



## The influence of regional revenue and expenditure budget realization report and financial report information on APBD determination: Study of regional government in Indonesia

Bambang Pamungkas<sup>1</sup>  
Sutarti Sutarti<sup>2</sup>

<sup>1,2</sup>Institut Bisnis Dan Informatika Kesatuan, Bogor, Indonesia.

<sup>1</sup>Email: [pamungkas62@yahoo.com](mailto:pamungkas62@yahoo.com)

<sup>2</sup>Email: [sutarti@ibik.ac.id](mailto:sutarti@ibik.ac.id)

### Abstract

This study aimed to empirically investigate the influence of Regional Revenue and Expenditure Budget (APBD) realization as well as regional financial report information on APBD determination (PAPBD). Quantitative data were obtained from regional government financial report spanning from 2017 to 2020. Furthermore, the population comprised regional government in Indonesia, with a sample of 538 city and district governments as well as 2,126 observations selected through purposive sampling. Panel data analysis was conducted using GLS-RE method to estimate parameters of the direct influence model. The results showed that APBD realization report had a positive effect on APBD determination, while financial report information had a negative effect. This had significant implications for regulations and local government, specifically in developing countries such as Indonesia. Moreover, the results showed the importance of budget realization report (LRA) in informing APBD decisions and the necessity of timely financial information to ensure appropriate budget allocation.

### Keywords:

APBD  
Budget realization report  
Financial report  
Fixed assets.

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( Corresponding Author)

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## 1. Introduction

Budget is a crucial factor in business management accounting, particularly for public sector entities (Yesyan, Mangantar, & Tulung, 2021). Furthermore, it serves as a financial operations plan, a benchmark for improving services and community welfare through allocated financing over a specific period (Wokas & Gerungai, 2019). In public sector management, budget can be classified into two, namely State Revenue and Expenditure Budget (APBN) and Regional Revenue and Expenditure Budget (APBD) (Angi, Dethan, & Tiwu, 2022). For regional government, APBD has significant importance as it enables the implementation of activity programs and development projects after determination.

Based on article 16 of the general principles and structure of APBD, specified in [Permendagri No. 13 Tahun \(2006\)](#) (amended by [Permendagri No. 77 Tahun \(2020\)](#)) concerning Technical Guidelines for Regional Financial Management, the functions of APBD include (1) Authorization Function: Serves as basis for implementing income and expenditure for the relevant year. (2) Planning Function: Provides a guideline for management in planning activities for the designated year. (3) Monitoring Function: Serves as a guideline for assessing whether regional government administration activities adhere to established provisions. (4) Allocation Function: Directed at reducing unemployment and waste of resources, as well as enhancing economic efficiency and effectiveness. (5) Distribution Function: Formulated with attention to a sense of justice and propriety. (6) Stabilization Function: Serves as a tool to maintain and strive for fundamental balance in the economy.

APBD is prepared through several activity stages, starting with Regional Government submission of RAPBD Draft to Regional People Representative Council (DPRD) for joint deliberation. During this process, Executive Budget Team, comprising Regional Secretary, BAPPEDA, and other relevant parties, represents Regional Government in discussions. DPRD is represented by Budget Committee, consisting of members from each faction. Despite the meticulous stages in determining APBD, effective implementation remains suboptimal. According to the Ministry of Home Affairs, budget realization in 346 regions as of December 15 2020 was still below 75% ([news.ddtc.co.id](#)), raising questions regarding potential procedural issues in budget preparation. Previous studies showed a tendency among decision-makers (representative council and government) in Indonesia to ignore accounting information in budget implementation. Policies are often formulated without adequate analysis of current asset information, cost-benefit analysis, or considerations of optimal governmental asset use ([Pamungkas, 2019](#)). Studies focused on the impact of APBD realization on regional government performance, with [Nufus and Asmara \(2017\)](#); [Sutopo, Nilan, and Prastowo \(2025\)](#) and [Lestari and Shara \(2021\)](#) contributing immensely. Meanwhile, studies addressing factors influencing APBD determination (PAPBD) primarily examine aspects such as human resources quality, process and transparency ([Lestari & Shara, 2021](#)), size of regional government, leadership background, age of regional heads, DPRD size, composition, liquidity, leverage, and audit opinions ([Verawaty, Jaya, & Megawati, 2016](#)). There remains a study gap concerning the specific variables influencing APBD determination, particularly regarding the impact of budget realization and prior financial report information using secondary data. This current study aimed to investigate the impact of APBD realization and regional financial report information on APBD determination. Furthermore, it examined the influence of accounting information contained in financial report, specifically focusing on fixed assets. Fixed asset data were chosen for typically representing the largest portion of financial statements. This study offered several methodological and conceptual contributions. It also provided empirical evidence regarding the influence of APBD realization and regional financial report information on APBD determination, a topic with limited exploration. This study is the first of its kind in Indonesia to use secondary data from regional government, with a large sample size regarding financial report information, specifically fixed assets related to APBD determination. Previous studies predominantly relied on primary data and were limited to a few local governments. The primary objective was to investigate the influence of APBD realization and regional financial report information on APBD determination. The study problems were formulated as follows: Does the realization of the previous year APBD influence APBD determination? Does the previous year financial report information influence APBD determination?

The structure of this paper commences with an introduction describing the importance of budgets in the public sector, how budgets are prepared, and reviewing previous literature related to budget preparation and public sector budgeting. Subsequently, hypotheses were formulated, followed by an overview of the analysis stages and presentation of results. The last section presented the conclusion and study limitations, as well as recommendations for further exploration.

## **2. Literature Review and Hypothesis Development**

APBD is the annual financial blueprint for government, subject to discussion and approval by both regional government and Regional People Representative Council (DPRD), as stipulated by regulations ([Tumiwa, 2013](#)). It comprises income, expenditure, and financing budgets devised by government for a year, endorsed by DPRD. Efficient and effective budget planning necessitates several steps, including the establishment of objectives, targets, results, and benefits, along with the identification of performance indicators to be achieved. It also includes prioritizing activities, calculating workloads, and determining unit prices. APBD, stipulated by Regional Regulation, spans from January 1 to December 31 of each year, comprising the fiscal framework for regional governance and financial management in Indonesia.

APBD plays a crucial role in regional development planning, as any delay in its determination directly impacts the implementation of development projects in the location ([Subechan, Hanafi, & Haryono, 2014](#)). [Ateng and Ibrahim \(2023\)](#) explained the function and position of APBD: As a basis for financial management policies to be executed by regional government over a designated budgetary period. As a grant of power from the legislature, specifically DPRD, to the regional head (executive leader) to allocate funds for governing activities; determination of authority for regional heads to carry out development and services to the community; a material for supervision by authorized parties, facilitating accountability and governance practices. In a political context, APBD is a political document, a form of executive commitment and legislative

agreement regarding the use of public funds for certain purposes. APBD is not prepared based on technical provisions or purely economic calculations, but more on agreement, reflecting the vision and mission of elected regional head. Sunday, Bates, and Dulvy (2011) defined a budget plan as "a process of determining organizational objectives and devising tactics, strategies, or operational framework to achieve objectives. Munandar and Ulwiyah (2012) defined a budget plan as "a systematic blueprint including all organizational activities expressed in monetary units, valid for a certain period in the future". Based on Government Regulation (PP) Number 71 of 2010 concerning Government Accounting Standards (SAP), outlined in the Government Accounting Standards Statement (PSAP) Regulation Number 24, "Budget Realization Report (LRA) is a fundamental component of government financial report. It provides comprehensive information on the realization and expenditure budget, as well as regional revenues, enabling comparison across a defined period". According to Dedi Nordiawan, budget realization report offers an overview of the sources, allocation, and use of economic resources managed by the government (central and regional), in a reporting period. Financial report is a structured document on the financial position and transactions carried out by a reporting entity. The general objective is to present information on financial position, budget realization, cash flow, and performance, assisting users in decision-making and evaluation of resource allocation. Specifically, it is designed to facilitate decision-making and demonstrate accountability for entrusted resources. To achieve these objectives, financial statements typically cover Assets, Obligation, Fund Equity; Income Expenditure Transfer, Financing, and Cash Flow. Regional government financial report is prepared by the Regional Financial Management Officer (PPKD), consolidating reports generated by Regional Apparatus Organization (OPD). It comprises Budget Realization Report, SAL/SAK Change Report, Balance Sheet, Operational Report, Statement of Changes in Equity, Cash Flow Statement, and Notes to Financial Statements. The preparation process entails consolidating OPD and PPKD financial report, with the latter also functioning as a consolidator. Unlike the previous procedure, the process includes the use of elimination journal to remove reciprocal accounts (RK PPKD account in SKPD financial report and RK SKPD account in PPKD financial report).

### *2.1. The Influence of Regional Revenue and Expenditure Budget (APBD) Realization Report on APBD Determination*

Budget Realization Report is a comprehensive overview of the sources, allocation, and use of financial resources managed by the central/regional government, describing the comparison between budget and realization in a specified reporting period (Napitupulu, Zaida, & Muda, 2020). This report enables the anticipation of incoming economic resources to government activities, as well as the assessment of uncertainties surrounding resources, Mahsun (2006). The planning and realization of regional income and expenditure budgets help provide insights into the financial performance of regional government annually, facilitating effectiveness in subsequent years (Iqbal, Abbas, & Ratna, 2020). According to PP no. 60 of 2015 concerning the 2016 Government Work Plan, performance are inputs for analysis and evaluation in the preparation of the subsequent year budget by the relevant ministry/institution. Winter (2017) explained that the determination of the following year capital expenditure budget ceiling should be based on an evaluation of the previous year budget, ensuring greater efficacy in budget allocation by incorporating lessons from past expenditure patterns. The following hypothesis was formulated based on the explanation.

*H<sub>1</sub>: Budget realization report has a positive effect on APBD determination.*

### *2.2. The Influence of Financial Report Information on APBD Determination*

Realization of the capital expenditure budget is the ability to use allocated funds for implementing work programs in various units. Capital expenditure, including investments in assets whose benefits exceed one budget year, plays a role in enhancing regional assets and fostering maintenance costs in the general administration expenditure group (Baker & Halim, 2007). In general, the value of regional fixed assets is the largest compared to other accounts in the financial statements. The existence of fixed assets significantly influences the smooth running of government and development. Fixed assets owned as a result of capital expenditure are the main prerequisite for providing public services by local governments. To increase these assets, regional government allocates funds in the form of capital expenditure budget in APBD, which is based on regional needs for facilities and infrastructure, both for the smooth implementation of government tasks and public facilities. Regional asset-related challenges persist despite detailed regulations governing asset management, with planning and budgeting process concerning capital expenditure facing more hurdles. The president remark regarding the 2022 budget realization shows a concerning trend of low absorption at approximately 45%, especially concerning capital expenditure. This raises questions about whether information on the acquisition of fixed assets in financial report adequately informs APBD determination. In practice, regional asset management often faces issues such as budgeting for unnecessary items, while essential needs are ignored. There might be instances of budgeting for assets already realized or still being implemented. The following hypothesis was formulated based on the explanation.

*H<sub>2</sub>: Financial report information relating to fixed assets has a positive effect on APBD determination.*

### 3. Method

#### 3.1. Data and Samples

The study population comprised Regional Government in Indonesia spanning from 2017 to 2020. Unbalanced panel data were obtained from 538 regional government entries with 2,126 observations. Furthermore, secondary data were sourced from local government financial report.

#### 3.2. Definition and Measurement of Variables

The study model for hypothesis testing is shown in models 1 and 2 as follows:

$$PAPBD\_PEN_{it} = \beta + \beta_1 LRA\_PEN_{it-1} + \beta_2 ILKAT_{it} + FA_{it} + \beta_3 WIL_{it} + \varepsilon_{it} \quad (1)$$

$$P\_APBD\_BM_{it} = \beta + \beta_1 LRA\_BM\_1_{it-1} + \beta_2 ILKAT_{it} + FA_{it} + \beta_3 WIL_{it} + \varepsilon_{it} \quad (2)$$

The dependent variable was APBD determination, while the independent variables were budget realization and financial report information. The control variable was the dummy variable for the location of regional government. The following is an explanation and measurement of each variable:

#### 3.3. Dependent Variable: APBD Determination ( $P\_APBD$ )

APBD determination was measured by the total determination of the current year revenue budget (t) (PAPBD\_PEN) and the determination of the current year capital expenditure budget (t) (PAPBD\_BM).

#### 3.4. Independent Variable

The independent variables include:

- The realization of the previous year revenue budget (t-1) (LRA\_PEN) and the realization of the previous year capital expenditure budget (t-1) (LRA\_BM) measured by the total realization of each regional government budget.
- Financial report information (ILKAT) measured by the amount of local government fixed assets in the previous year (t-1).

#### 3.5. Control Variables

The control variables include:

- Fixed assets (FA) measured by the number of fixed assets in regional government balance sheet for the current year (t)
- The location of regional government area (WIL), measured by a dummy variable, where 1 denotes regional government is located on Java Island, and 0 otherwise.

#### 3.6. Analysis Method

The data analysis comprised panel data regression, accompanied by the Chow and Hausman tests to determine the optimal regression model among pooled least squares, fixed effects, or random effects. The estimation method used in the panel data regression analysis model was Generalized Least Squares (GLS). The regression was carried out using STATA software version 13. Furthermore, classic assumptions for multicollinearity were tested using VIF (Variance Inflation Factor), where a mean VIF above 10 indicates the presence of multicollinearity. Violations of multicollinearity were addressed by centering and eliminating independent variables causing multicollinearity.

### 4. Results and Discussion

Table 1 presents descriptive statistics for the variables describing the influence of APBD Budget Realization Report and Financial Report Information on APBD Determination.

**Table 1.** Means, standard deviations, and correlations.

Variables	Mean	SD	1	2	3	4	5	6	7
1. PAPBD_PEN	12.18	0.278	1						
2. PAPBD_BM	11.55	0.268	0.82***	1					
3. LRA_PEN_1	12.14	0.282	0.92***	0.80***	1				
4. LRA_BM_1	11.50	0.353	0.59***	0.66***	0.62***	1			
5. ILKAT_1	12.32	0.403	0.61***	0.59***	0.63***	0.45***	1		
6. LK_AT	12.36	0.318	0.82***	0.81***	0.84***	0.62***	0.74***	1	
7. WIL	0.21	0.405	0.37***	0.30***	0.36***	0.17***	0.21	0.31***	1

Source: Processed secondary data.

The descriptive statistics show that APBD determination variable, serving as the dependent variable (PAPBD\_PEN and PAPBD\_BM) has standard deviation values of 0.27 and 0.26, respectively, indicating low variation. Similarly, the independent variables, namely Realization report and financial report information, had standard values of 0.28 and 0.40, indicating relatively moderate data variations.

Table 2 shows significant results in the testing of H1 to determine whether budget realization report influenced APBD determination. The coefficient value for the variable LRA\_PEM and APBD determination was 0.802 with p-value of 0.000 (p-value < 0.01) for Model 1, and 0.129 with p-value of 0.000 (p-value < 0.01) for Model 2, indicating the acceptance of H1. There was a significant positive influence of budget realization report on APBD determination, regarding the realization of income and capital expenditure in the previous year. This was supported by Winter (2017) explaining that the determination of the next capital expenditure budget ceiling on an evaluation of the previous year budget enhanced effectiveness, since the evaluation accounted for the actual amount of capital expenditure budget. This condition occurred in a sample of regional government in Indonesia during the study period suggesting that regions with substantial budget realization in the previous year could optimize development and public services. Therefore, there was an expectation that optimization could be achieved when determining the subsequent budget. In Model 2, the influence of financial report information on APBD determination was tested. The results showed that the coefficient value for the variable ILK\_AT\_PEM and APBD determination was -0.021, with p-value of 0.027 (p-value < 0.05), indicating the rejection of H2. The significant negative influence of financial report information, proxied by fixed asset data from the previous year, on APBD determination suggested that higher values of fixed assets in the previous year correlated with a decrease in the size of APBD determination in the following year. Several factors can contribute to this observed phenomenon in a sample of local governments in Indonesia. Firstly, financial report audited by BPK should be completed no later than two months after the completion of financial report by the government, specifically around May each year. The budgeting process for the current year is carried out one year earlier than the completion of the audited financial statements. Therefore, the information used in the budgeting process does not reflect the actual data, leading to underestimation or overestimation of APBD determination compared to the previous year. Secondly, the budgeting process uses a medium-term (five-year) expenditure framework. Budget proposals should consider not only the immediate year but also the subsequent years. However, audit report was solely used for budgeting purposes for the next one-year period after the current/related year (t+2). Thirdly, negative influence can originate from a high number of assets in year t-1, indicating ample availability of regional government facilities and a reduction in budget allocation related to capital expenditure in the following year.



**Table 2.** Regression results of models 1 and 2 (Hypotheses 1 and 2).

Model 1			Model 2		
Independent variable	Predict		Independent variable	Predict	
LRA_PEM	+	0.802 (0.000***)	LRA_BM	+	0.129 (0.000***)
ILK_AT	+	-0.008 ( 0.336)	ILK_AT	+	-0.021 ( 0.027**)
Control Variable			Control Variable		
FA	+/-	(0.118) (0.000***)	FA	+/-	(0.582) (0.000***)
WIL	+/-	0.010 (0.087*)	WIL	+/-	0.046 (0.000***)
Cons		0.679 (0.004)	Cons		4.348 (0.000)
N		2.126	N		2.126
R <sup>2</sup>		86.09%	R <sup>2</sup>		71.10%
Chi <sup>2</sup>		131.26***	Chi <sup>2</sup>		30.16***

Source: Processed secondary data.

## 5. Conclusion

In conclusion, this study aimed to investigate the influence of APBD realization and regional financial report information on APBD determination. The regression analysis showed a positive effect of budget realization report on APBD determination, while financial report information had a negative effect. The results had implications for local governments, which showed the importance of budget realization report in APBD determination. Moreover, there was a crucial need for timely financial information by regulators, to ensure accurate budget determination.

This study had several limitations, with the first being the reliance on value of fixed assets in year t-1 as a measurement of accounting information. Additional accounting information could be explored in the future to provide a more comprehensive depiction of financial report information. Secondary data were used, necessitating the adoption of mixed method, integrating quantitative and qualitative to enhance the robustness of results.

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