

Analysis of The Effect of Original Local Government Revenue, Central Transfers and Legitimate other income on Financial Independence of Regency/City of North Sumatra Province and Central Java Province with Implementation Expenditure Efficiency as a Moderating Variable

Uchi Lilla Qadri¹, Iskandar Muda², Tarmizi³

^{1,2,3}Department of Accounting, Faculty of Economics and Business Universitas Sumatera Utara, Indonesia

Corresponding Author: Uchi Lilla Qadri

DOI: <https://doi.org/10.52403/ijrr.20220837>

ABSTRACT

The level of local financial independence is one of the indicators of regional financial success in carrying out regional autonomy and improving the quality of services in the regions. This study aims to determine and analyse the effect of local original income, central transfers and Legitimate other income on the level of Local financial independence in the regency/city governments of North Sumatra and Central Java provinces in 2010-2019. This study will also examine the variables for the application of spending efficiency, which are used as moderation variables in the study. This study used the object of the Regency/City Government of North Sumatra and Central Java Provinces. The type of data used is secondary data with the hypothesis test used is multiple linear regression analysis and interaction moderation variable test with the help of STATA software. The results of this study show that original local government revenue has a significant positive effect on the level of local financial independence, and central transfer has a significant negative effect on the level of local financial independence. In contrast, legitimate other incomes do not have a significant effect on the level of local financial independence. The results of this study also show that spending efficiency cannot moderate each of the influences of local original income, central transfer and legitimate other income to the level of financial independence of the region.

Keywords: Original Local Government Revenue, Central Transfer, Legitimate other income, Expenditure Efficiency and Level of Local financial independence

INTRODUCTION

The current reform era has had a changing impact on all aspects of life. Government reform accompanied by openness has become a demand in Indonesia. It causes the demands for transparency and accountability to be strengthened. These two aspects are important in government management, including state and regional financial management. It drives the transition process from a deconcentrated system to a decentralised system called autonomy. A study conducted in Zimbabwe stated that transparency and accountability are closely related principles that oblige elected officials to be responsible for their policies, actions and use of public funds. Financial accountability in managing public funds and aid funds must be enforced without compromise. Transparency (achieved through the provision of public information on financial transactions) requires transparency in which local funds are handled and, in this way, serves as a fairly reliable deterrent to corrupt practices

(Gideon, 2013). Autonomy is the delegation of central government affairs to regional governments that are operational within the framework of the government bureaucratic system. The enactment of the regional autonomy law, namely Law Number 23 of 2014 concerning Regional Government, is intended to create local financial independence. Local financial independence is how much independence the local government has in funding or funding all its activities. In a study conducted in Slovakia, it was stated that the purpose of implementing fiscal decentralisation was to ensure the independence and responsibility of local governments and increase the ability to finance their original competence from their sources. Decentralisation causes an imbalance in the growth of intergovernmental transfers. It is an instrument the central government uses to reduce fiscal disparities and fill the gap between expenditure needs and the fiscal capacity of some local authorities (Capkova, 2013).

In the context of implementing regional autonomy and fiscal decentralisation, local governments are given the freedom to manage and utilise their local revenue sources following the aspirations of the local community. The implementation of regional autonomy will bring a logical consequence that each region must be able to empower itself, both in the interests of the economy and social development of the community, and fulfilling the need to develop its region and be able to carry out improved services to the community (Samad & Iyan, 2013).

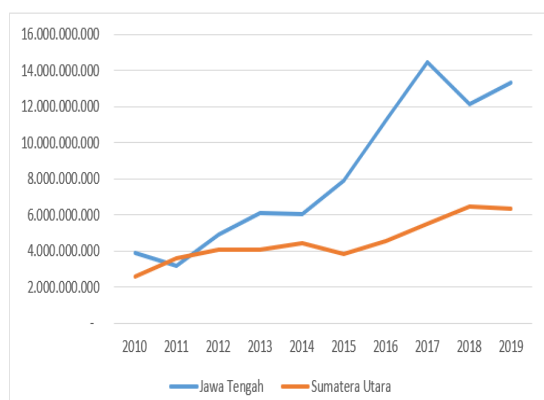
The policy of the central government, especially in managing state finances, is very reasonable because the performance and management of regional finances currently occupy the most important position in empowering local governments to realise regional autonomy and regional independence. Under the money follows function principle, the transfer of regional authority is also followed by the transfer of financing sources that the central

government previously held. Thus, the region can carry out all its own government affairs because the sources of financing have been submitted to the regional government. If the mechanism has been realised, the ideals of regional independence can be realised.

The independence of a region in the financial sector can be seen in how much PAD contributes to the regional income. Regional income is only collected from residents of a collection agency in their respective jurisdictions (Kelvin, 2020). The problem that often arises in managing regional revenues is the low ability of local governments to produce accurate regional income predictions, so they cannot be collected optimally.

A study conducted in Ghana shows that Ghana uses a Point of Sale (POS) application in collecting regional income. This project aims to increase transparency, increase accountability in revenue collection and minimise bribery (Adu et al., 2020). In addition, local financial independence is also shown by the size of the Regional Original Income (PAD) compared to regional income from other sources such as central government assistance or loans. In addition to PAD, Local financial independence is also caused by factors, including general allocation funds, special allocation funds, other legitimate PAD and profit-sharing funds.

PAD is always seen as one indicator or criterion to measure a region's dependence on the centre. Good financial performance means that the region has financial independence to finance the implementation of regional autonomy. However, in its implementation, there are obstacles, namely the regional fiscal gap, which indicates that local governments are still dependent on the central government. Dependence can be seen from the relatively low PAD and the dominance of transfers from the centre. The increase in PAD from 2010-2019 in the Provinces of North Sumatra and Central Java can be seen in the following diagram:



Source: <https://www.bps.go.id>

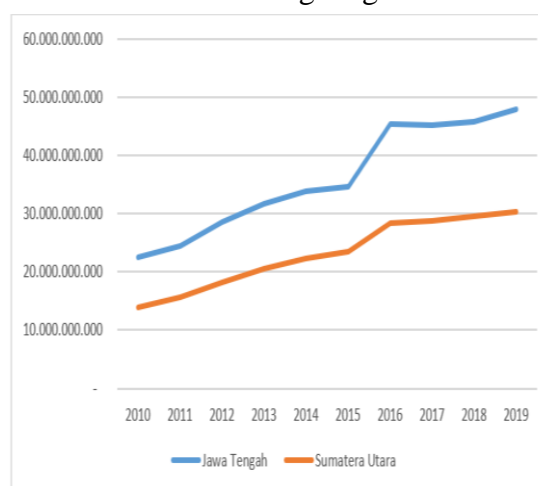
Figure 1. Development of Original Local Government Revenue (PAD) Diagram

The increase in PAD in the Regency/City of North Sumatra Province and Central Java Province shows that local governments' financial performance can affect the local financial independence level in the last 10 years. Andri's research (2018) shows that PAD had a positive and significant effect on Local financial independence in districts/cities in East Java Province from 2014-2016.

In addition to PAD, central transfers are a source of regional income from the APBN to support the implementation of local government authority in achieving the objectives of granting autonomy to regions, especially in improving public services and welfare (Mamuka & Elim, 2014). Central transfers make up the largest part of financing local government activities. The main purpose of providing central transfers is to overcome the fiscal gap between the central government and local governments, the fiscal gap between local governments, improve the tax system, and correct fiscal inefficiencies (Rahmawati & Fajar, 2017). Transfer allocations in developing countries are generally based more on expenditure but pay less attention to the ability to collect local taxes (Mahendra, 2018).

The development of central transfers received by the Provinces of North Sumatra & Central Java from 2010-2019 has experienced a fairly fluctuating increase, which means that the region's dependence on assistance from the centre is still high.

The problem with central transfers is that the central government cannot significantly encourage local government economic growth because it is used up for personnel expenditures. The development of the transfer of the Regency/City centre of the Provinces of North Sumatra and Central Java to North Sumatra from 2010-2019 can be seen in the following diagram:



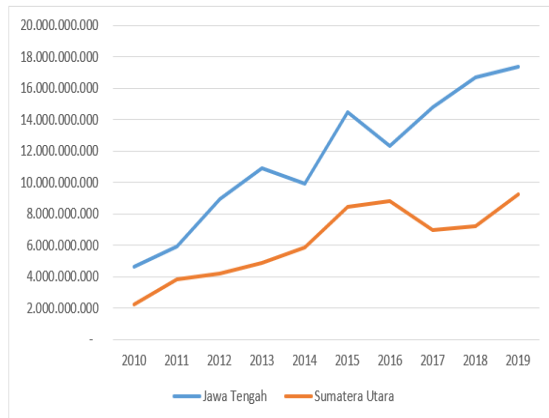
Source: <https://www.bps.go.id>

Figure 2. Development of Central Transfer Diagram

The central transfer diagram above shows that the budget for transfers to the regions is increasing along with the increasing need for financing public services in the regions. This condition will, of course, further narrow the fiscal space in the APBN, considering the limited state financial capacity. A previous study by Anggi et al (2018) showed that partially central government transfers significantly affected the Local financial independence of district/city governments in North Sumatra Province from 2011-2013.

In addition to PAD and central transfers, Legitimate other income, according to Law Number 32 of 2004 article 164 paragraph 1 concerning regional governments, is all regional revenues other than PAD, central transfers, which include grants, emergency funds, and other income set by the government. Every regional expenditure that the regional government will issue is first budgeted in the APBD. The amount of Other Legal Income since 2010-2019 in the Regencies/Cities of North Sumatra and

Central Java Provinces is shown in the following diagram:



Source: <https://www.bps.go.id>

Figure 3. Development of Legitimate Other Income

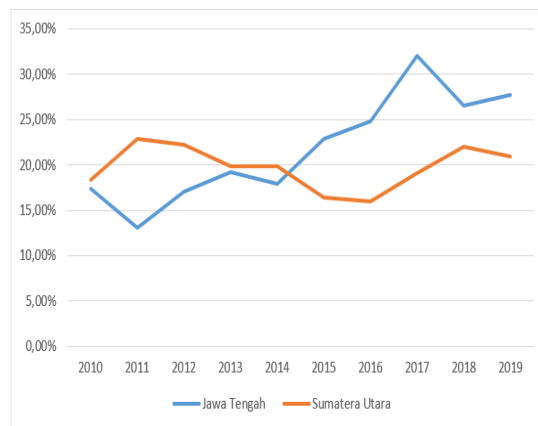
The diagram above shows that Legitimate other income in the Regencies/Cities of North Sumatra and Central Java Provinces in 2010-2019 experienced a fairly fluctuating increase and decrease. It will certainly affect the level of regional income for 10 consecutive years.

Apart from PAD, central transfers and Legitimate other income, efficiency is closely related to the concept of productivity. Efficiency measurement is done by comparing the output produced and the input used (cost of output). The process of operational activities in the management of the APBD can be considered efficient if a certain product or work can be achieved with the lowest possible use of resources and funds (spending well).

Especially in Indonesia, which is currently facing the Corona Virus Disease (COVID-19) pandemic, regional governments that manage the APBD are encouraged to use the APBD efficiently, in other words, to channel the APBD appropriately so that they can perform public services efficiently and effectively. The effects of the crisis affecting the current economic situation have caused governments in countries around the world to improve their processes in terms of economic performance and efficiency. In this sense, the comparative analysis of public sector efficiency is a

starting point in studying the role or task of efficiency, effectiveness and performance related to the government economy from using resources by public management. It is to obtain the objectivity of economic recovery and the interests of national economic development in the medium and long term.

North Sumatra Province consists of 25 Regencies and 8 Cities, while Central Java Province consists of 29 Regencies and 6 Cities with different levels of Local financial independence (TKKD). The following diagram will present the percentage of TKKD for the Provinces of North Sumatra and Central Java from 2010-2019:



Source: <https://www.bps.go.id>

Figure 4. Development of Local Financial Independence Level (TKKD) (In Percentage)

In the Diagram of the local financial independence Level (TKKD) above, it can be seen that the ratio of regional independence has increased and decreased during 2010-2019. The percentage of Local financial independence Level in North Sumatra Province is still included in the instructive criteria or very low because it is at 0% - 25%, which means that the regions are still very dependent on the centre and financial assistance from other parties. Meanwhile, Central Java Province, during 2010-2016, also had an instructive pattern; from 2017-2019, it rose to a consultative or low pattern, which means that the region still depends on the centre but does not depend entirely on the instructive pattern. It can also be seen that central transfer funds

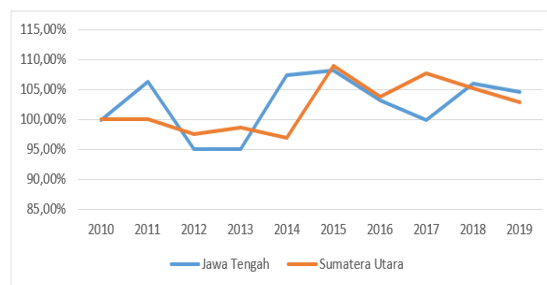
are larger than PAD, and there is still interest or debt spending to third parties or the government every year.

In addition, with the realisation of regional budgets that do not meet expectations, infrastructure development is one of the toughest challenges facing the government. The need for infrastructure in all parts of Indonesia is very high in infrastructure development. Meanwhile, the government has a relatively limited budget in the APBN. The government has increased the budget for capital expenditures and infrastructure development, but the APBN budget for infrastructure development is still considered insufficient. Therefore, local governments should be able to allocate their APBD for regional expenditures and not be used up for personnel expenditures and routine expenditures. On average, there are irregular changes (increases and decreases yearly), meaning that regional independence is still very low.

Several previous studies have stated that PAD has a partial effect on the level of regional independence, central transfers have a partial effect on regional independence, and spending efficiency affects regional independence. At the same time, legitimate other income significantly positively affects regional independence (Rizka, 2016). Another problem that arises is linking government efforts to efficiently overcome poverty in budget management (Kristyanto & Widodo, 2017). Of course, there are still inefficient districts/cities in carrying out the program. Regencies/Cities that use government spending both directly and indirectly efficiently will certainly get good results when compared to Regencies/Cities that have not been efficient in budget management.

In this study, spending efficiency is used as a moderating variable. The criteria in determining the effectiveness of local government finances can be seen from the large or small percentage obtained from calculating the efficiency ratio. The following is the expenditure efficiency ratio

in the Regency/City of North Sumatra and Central Java Provinces during 2010-2019:



Source: <https://www.bps.go.id>

Figure 5. Development of Expenditure Efficiency Ratio Diagram (In Percentage)

In the picture above, it can be seen that during 2010-2019 the regencies/cities in the provinces of North Sumatra and Central Java had a fluctuating ratio. The less efficient category dominates the ratio because the results of the calculation of the efficiency ratio are above 100%.

In the research of Marsudi et al. (2019), it was found that efficiency had a negative effect on PAD growth. It shows that if the value of the efficiency ratio is low, it will cause an increase in PAD. These results show similarities with the theory proposed by Sumini & Sari (2019), where if the efficiency ratio value is greater than 100%, it can be categorised as inefficient. If the efficiency value is less than 100%, it can be categorised as efficient.

LITERATURE REVIEW

Local Financial Independence

Local financial independence is the ability of local governments to finance their government activities, both development and services, to people who have paid taxes and levies as a source of income the region needs. In other words, the higher the independence ratio of a region, the more capable the region will be of managing its local government finances without the help of external sources of funds. The independence ratio also reflects the level of community participation in paying taxes and levies, which in this case is a component of local revenue. The higher the independence

ratio, the higher the community's participation in contributing to increasing PAD through paying taxes and levies (Junita & Murni, 2019). The formula used to calculate the independence ratio is as follows:

$$\text{Local Financial Independence Ratio} = \frac{\text{Original Local Government Revenue (PAD)}}{\text{Government Assistance}_{\text{Province}} \text{ and Loan}_{\text{Central}}}$$

The criteria used to determine the level of independence of the Regional Government, according to Arif & Arza (2019), are as follows:

Table 1. Local Financial Independence Criteria

Regional Financial Capability	PAD (%)	Pattern Connection
Too low	0% - 25%	Instructive
Low	26% - 50%	Consultative
Moderate	51% - 75%	Participatory
High	76% - 100%	Delegative

Original Local Government Revenue

Abdul (2014) states that PAD is all regional revenues from original regional economic sources. The PAD group is separated into four types, namely: income which includes local taxes, regional levies, separated regional wealth management results, and Legitimate other income. Efforts to increase PAD positively must be utilised in exploring new sources of revenue without burdening the community and incurring high costs. Therefore, it is necessary to look at the effectiveness of the regional income by comparing PAD with the realisation of PAD.

This PAD is a source of financing extracted from the region itself so that it can reflect the real conditions of the region. If the PAD structure is strong, the region also has a strong financing capacity. If the PAD of a region increases, then the government's funds can also be used. This increase will benefit the government because it can be used to meet the needs of the area. PAD is the right of the regional government, which is recognised as an addition to the value of net assets obtained from Regional Taxes, Regional Retributions, Separated Regional

Assets Management Results and Legitimate other income.

Central Transfer

Transfer funds are at the core of the central and local governments' financial relationship. Transfer funds or balancing funds are a source of regional income originating from the APBN to support the implementation of the authority of local governments in achieving the objectives of granting autonomy to regions, namely primarily improving public services and welfare. In general, the balancing fund is the largest part of the financing of local government activities, and technically its implementation is regulated in Government Regulation 55 of 2005.

Transfer funds from the central government to the regions aim to facilitate development in each region to achieve state goals. The transfer of funds from the APBN, which consists of balancing funds and special autonomy and adjustment funds, is still facing various problems in the transfer process. Transfers to the regions are stipulated in the APBN, Presidential Regulation, and Minister of Finance Regulation (PMK), which are then stated in the Budget Implementation List (DIPA).

Legitimate Other Income

Legitimate other income is income that is not included in the types of regional taxes, regional levies and the results of separated regional wealth management (Rizka, 2016). Regional Regulation No. 4 of 2020 concerning Regional Revenue and Expenditure Budgets for Fiscal Year 2021 states that Legitimate other income planned in the 2021 APBD includes grants and other income following statutory provisions. The study by Verawaty et al. (2017) found that Legitimate other income significantly negatively affected the level of financial independence. Then other income is income obtained from the central government or other agencies if an area experiences a shortage of funds or experiences a disaster. So if the area has funds that come from

Legitimate other income, then the area cannot be said to be independent.

Expenditure Efficiency

Efficiency is the ability of the government to carry out its activities to obtain certain results by using the lowest possible input, producing the maximum possible output, and completing the work properly. Because fiscal decentralisation talks about decentralised resources while resources are limited goods, one very important factor is the principle of efficient allocation. National resources that the centre previously controlled were handed over to the regions. Efficiency is key because the always limited nature of resources will require precise allocation and strategies to provide optimal benefits for development and the economy (djpk, 2012).

Furthermore, the concept of efficiency is the relationship between inputs and outputs where goods and services are purchased by an organisation and used to achieve certain outputs whose results are associated with desired performance standards/targets. An organisation is said to be more efficient if the efficiency ratio tends to be above one. The larger the number, the higher the level of efficiency. Regional Government Financial Performance in collecting revenue is categorised as efficient if the ratio is less than 1 (one) or below 100% (Marsudi et al., 2019). The formula used to calculate this ratio is as follows:

$$\text{Efficiency Ratio} = \frac{\text{Local Expenditure Realization}}{\text{Local Revenue Realization}} \times 100\%$$

Efficiency becomes a more interesting thing to look at further because, generally, Regencies/Cities with a high level of efficiency will certainly produce the most optimal output. In other words, regencies/cities that have reached the level of efficiency in direct and indirect spending can carry out programs to improve people's welfare. A high-efficiency level means providing opportunities for other programs to be carried out properly.

Framework

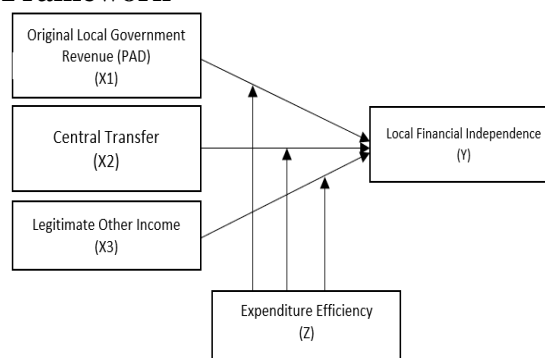


Figure 6. Framework

H1: PAD significantly affects the level of local financial independence in the Regency/City of North Sumatra Province.

H2: PAD significantly affects the level of local financial independence in the Regency/City of Central Java Province.

H3: Central transfer significantly and negatively affects the level of local financial independence in the Regency/City of North Sumatra Province.

H4: Central transfer significantly and negatively effect on the level of local financial independence in districts/cities of Central Java Province.

H5: Legitimate other income significantly and positively affects the level of local financial independence in the Regency/City of North Sumatra Province.

H6: Legitimate other income significantly and positively affects the level of local financial independence in the Regency/City of Central Java Province.

H7: Expenditure efficiency can moderate the influence of PAD on the level of Local financial independence in the districts/cities of North Sumatra Province.

H8: Expenditure efficiency can moderate the influence of PAD on the level of Local financial independence in districts/cities of Central Java Province.

H9: Expenditure efficiency can moderate the effect of central transfers on the level of local financial independence in districts/cities of North Sumatra Province.

H10: Expenditure efficiency can moderate the effect of centralised transfers on the

level of local financial independence in districts/cities of Central Java province.

H11: Expenditure Efficiency can moderate the influence of legitimate other income on the level of local financial independence in the Regency/City of North Sumatra Province.

H12: Expenditure efficiency can moderate the influence of legitimate other income on the level of local financial independence in districts/cities of Central Java province.

MATERIALS & METHODS

The research design in this study is causal associative, namely research that aims to determine the causal relationship between various variables (Sugiyono, 2016). This study uses independent variables, namely the PAD (X1), central transfer (X2), and legitimate other income (X3). The local financial independence is the dependent variable (Y) and a moderating variable, expenditure efficiency (Z).

The population is the totality of a certain characteristic determined by the author to be studied and concluded (Sugiyono, 2016). At the same time, the sample is part of the population that is used to estimate the characteristics of the population (Sugiyono, 2019). The number of districts and cities in North Sumatra Province is 25 districts and 8 cities. While in Central Java Province, there are 29 regencies and 6 cities. It means that the sample used is also 25 regencies and 8 cities in North Sumatra Province and 29 regencies and 6 cities in Central Java Province.

This study uses primary data from respondents' answers to the questionnaires distributed to measure the various variables studied. This study uses statistical measuring tools Statistics and Data Analysis 16 (STATA 16).

RESULT

A. Classic assumption test

1. Normality test

A normality test is a test carried out as a

prerequisite for performing data analysis. A normality test is carried out before the data is processed based on the research models proposed. The Skewness/Kurtosis test conducted the normality test in this research. Normality test results are presented in the following table:

Table 2. Normality Test with Skewness/Kurtosis Test

```
. swilk data_residual
```

Shapiro-Wilk W test for normal data

Variable	Obs	W	V	z	Prob>z
data_resid-1	20	0.93382	1.566	0.905	0.18286

Source: STATA software output results, 2022

Based on the table above, it can be seen that the probability value is 0.18286. Because the probability value of p, which is 0.18286, is greater than the level of significance, which is 0.05. So it can be concluded that the assumption of normality is met.

2. Multicollinearity Test

A multicollinearity test was conducted to see whether there was a strong/perfect relationship between the independent variables used in this study. The research model is considered good if it has low multicollinearity because if multicollinearity is high, then the model cannot separate the partial effects of one independent variable on other independent variables. The existence of multicollinearity in research using STATA can be seen through the VIF (Variance Inflation Factor) test. The following table presents the results of multicollinearity testing based on VIF (Variance Inflation Factor) as follows:

Table 3. Multicollinearity Test with VIF

Correlation Matrix	X1	X2	X3
X1	1		
X2	0,9408	1	
X3	0,8931	0,9463	1

Source: STATA software output results, 2022

Based on the table above, it can be seen that the results of the multicollinearity test are that there are no multicollinearity symptoms

between independent variables because all correlation values are <10 and indicate that the data used in this research model is free from multicollinearity symptoms.

3. Autocorrelation Test

The correlation test was carried out to determine whether variables in the prediction model correlated with changes in time. This test can be seen through the probability value of the Runs test > 0.05, which illustrates that there is no autocorrelation. The results of the autocorrelation test using the Runs test on the STATA 16 application can be seen in the table below:

Table 4. Autocorrelation Test with Runs Test

```
. runtest data_resid~1
N(data_resid~1 <= .3043827414512634) = 10
N(data_resid~1 > .3043827414512634) = 10
      obs = 20
      N(runs) = 9
      z = -.92
      Prob>|z| = .36
```

Source: STATA software output results, 2022

Based on the table above, the Runs test's probability value (Prob > |Z|) is 0.36, which means > 0.05. It is concluded that there is no autocorrelation.

4. Heteroscedasticity Test

The heteroscedasticity test aims to test whether there is an inequality of variance in the regression model from the residuals of one observation to another. This test can be seen through the probability value > 0.05; there is no heteroscedasticity symptom. Detection of the presence or absence of heteroscedasticity can be done using the Breusch-Pagan test.

Table 5. Heteroscedasticity Test with Breusch-Pagan Test
Breusch-Pagan / Cook-Weisberg test for heteroskedasticity

Ho: Constant variance
Variables: fitted values of Y

chi2(1) = 0.04
Prob > chi2 = 0.8341

Source: STATA software output results, 2022

Based on the results of the heteroscedasticity test in the table above, the probability value is 0.8341, which means > 0.05. It can be concluded that there is no heteroscedasticity symptom in this regression model.

B. Hypothesis Testing

1. Multiple Linear Regression Analysis

The analytical technique used in this research is the analysis of multiple linear regression with time series data to find out an overview of the effect of Regional Original Revenue, Central Transfer, and Legitimate Other Income on the Level of Local financial independence in the Regency/City Governments of North Sumatra and Central Java Provinces. The following are the results of multiple linear regression analysis, which are presented in the following table:

Table 6. Multiple Linear Regression Analysis Results

North Sumatra	Coefficient	P-Value	Prob. F	R-Square
X1	0,0000000043500	0,0000		
X2	0,0000000009220	0,0020	0,0005	0,9376
X3	0,0000000001450	0,6400		
Constant	20,33654	0,0000		
Central Java	Coefficient	P-Value	Prob. F	R-Square
X1	0,0000000021600	0,0000		
X2	0,0000000004320	0,0170	0,0000	0,9870
X3	0,0000000002460	0,1710		
Constant	16,62122	0,0000		

Source: STATA software output results, 2022

In the table above, it can be seen that the resulting multiple linear regression equation is as follows:

For North Sumatra:

$$Y = 20.33654 + 0.0000000043500X1 - 0.0000000009220X2 + 0.0000000001450X3 + e$$

For Central Java:

$$Y = 16,62122 + 0,0000000021600X1 - 0,0000000004320X2 + 0,0000000002460X3 + e$$

Based on the multiple linear regression equation above, it can be explained that:

For North Sumatra Province

- 1) PAD (X1) positively and significantly affects Local Financial Independence (Y). Central transfer (X2) negatively and significantly affects the Local Financial Independence (Y). Legitimate other income (X3) does not affect the Local Financial Independence (Y).
- 2) The results of the F test, is $F = 0.0005 < 0.05$. It means that PAD (X1), Central Transfer (X2) and Legitimate other income (X3) together or simultaneously have a significant effect on the Local Financial Independence (Y).
- 3) The R-Square value is 0.9376, which means that PAD (X1), Central Transfer (X2) and Legitimate other income (X3) can affect the Local financial independence Level (Y) of 93.76%.

For Central Java Province

- 1) PAD (X1) positively and significantly affects Local Financial Independence (Y). Central transfer (X2) negatively and significantly affects the Local Financial Independence (Y). Legitimate other income (X3) does not affect the Local Financial Independence (Y).
- 2) The results of the F test is $F = 0.0000 < 0.05$, it is concluded that PAD (X1), Central Transfer (X2) and Legitimate Other Income (X3) together or simultaneously have a significant effect on the level of Local financial independence (Y).
- 3) The R-Square value is 0.9870, which means that PAD (X1), Central Transfer (X2) and Legitimate Other Income (X3) can affect the Local financial independence Level (Y) of 98.70%.

2. Interaction Moderation Variable Test

The moderating variable test or moderation test aims to determine whether the moderating variable in this study is Expenditure Efficiency, which can moderate the independent variable consisting of PAD, Central Transfer and Legitimate other income on the dependent variable Local financial independence. If the P-Value in

this study is $<$ from a significant level of 0.05 and is adjusted to the hypothesis, it can be said that spending efficiency can moderate. The results of the moderation test can be seen in the following table:

Table 7. Moderation Test Results

North Sumatra	Coefficient	P-Value
X1Z	-0,0000000003920	0,33
X2Z	0,0000000001060	0,149
X3Z	-0,0000000002700	0,162
Central Java	Coefficient	P-Value
X1Z	-0,2222222222260	0,176
X2Z	0,0000000000239	0,654
X3Z	0,0000000001620	0,104

Source: STATA software output results, 2022

Based on the table above, it can be explained that:

- 1) Expenditure Efficiency (Z) is not able to moderate the influence of PAD (X1), Central Transfer (X2) and Legitimate Other Income (X3) on the level of Local Financial Independence (Y) partially in North Sumatra Province.
- 2) Expenditure Efficiency (Z) is not able to moderate the influence of PAD (X1), Central Transfer (X2) and Legitimate Other Income (X3) on the level of Local Financial Independence (Y) partially in Central Java Province.

CONCLUSION

The results of this study provide several conclusions that can be drawn based on the discussion of the problems that have been carried out. The following are the conclusions that the author has summarised in this study:

1. PAD significantly and positively affected the level of local financial independence in the Regency/City of North Sumatra Province from 2010-2019.
2. PAD significantly and positively affects the level of local financial independence in Regency/City of Central Java

- Province from 2010-2019.
3. The central transfer significantly and negatively affected the level of local financial independence in the Regency/City of North Sumatra Province from 2010-2019.
 4. Central transfers significantly and negatively affected the level of local financial independence in Regency/City of Central Java Province from 2010-2019.
 5. Legitimate other income does not significantly affect the level of local financial independence in the Regency/City of North Sumatra Province from 2010-2019.
 6. Legitimate other income does not significantly affect the level of local financial independence in the Regency/City of Central Java Province from 2010-2019.
 7. Expenditure efficiency cannot moderate the influence of PAD on the level of local financial independence in the Regency/City of North Sumatra Province from 2010-2019.
 8. Expenditure efficiency cannot moderate the influence of PAD on the level of local financial independence in the Regency/City of Central Java Province from 2010-2019.
 9. Expenditure efficiency is not able to moderate the influence of central transfers on the level of local financial independence in the Regency/City of North Sumatra Province in 2010-2019
 10. Expenditure efficiency cannot moderate the influence of central transfers on the level of local financial independence in the districts/cities of Central Java Province from 2010-2019.
 11. Expenditure efficiency cannot moderate the influence of legitimate other income on the level of local financial independence in the Regency/City of North Sumatra Province from 2010-2019.
 12. Expenditure efficiency cannot moderate the effect of legitimate other income on the level of local financial independence

in the Regency/City of Central Java Province from 2010-2019.

RESEARCH LIMITATIONS

The current research has limitations that can be used as a material consideration for future research to obtain better results from this study. Here are the limitations of this research :

1. This study only uses two research objects: the Regency/City Governments of North Sumatra and Central Java Provinces.
2. This study only uses three independent variables, namely PAD, central transfer and legitimate other income. 1 moderating variable is spending efficiency on the dependent variable, namely local financial independence.
3. This research is limited to using only time series data for 10 years starting from 2010-2019, with the object of research in 2 regencies/cities.
4. This study measures efficiency using a deemed inappropriate ratio, considering there is no link between regional income and regional expenditure.

SUGGESTION

Based on the conclusions of this study, suggestions can be given which are as follows:

1. Suggestions for further research are that it is hoped that further research can generalise research to the wider Regency / City Government.
2. The advice given to further research is that it is hoped that further research can use other variables that are more varied in order to find relationships and measure their influence on the local financial independence variable.
3. Suggestions for further research are that it is hoped that further research can use more updated time series data or panel data.
4. Suggestions for further research are expected so that further research can

find more references related to efficiency benchmarks.

Acknowledgement: None

Conflict of Interest: None

Source of Funding: None

REFERENCES

1. Abdul, H., & Muhammad Syam Khusufi. (2014). Akuntansi Sektor Publik. Akuntansi Keuangan Daerah. (Edisi 4), Jakarta: Salemba Empat.
2. Adu, E. P., Buabeng, T., Asamoah, K., & Damoah, C. M. (2020). *Digitisation of local revenue collection in Ghana: An evaluation of Accra Metropolitan Assembly (AMA)*. The Electronic Journal of Information Systems in Developing Countries, 86(1), e12112.
3. Anggi., & Bagus. (2018). Analisis Pengaruh Pendapatan Asli Daerah, Transfer Pemerintah Pusat dan Efisiensi Belanja Daerah terhadap Kemandirian Keuangan Daerah Kabupaten/Kota di Provinsi Sumatera Utara. Jurnal Akuntansi Bisnis & Publik, Vol 9 No.1.
4. Arif., & Arza. (2019). Analisis Keuangan Daerah Terhadap Alokasi Belanja Modal Pemerintah Daerah di Kabupaten dan Kota Provinsi Sumatera Barat. Jurnal Eksplorasi Akuntansi Vol. 1 No. 1.
5. Capkova, S., & Roncakova, L. (2013). *Fiscal Equalization And Regional Growth*. Slovakia. European Scientific Journal Vol. 1.
6. Gideon, Z., & Alouis, C. (2013). *The Challenges of Selfing-Financing in Local Authorities the Case of Zimbabwe*. International Journal of Humanities and Science Vol. 3 No. 11.
7. Junita., & Murni. (2019). Analisis Kemandirian dan Efektivitas Keuangan pada Kinerja Pemerintah Kota Medan. Jurnal Administrasi Bisnis Vol. 8 No. 1. P-ISSN: 2252-3294 E-ISSN: 2548-4923.
8. Kelvin. M. (2020). *Revenue Collection in Local Government Authorities in Zambia: A Case of Gwembe District Council*. Dissertation. The University of Zambia. Lusaka.
9. Kristiyanto, S., & Widodo, S. (2017). Analisis Efisiensi Belanja Langsung dan Tidak Langsung Pemerintah Kabupaten Kota di Jawa Timur Dalam Pengentasan Kemiskinan. JIEP Vol.17 No.1.
10. Mahendra, A. (2018). Analyse the Effect of General Allocation Funds, Revenue Sharing and Regional Original Income to Region District Expenditure in North Sumatera Province. Unimed International Conference on Economics Education and Social Science (UNICEES).
11. Mamuka, Veronika., & Elim. (2014). Analisis Dana Transfer Pada Pemerintah Daerah Kabupaten Kepulauan Talaud. Manado. Jurnal Ekonomi dan Pembangunan, Vol.2 No.1.
12. Marsudi, J., Supradi, A., & Susandra, F. (2019). Tingkat Kemandirian, Efisiensi, Efektivitas, Dan Pertumbuhan Pendapatan Asli Daerah: Kajian Pada Provinsi Jawa Barat. Jurnal Akunida, 5(2), 32-46.
13. Peraturan Daerah Sumatera Utara Nomor 4 Tahun 2020 tentang APBD Provinsi Sumatera Utara Tahun Anggaran 2021.
14. Rahmawati, M., & Fajar, C. Martian. (2017). Pengaruh Pendapatan Asli Daerah dan Dana Perimbangan Terhadap Belanja Daerah Kota Bandung. Jurnal Kajian Akuntansi, Vol.1 No.1.
15. Rizka. (2016). Pengaruh Pajak Daerah, Retribusi Daerah, Lain-Lain Pendapatan Asli Daerah yang Sah dan Dana Bagi Hasil Pajak Terhadap Tingkat Kemandirian Keuangan Daerah Pada Pemerintah Kabupaten atau Kota di Provinsi Jawa Tengah. *Journal of Accounting*, Vol.2 No.2.
16. Samad., & Iyan. (2013). Analisis Potensi Pendapatan Asli Daerah Dan Dana Perimbangan Kabupaten Rokan Hilir. Jurnal Sosial Ekonomi Pembangunan, Tahun III No.8. Universitas Riau.
17. Sugiyono. (2016). Metode Penelitian Kuantitatif, Kualitatif dan R&D. Bandung: PT Alfabet.
18. Sugiyono. (2019). Statistika untuk Penelitian. Bandung : CV Alfabeta.
19. Sumini, S., & Sari, S. P. (2019). Kinerja Keuangan Pemerintah Daerah: Perbandingan Negara-Negara Di Asia Tenggara (*The Local Government Financial Performance: Southeast Asia Countries Comparison*). *Journal of Economics Development Issues*, 2(02), 15-23.
20. Tolosang, K. (2018). Pengaruh Pertumbuhan Ekonomi dan Pendapatan Asli Daerah Terhadap Tingkat Kemandirian

Uchi Lilla Qadri et.al. Analysis of the effect of original local government revenue, central transfers and legitimate other income on financial independence of regency/city of north Sumatra province and central java province with implementation expenditure efficiency as a moderating variable

Daerah Kota Tomohon. Jurnal Berkala Ilmiah efisiensi Vol. 18 No. 03.

21. Undang-Undang Nomor 23 Tahun 2014 tentang Pemerintah Daerah

22. Verawaty, Septiani. F, & Richa. R. (2017). Determinan Tingkat Kemandirian Keuangan Daerah pada Kabupaten/Kota di Provinsi Sumatera Selatan. Jurnal Ilmiah MBiA, Vol.16 No.1.

<http://www.djpk.kemenkeu.go.id>

How to cite this article: Uchi Lilla Qadri, Iskandar Muda, Tarmizi. Analysis of the effect of original local government revenue, central transfers and legitimate other income on financial independence of regency/city of north Sumatra province and Central Java province with implementation expenditure efficiency as a moderating variable. *International Journal of Research and Review*. 2022; 9(8): 431-443. DOI: <https://doi.org/10.52403/ijrr.20220837>
