. The highest poverty rate in Toba Regency is 10.21 percent (BPS 2023). With a low unemployment and poverty rate, Toba Regency should be able to avoid high crime rates. Based on the data obtained, Toba Regency recorded a higher crime rate than several other districts in North Sumatra. Financial performance measurement is not how local governments can utilize budgets but how budgets can be managed according to predetermined plans by the principles of effective, efficient and cost-effective budgeting (Susanto 2019).

Law 32 of 2004 states that the effectiveness and efficiency of local governments must observe aspects related to the structure of local government and government, regional potential and diversity, opportunities and challenges of global competition, granting authority to wider regions, and rights and obligations granting regional power. Autonomy within the framework of regional government needs to be given greater attention to the unity of the constitutional system (PresidenRI 2004). A region is said to have implemented regional autonomy regarding its ability to manage regional finances to fund local governments' implementation with a trim level of dependence, not dependent on transfer revenues from the central government. In addition, LOR must be more significant in funding its implementation. LOR is a factor that has a strong influence on the regional budget. The greater the LOR, the less dependent an area will be (Pradana 2015). As recorded in the North Sumatra Audit Board, Toba Regency LOR in 2020-2022 tends to increase (BPK 2023). This shows that the ability of regions to generate their income is getting bigger and can minimize their dependence on the central government.

However, dependence on the Toba Regency area increases yearly, starting from 2020 by 5.70%, increasing in 2021 to 6.98% and 2022 to 7.17%. The ability of local governments to manage finances is summarized in the Regional Revenue and Expenditure Budget (RREB), which shows how capable local governments are in funding all development activities. RREB is the primary policy tool used by local governments. As a policy tool and occupying a core position, the budget must contain performance in internal assessment and involvement in driving economic growth. It can also reduce unemployment and poverty (Nurdiwaty and Zaman 2016). The Toba Regency Regional Budget for 2020-2022 shows an increase yearly, but the poverty rate decreased by 130 people in 2022. Poverty is the financial inability to meet basic food and non-food needs measured in expenditure. The comparison of the number of poor people in Toba Regency in 2020-2022 shows that the number of poor people in 2021 increased by 560 from the previous year, then decreased again in 2022 by 130 people.

The open unemployment rate (OUR) is the ratio of total unemployment to the total labor force. The following figure compares OUR Toba Regency in 2020-2022. It can be seen in the picture that the OUR of Toba Regency in 2020-2022 shows a fluctuating value where in 2021, it decreased from the previous year by 1.56% and in 2022, it increased by 1.67%. The financial independence of most regions in funding activities in their regions still needs to be improved. The low involvement of the community in paying local taxes and levies, which are the main aspects affecting LOR, has resulted in many local stakeholders demanding operational cost support from the central government.

Research on financial performance and sustainability in local governments internationally has been carried out by Pilcher (2005); Rivenbark, Roenigk, and Allison (2010); Turley, Robbins, and McNena (2015); López Subires et al. (2019); Chen, He, and Liu (2020); Santis (2020); Obisanya and Hassan (2022); Iacuzzi (2022), this research uses different methods and data and has different results. Likewise, in Indonesia, research on the financial performance of local governments has been conducted by Nugraeni, Paramitalaksmi, and Wafa (2022); Rahmawati and Warsitasari (2023); Alfiani, Armeliza, and Nasution (2024) which states that the level of financial independence is still very low, but it is different from research Melmambessy (2022), which states that the level of financial independence is still relatively moderate.

Similarly, the level of financial dependence of most regions on the majority central government is still high. Local stakeholders argue that they can turn to the central government without funding, so they are not willing to work too hard. As a result, the local government is reducing its efforts to increase local revenues and will only provide funding to stakeholders if the LOR increases. This lack of funds makes regional finances very expensive. Because of its dependence on the center, the state's responsibility for the State budget and RREB is getting bigger. This is in line with the research by Hafizi and Amalia (2022); Melmambessy (2022), which states that the level of regional financial dependence is still very high on the central government, in contrast to research Widiyaningsih and Prihatiningsih (2021), which states that regional financial dependence on the central government has improved.

Based on existing literature phenomena and facts, there are still problems with poverty rates and high unemployment rates even though RREB is increasing. There are differences and inconsistencies in the results of previous research, so there are research gaps. Therefore, research has a different position and should be carried out further in different places and with different research data. This research analyses the financial performance of local governments in the Toba Regency. This research can be used to consider regional government performance in the next period. Apart from that, the results of this research can also be used as a reference for further observations, especially regarding financial performance analysis.

LITERATURE REVIEW

Level of Financial Independence

This level measures how financially independent a region is regarding the amount of LOR and compares it to regional income derived from other sources (Ramadhani, Hisamuddin, and Shulthoni 2020). The higher the level, the more significant the community's contribution to increasing LOR in their area to finance the development of regional autonomy. Formulas and benchmarks can be seen in Equation (1) and Table 1.

$$\textbf{Financial Independence Level} = \frac{\textbf{Realization of Total Regional Revenue}}{\textbf{Total Transfer Revenue}} \textbf{ x 100\%} \ldots (1)$$

Table 1 Benchmarks of Financial Independence Level

Levels (%)	Monetary Capacity	Relationship Patterns
0 - 25	Very low	Instructive
26 - 50	Very low	Constructive
51 - 75	Keep	Parchival
76 - 100	Tall	Delegative

Source : (Halim 2012)

Level of Financial Dependence

This level reflects the large ratio between regional transfer revenue receipts and provincial regional revenues. If the level is higher, the dependence of local governments on the central government is higher (Obisanya and Hassan 2022). Formulas and benchmarks can be seen in Equation (2) and Table 2.

$$\textbf{Financial Dependence Level} = \frac{\textbf{Total Transfer Revenue}}{\textbf{Total Regional Revenue}} \textbf{ x 100\%} \quad \ldots\ldots\ldots\ldots\ldots (2)$$

Table 2 Benchmarks of Financial Dependence Level

Level (%)	Monetary Capacity
0 - 25	Very low
26 - 50	Very low
51 - 75	Keep
76 - 100	Tall

Source: (Mahmudi 2016)

Level of Fiscal Decentralization

This level reflects the ability of local governments to manage and optimize LOR when funding development in the area. This level describes the central government's interference, authority, and responsibility in achieving regional autonomy. If the contribution of LOR increases, the government's power to realize decentralization will increase (Azis 2021). Formulas and benchmarks can be seen in Equation (3) and Table 3.

$$\textbf{Fiscal Decentralization Level} = \frac{\textbf{Total Regional Original Revenue}}{\textbf{Total Regional Revenue}} \textbf{ x 100\%} \quad \ldots\ldots\ldots\ldots (3)$$

Table 3 Benchmarks of Fiscal Decentralization Level

Levels (%)	Information
0 - 10	Very low
11 - 30	Low
31 - 40	Enough
41 - 50	Tall
>50	Very high

Source : (Bisma and Susanto 2010)

Level of Local Original Revenue Effectiveness

This level measures the government's ability to realize the targeted LOR and then compare it to the approved target based on local original income (Amal and Wibowo 2022). The original Revenue Effectiveness Rate shows how effective the local government is in realizing the established LOR. The greater the level, the more effectively the government manages the original Revenue. Formulas and benchmarks can be seen in Equation (4) and Table 4.

$$\textbf{LOR Effectiveness Level} = \frac{\textbf{Total Realization of Local Original Revenue}}{\textbf{Total Local Original Revenue Budget}} \textbf{ x 100\%} \quad \ldots\ldots (4)$$

Table 4 Benchmarks of LOR Effectiveness Level

Effectiveness Level (%)	Monetary Capacity
> 100	Highly effective
100	Effective
90 – 99	Quite effective
75 – 89	Less effective
< 75	Ineffective

Source: (Mahmudi 2016)

Level of Local Original Revenue Efficiency

This level compares the costs spent by the government to generate revenue and the realization of revenue received. Local government performance is categorized as efficient if what is obtained is below 100% (Amal and Wibowo 2022). If the level is getting smaller, the government's performance on LOR management will be more efficient, and vice versa. Formulas and benchmarks can be seen in Equation (5) and Table 5.

$$\textbf{LOR Efficiency Level} = \frac{\textbf{LOR Acquisition Costs}}{\textbf{LOR Realization}} \textbf{ x 100\%} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (5)$$

Table 5 Benchmarks of LOR Efficiency Level

Efficiency Level (%)	Monetary Capacity
< 10	Highly efficient
10 - 20	Efficient
21 - 30	Quite efficient
31 - 40	Less efficient
> 40	Inefficient

Source: (Halim 2012)

Level of Tax Effectiveness

Local taxes are an indicator of how well the local government can implement the planned local taxes compared to the targets set based on actual capacity (Effendi, Ratnawati, and Basri 2021). The higher this number, the better the local government's tax management. Formulas and benchmarks can be seen in Equation (6) and Table 6.

$$\textbf{Tax Effectiveness Level} = \frac{\textbf{Local Tax Realization}}{\textbf{Local Tax}} \textbf{ x 100\%} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (6)$$

Table 6 Benchmarks of Tax Effectiveness Level

Efficient Level (%)	Monetary Capacity
> 100	Highly effective
100	Effective
90 - 99	Quite effective
75 - 89	Less effective
< 75	Ineffective

Source: (Mahmudi 2016)

Level of Tax Efficiency

This level compares local tax collection costs with local tax realization (Yakub, Wijaya, and Effendi 2022). The performance of local governments in collecting local taxes is classified as efficient if less than 10% is achieved, or the lower this level, the higher the efficiency. Formulas and benchmarks can be seen in Equation (7) and Table 7.

$$\textbf{Tax Efficiency Level} = \frac{\textbf{Local Tax Collection Fees}}{\textbf{Local Tax Realization}} \textbf{ x 100\%} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (7)$$

Table 7 Benchmarks of Tax Efficiency Level

Efficiency (%)	Monetary capacity
< 10	Highly efficient
10 - 20	Efficient
21 – 30	Quite efficient
31 – 40	Less efficient
> 40	Inefficient

Source: (Mahsun 2019)

Level of ROEP Contribution

This level measures how much regional companies contribute to supporting regional revenues (Nasir 2019). The regional level of ROEP contribution can be calculated by comparing regional revenues from the results of regional wealth management separated from total regional original revenue receipts. If it is above 0%, it can be stated that the contribution of ROEP is good enough. Formulas and benchmarks can be seen in Equation (8) and Table 8.

$$\textbf{ROEP Contribution Level} = \frac{\textbf{ROEP Profit}}{\textbf{LOR Reakization}} \textbf{ x 100\%} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (8)$$

Table 8 Benchmarks of ROEP Contribution Level

Contribution (%)	Monetary Capacity
< 0	Did not contribute
0 - 10	Contribute very low
10 - 30	Contribute low
31 - 40	Contribute enough
41 - 50	Contribute high
> 50	Contribute very high

Source: (Bisma and Susanto 2010)

METHOD

This type of research is conducted using a descriptive quantitative method. The data source uses secondary data in the form of Toba Regency government financial reports for 2020-2022. Data collection techniques are documentation techniques with data sources originating from the Audit Board of North Sumatra. Tools for processing data using Microsoft Excel software. Furthermore, it analyzes the financial statements and calculates the existing levels, which will be explained with supporting sentences and pictures to clarify the existing information. The financial performance of the Toba Regency government is measured using eight financial ratios. The levels used in this study are the level of financial independence, level of financial dependence, level of fiscal decentralization, level of LOR effectiveness, level of LOR efficiency, level of tax effectiveness, level of tax efficiency, and level of ROEP contribution.

RESULTS AND DISCUSSIONS

Results of Financial Independence Level

This level can be calculated by comparing the realization of total LOR with local government transfer revenue. Table 9 and Figure 1, in the existing formula, show the results of the sum of the level of financial independence of the Toba Regency government in 2020-2022.

Table 9 Level of Financial Independence

Year	Realization of Total LOR (IDR)	Transfer Income (IDR)	Rate (%)
2020	57,403,162,933.28	732,232,369,687.00	7.83
2021	75,305,397,700.12	967,354,006,117.00	7.78
2022	73,220,848,673.93	939,743,251,146.00	7.79
Mean	68,643,136,435.78	879,776,542,316.67	7.80

Source: secondary data (processed, 2024)

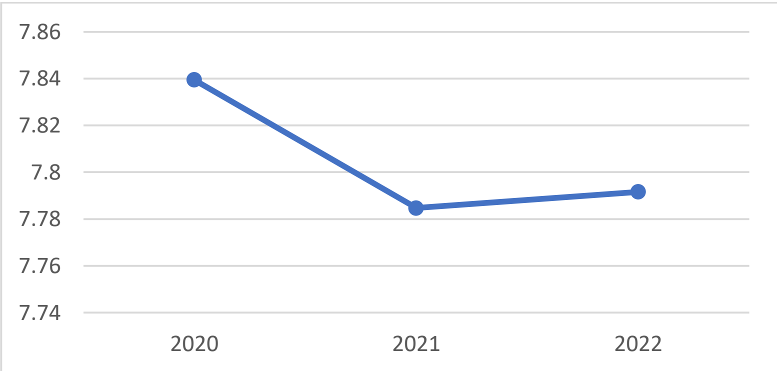

Figure 1 Level of Financial Independence
Source: secondary data (processed, 2024)

The results attached to Figure 1 show that the percentage of independence of Toba Regency has decreased, starting from 2020 by 7.83%, then decreased in 2021 to 7.78%, and then in 2022, it increased again to 7.79%. With an average of 7.80%, the level of independence of the Toba Regency is still in the very low category because LOR has been unable to dominate government administration and regional development.

Results of Financial Dependence Level

This level can be compared with total transfer income and regional income to calculate this level. Table 10 and Figure 2, in the existing formula, show the results of the sum of the level of financial dependence of the Toba Regency government in 2020-2022.

Table 10 Level of Financial Dependence

Year	Local Original Revenue (IDR)	Regional Revenue (IDR)	Rate (%)
2020	57,403,162,933.28	1,006,299,214,620.28	5.70
2021	75,305,397,700.12	1,078,273,724,817.12	6.98
2022	73,220,848,673.93	1,020,022,554,853.33	7.17
Mean	68,643,136,435.78	1,034,865,164,763.58	6.62

Source: secondary data (processed, 2024)

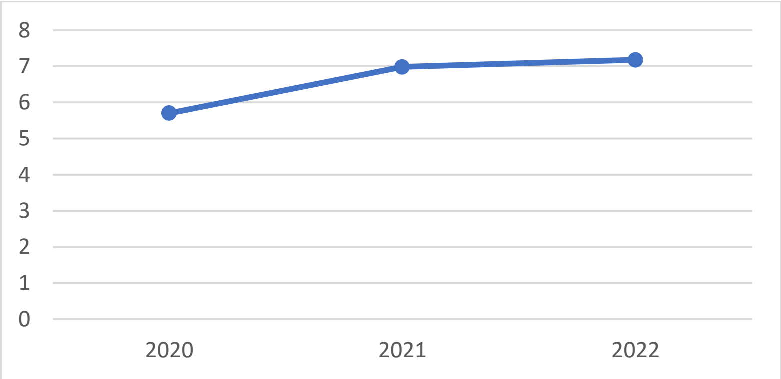

Figure 2 Level of Financial Dependence
Source: secondary data (processed, 2024)

The results attached to Figure 2 show that the percentage of this level has increased significantly every year; in 2020, it was 5.70%, increased in the following year, 2021, to 6.98%, and then increased again in 2022 by 7.17%. The dependence of Toba Regency has an average of 6.62% and is still in the very low category.

Results of Fiscal Decentralization Level

This rate can be calculated by comparing the total LOR with regional income. Table 11 and Figure 3, in the existing formula, show the results of the sum of the level of fiscal decentralization of the Toba Regency government in 2020-2022.

Table 11 Level of Fiscal Decentralization

Year	Local Original Revenue (IDR)	Regional Revenue (IDR)	Rate (%)
2020	57,403,162,933.28	1,006,299,214,620.28	5.70
2021	75,305,397,700.12	1,078,273,724,817.12	6.98
2022	73,220,848,673.93	1,020,022,554,853.33	7.17
Mean	68,643,136,435.78	1,034,865,164,763.58	6.62

Source: secondary data (processed, 2024)

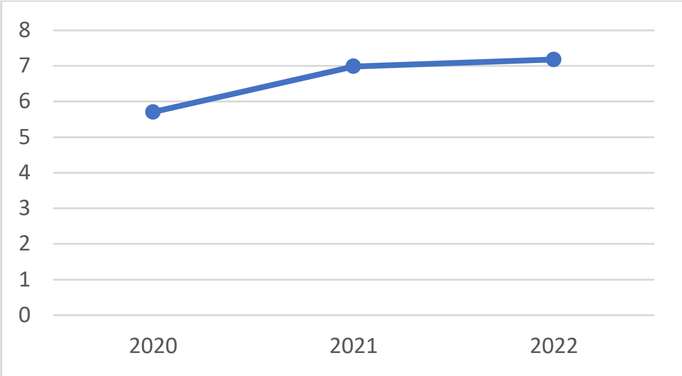

Figure 3 Level of Fiscal Decentralization
Source: secondary data (processed, 2024)

The results attached to Figure 3 show that the percentage of decentralization degrees of Toba Regency has increased, starting from 2020 by 5.70%, increasing in the following year, 2021, to 6.98%, and then increasing again in 2022 to 7.17%. With an average of 6.62%, this level is still in the very low category. This situation indicates that the level of decentralization of Toba Regency has yet to be able to fund the implementation of local government.

Results of LOR Effectiveness Level

This level can be calculated by comparing the total realization of LOR and the LOR budget. Table 12 and Figure 4, in the existing formula, show the results of the sum of the level of LOR effectiveness of the Toba Regency government in 2020-2022.

Table 12 Level of LOR Effectiveness

Year	Realization of LOR (IDR)	LOR Budget (IDR)	Rate (%)
2020	57,403,162,933.00	52,913,544,673.00	108.48
2021	75,305,397,700.12	72,915,222,200.00	103.27
2022	73,220,848,673.93	72,327,296,214.00	101.23
Mean	68,643,136,435.78	66,052,021,029.00	104.33

Source: secondary data (processed, 2024)

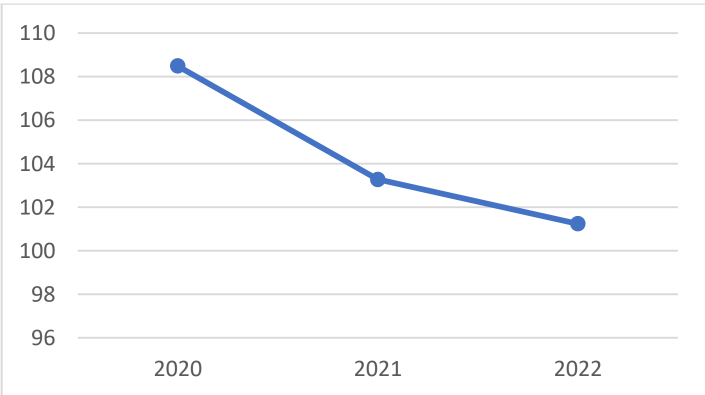

Figure 4 Level of LOR Effectiveness
Source: secondary data (processed, 2024)

The results attached to Figure 4 show that this level has decreased yearly, starting from 2020 by 108.48%, then decreasing in the following year, 2021 by 103.27%, and 2022 by 101.23%. The effectiveness of Toba Regency has an average of 104.33%. Despite experiencing a significant decrease every year, the effectiveness of Toba Regency is still in a very effective category. This situation shows that the Toba Regency government has effectively managed its finances, as seen from the amount of realization greater than the LOR budget target.

Results of LOR Efficiency Level

This rate can be calculated by comparing the cost of obtaining LOR with the realization of LOR. Table 13 and Figure 5, in the existing formula, show the results of the sum of the level of LOR efficiency of the Toba Regency government in 2020-2022.

Table 13 Level of LOR Efficiency

Year	LOR Acquisition Fee (IDR)	Realization of LOR (Rp)	Rate (%)
2020	1,017,936,010.00	34,522,700,048.00	2.94
2021	193,369,210.00	42,644,001,225.00	0.45
2022	113,345,734.00	46,064,973,168.10	0.24
Mean	441,550,318.00	41,077,224,813.70	1.21

Source: secondary data (processed, 2024)

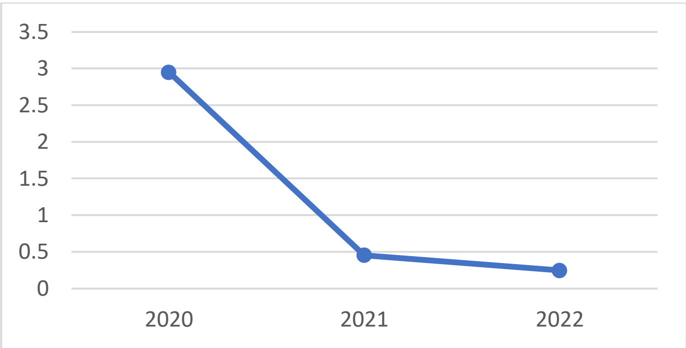

Figure 5 Level of LOR Efficiency

Source: secondary data (processed, 2024)

The results attached to Figure 5 show that this rate decreases yearly with an average of 1.21%. The efficiency level of Toba Regency is included in the criteria of being very efficient because the level value is relatively low. This means that the financial performance of the Toba Regency government is very efficient in managing LOR to finance expenditures and can reduce total regional expenditures.

Results of Tax Effectiveness Level

This rate can be calculated by comparing the realization of regional taxes with regional taxes. Table 14 and Figure 6, in the existing formula, show the results of the sum of the level of tax effectiveness of the Toba Regency government in 2020-2022.

pISSN 2549-3086
eISSN 2657-1676
https://ejournal.stiesyariahbengkalis.ac.id/index.php/jas

JAS (Jurnal Akuntansi Syariah)
June 2024, Vol.8, No.1: 84-100

Table 14 Level of Tax Effectiveness

Year	Local Tax Realization (IDR)	Local Tax (IDR)	Rate (%)
2020	22,095,458,949.54	18,793,500,000.00	117.56
2021	33,395,690,381.56	27,010,000,000.00	123.64
2022	41,222,547,398.13	43,926,896,000.00	93.84
Mean	32,237,898,909.74	29,910,132,000.00	111.68

Source: secondary data (processed, 2024)

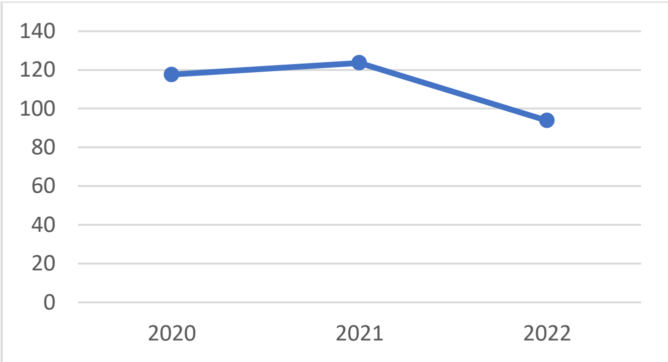

Figure 6 Level of Tax Effectiveness

Source: secondary data (processed, 2024)

The results attached to Figure 6 show that the effectiveness rate of Toba Regency regional taxes is the highest in 2021 at 123.64% and the lowest in 2022 at 93.84%. With an average of 111.68%, this ratio shows how well the local government achieves the previously planned LOR by implementing predetermined targets based on their true potential. However, this ratio is still classified as very effective.

Results of Tax Efficiency Level

This level can be calculated by comparing the cost of collecting local taxes and the realization of local taxes. Table 15 and Figure 7, in the existing formula, show the results of the sum of the level of tax efficiency of the Toba Regency government in 2020-2022.

Table 15 Level of Tax Efficiency

Year	Local Tax Collection Fee (IDR)	Local Tax Realization (IDR)	Rate (%)
2020	572,936,010.00	22,095,458,949.54	2.59
2021	183,475,000.00	33,395,690,381.56	0.54
2022	102,791,910.00	41,222,547,398.13	0.20
Mean	286,400,973.33	32,237,898,909.74	1.13

Source: secondary data (processed, 2024)

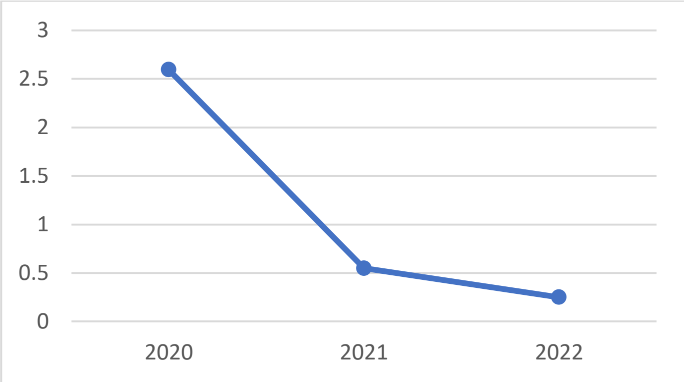

Figure 7 Level of Tax Efficiency
Source: secondary data (processed, 2024)

The results attached to Figure 7 show that the efficiency rate of Toba Regency regional taxes in 2020-2022 this rate has decreased every year, namely in 2020 by 2.59%, then in 2021 it decreased quite significantly to 0.54%, then in 2022 to 0.24%. An average of 1.13% shows that the efficiency level of the Toba Regency is classified as very efficient.

Results of ROEP Contribution Level

A comparison between ROEP profit and LOR realization can be measured to calculate this level. Table 16 and Figure 8, in the existing formula, show the results of the sum of the level of ROEP contribution of the Toba Regency government in 2020-2022.

Table 16 ROEP Contribution Level

Year	ROEP Profit (IDR)	Realization of LOR (IDR)	Rate (%)
2020	6,050,089,714.00	57,403,162,933.28	10.53
2021	8,403,651,368.00	75,305,397,700.12	11.15
2022	8,508,877,255.00	73,220,848,673.93	11.62
Mean	7,654,206,112.33	68,643,136,435.78	11.10

Source: secondary data (processed, 2024)

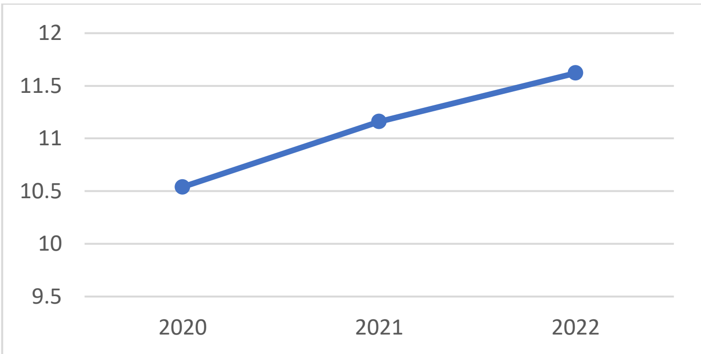

Figure 8 ROEP Contribution Level
Source: secondary data (processed, 2024)

pISSN 2549-3086
eISSN 2657-1676
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The results presented in Figure 8 show that the level of contribution of ROEP always increases yearly; the highest figure is in 2022 at 11.62%, and the lowest is in 2020 at 10.53%. The average is 11.1%. This level shows regional companies' involvement in supporting their regional revenues. This tier is classified as a low-contributing category.

Discussion

Through the results of research conducted using eight existing levels, the weakness of Toba Regency is in terms of very low independence, with an average of 7.80% due to lack of community participation in tax payments or regional levies, which causes local original income (LOR) has not been able to cover regional development needs. This also causes dependence on the central government of Toba Regency to increase yearly, although the total LOR tends to increase. The results of this study are different from research Wasil et al. (2020), which states that the greater the LOR, the greater the level of financial independence of local governments. This is also different from the research of Pradana (2015), which states that the larger the LOR, the smaller the level of dependence on local governments.

The degree of decentralization of the Toba Regency is relatively low at 6.62% because the LOR level has yet to facilitate the implementation of regional autonomy. With the opportunities described in the background above, the level of decentralization of Toba Regency should be realized even better through increasing LOR. The higher the LOR, the more excellent the opportunity for local governments to implement regional autonomy (Bisma and Susanto 2010).

In regional financial management, Toba Regency has been very effective because the results show a figure of >100% and is very efficient with a < rate of 10%. This shows that local governments have effectively achieved the LOR target and reduced the amount of regional spending using LOR. The results align with the research (Siswanto and Maylani 2022).

The level of effectiveness of LOR and the efficiency of regional taxes has shown an effective and efficient level because the average effectiveness of local taxes reaches > 100% and the efficiency of local taxes < 10%; this indicates that the costs used by local governments in collecting regional taxes are minimal compared to the regional taxes received. Local tax is one of the elements that contribute to LOR. Higher local taxes allow LOR to increase. However, the success of this local tax needed more effect on the LOR rate. This differs from Yoduke and Ayem (2016), who state that the government's efforts to increase LOR depend on local taxes and regional levies.

ROEP Toba Regency's contribution level in 2020-2022 shows an average value of 11.10%, so the level of contribution of ROEP is low in helping LOR. The purpose of establishing ROEP is to create jobs and economic growth to reduce unemployment in the area. This means that if the contribution of ROEP increases, the unemployment rate will decrease. However, this is different from data obtained from the North Sumatra Audit Board, which noted that the unemployment rate of Toba Regency in 2021-2022 increased from 0.83 to 2.39%, with the contribution rate of ROEP 2021-2022 increasing by 0.47%, this phenomenon is not in line to establish ROEP. This can happen because of several things, such as increasing the number of residents in an area and increasing competition.

Based on the financial statements of Toba Regency for 2020-2022, the Regional Budget (RREB) increases every year. This can undoubtedly expand the scope and help reduce the poverty level of an area, but not Toba Regency. It is noted that in Toba Regency, the poverty rate is still increasing even though the regional budget has increased. This is different from research by Nurdiwaty and Zaman (2016), which states that the RREB can be used as a lifter to reduce the poverty level of an area. The larger the regional budget, the less poverty occurs in the area.

CONCLUSIONS

The results of the calculation of existing ratios show that the level of regional financial independence is very low, and the level of regional dependence is very low. The degree of fiscal decentralization is very low, the level of effectiveness of LOR is very effective, the level of efficiency of LOR is classified as very inefficient, the level of effectiveness of local taxes is classified as very effective, the level of efficiency of local taxes is classified as very efficient, and the level of contribution of ROEP shows that the level of contribution of ROEP is relatively high. With the existing results, the financial capability condition of the Toba Regency Regional Government still needs to be improved.

This research can be a reference for the Toba Regency government in improving financial performance through eight financial ratios so that budget use is effective and efficient. The results of this research can help local governments evaluate their financial performance in terms of the eight levels that have been measured. This research has limitations in terms of the research period. It is hoped that future research can extend the research period so that the data is more representative. Suggestions for the regional government to further optimize the management of the potential of Toba Regency so that it can significantly impact both the community and the government, especially in the fields of agriculture and tourism. If regional potential is utilized successfully, regional taxes that have a role in LOR will increase and strengthen the implementation of regional autonomy. The government certainly needs to carry out programs that can build LOR, increase order in local taxes, and increase and optimize the use of regional assets.

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