

**EFFECT OF REGIONAL ORIGINAL INCOME, GENERAL ALLOCATION FUNDS, SPECIAL ALLOCATION FUNDS, REGIONAL GOVERNMENT SIZE, AND AUDIT OPINION ON FINANCIAL PERFORMANCE OF THE GOVERNMENT OF CENTRAL JAVA 2013 – 2016**

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**Abstract**

This study aims to determine various factors that affect local revenue, general allocation funds, special allocation funds, local government measures, and audit opinions on the financial performance of local governments. The research used is a quantitative study with population of regencies/cities in Central Java during 2013-2016. The technique used for the sample is purposive sampling, there are 35 districts/cities. The data analysis technique used in this study is multiple linear regression analysis. The results of this study that the Regional Revenue has a positive effect on the financial performance of local governments, General Allocation Funds have a significant negative effect on the financial performance of local governments, Special Allocation Funds have a significant positive effect on the financial performance of local governments, regions, Audit Opinion has no significant positive effect on the performance of local government.

**Keywords:** Regional Original Revenue, General Allocation Funds, Special Allocation Funds, Size of Local Government, Audit Opinion, Financial Performance

**Research Background**

Since the enactment of regional autonomy in Indonesia and the enactment of Law Number 32 of 2004 concerning regional governments, the authority of the Regional Government is to regulate and manage its own government affairs based on the principle of autonomy, and Law No. 33 of 2004 concerning the balance between the central government and regional governments, both provincial and district and city governments have been given the authority to regulate their own regional development giving new hope to the growth of awareness to develop regions more optimally, no longer concentrated at the center. With the granting of regional autonomy that prioritizes regional independence. So that it will create efficiency and effectiveness in the utilization of financial resources. For this reason, a reliable and credible financial report is needed that illustrates the financial resources of the area. This is in accordance with the important characteristics of an autonomous region that is able to carry out regional autonomy that is located in the Human Resources (HR) strategy and capabilities in the area of regional finance (Abdullah & Febriansyah, 2015).

Delegation of authority is certainly accompanied by the transfer and transfer of responsibility for funding, facilities and infrastructure, as well as human resources within the framework of fiscal decentralization. Funding authority that can be handed over can be done in two ways, namely utilizing the financial potential of the region itself and the mechanism of financial balance

between the regions and between regions. The authority to utilize its own financial resources is exercised in the Regional Original Revenue (PAD) container whose main sources are regional taxes, regional levies, the results of the management of separated regional assets, and other valid PAD. Whereas the implementation of financial balance is carried out through the Balancing Fund, which is a revenue sharing fund consisting of taxes and natural resources, the General Allocation Fund, and the Special Allocation Fund (Law Number 33/2004). The policy on the use of all the funds was submitted to the local government (Abdullah & Febriansyah, 2015). In the context of carrying out its functions and authorities, the regional government is expected to be able to find sources of its own financial revenue, especially to meet the needs of financing and development by growing to the local revenue (PAD) it has.

Local Own Revenue (PAD) is the main source of regional financing and expenditure. Therefore, regions must be able to recognize the potential and identify the resources they have to increase local revenue. The greater the contribution of local revenue to the budget structure, the smaller the regional dependence on central government assistance. In addition to PAD, regional revenues also come from general allocation funds (DAU) and special allocation funds (DAK). General allocation funds and special allocation funds are funds originating from the Balancing Fund. A large balance fund received from the central government will show that the regional government is increasingly dependent on the central government to meet the needs of the region (Abdullah & Febriansyah, 2015).

The management of regional finances has a profound effect on the fate of an area because a region can become a powerful and powerful region and be able to develop its magnitude or become powerless depending on how it manages its finances. Regional financial management that is carried out economically, efficiently and effectively or meets the value for money and participation, transparency, accountability and justice will encourage the creation of good governance. For regional management not only human resources are needed, but also economic resources in the form of finance as outlined in a local government budget (Yudha & Kusnadi, 2017).

Realizing good governance, the government continues to make efforts to increase transparency and accountability in the management of the country's finances that include the fields of legislation, institutional systems, and improving the quality of Human Resources (HR). According to Law No. 17 of 2003 Article 30 - 32 concerning State Finances requires the President and Governor / Regent / Mayor to submit a Draft Law / Regional Regulation concerning accountability for the implementation of the APBN / APBD to the DPR / DPRD in the form of financial reports that have been audited by the Supreme Audit Board, no later than not later than 6 (six) months after the fiscal year ends. The financial statements referred to at least include the APBN / APBD Realization Report, Balance Sheet, Cash Flow Report, and Notes to Financial Statements, which are accompanied by financial statements of State / Regional companies and other bodies. The form and contents of the APBN / APBD implementation accountability report are prepared and presented in accordance with Government Accounting Standards (Yudha & Kusnadi, 2017).

Financial performance is a performance measure that uses financial indicators (Puspita & Martani, 2012). The regional government as the party that has the authority to carry out government activities, development, and services to the community has the obligation to submit

a report on the financial accountability of the region to assess whether the regional government has successfully carried out its duties properly or not. One of the tools to analyze the performance of regional governments in managing their regional finances is by analyzing the financial ratios against the APBD that have been determined and implemented.

The financial performance of regional governments is managed through regional financial management. Regional financial management is the organization and management of resources or wealth in an area to achieve the desired goals of the region. Delegation of authority is certainly accompanied by the transfer and transfer of responsibility for funding, facilities and infrastructure, as well as human resources within the framework of fiscal decentralization. Funding authority that can be handed over can be done in two ways, namely utilizing the financial potential of the region itself and the financial balance mechanism between the regions and between regions (Jauhar, 2016).

Performance measurement is a systematic process to assess whether a planned program/activity has been carried out in accordance with the plan, and more importantly whether it has achieved the targeted success at the time of planning (Yudha & Kusnadi, 2017). Wood (1998) revealed that the function of performance measurement can explain about (1) Evaluation of how the program runs; (2) Means of comparison of the services provided; (3) Communication tools with the public. Based on the description above it can be concluded that the measurement of regional financial performance is something important to do.

One of the measurement tools that can be used to analyze the performance of local government financial governments in managing their regional finances is to conduct an analysis of financial ratios to the APBD that have been established and implemented, namely the ratio of financial efficiency of local governments. This study uses the efficiency ratio in measuring regional financial performance as the dependent variable because the efficiency ratio is related to the allocation of economic resource use that is using available economic resources to achieve optimal results in accordance with predetermined targets (Yudha & Kusnadi, 2017).

Based on the background and results of the research described above, this study refers to the research conducted (Abdullah & Febriansyah, 2015) with the first difference being the addition of an independent variable, namely the Size of the Local Government (SIZE) journal in 2016 and the Audit Opinion journal in 2016. The addition of the Local Government Size (SIZE) variable is due to the large size of the local government (SIZE) in the government which will provide convenience in operational activities which will later provide smoothness in obtaining PAD, DAU, and DAK for regional progress as evidence of improved performance. The second is the research sample from (Abdullah & Febriansyah, 2015) using purposive sampling data collection techniques, while the samples in this study also use purposive sampling data. And the last is the year of observations made (Abdullah & Febriansyah, 2015), namely in 2011 - 2013, while in this observation in 2013 - 2016.

The aim of this research is to find out whether PAD, DAU, DAK, Regional Government Size, and Audit Opinion influence the Financial Performance of Regional Governments in Central Java in 2013-2016.

The benefit of this research is to be able to provide a reference regarding the influence of Local Revenue (PAD), General Allocation Fund (DAU), Special Allocation Fund (DAK), Size of Local Government (SIZE), and Regional Opinion on the Financial Performance of Regional

Governments which can later assisting the Government to be used as a material for evaluating government performance related to Local Revenue (PAD), General Allocation Funds (DAU), Special Allocation Funds (DAK), Local Government Measures (SIZE), and Audit Opinions on Regional Government Financial Performance.

### **Theoretical basis**

#### **Theory of Fiscal Federalism**

This theory explains the preparation of budgets based on the needs of local communities, the application of budgets based on the needs of local communities, the implementation of budget decentralization that causes local governments to be closer to the community, and the government is able to find out all information about the needs needed by the people in the area. Federalism fiscal theory in it also explains that local governments are able to help and encourage regional economic growth. The form of budget efficiency can run well and can be achieved if the government budget is able to run well in accordance with community needs. The central government also takes part in making decisions and is wise (Penthury, 2011).

#### **Effect of PAD on Regional Government Financial Performance**

Local Own Revenue (PAD) is an important source of income for a region in meeting its expenditure. Regional Original Revenue has a positive effect on direct expenditure allocation. PAD has a significant role in determining the ability of regions to carry out government activities and regional development programs. The government has an obligation to improve the level of people's welfare and maintain and maintain the peace and order of the community (Abdullah & Febriansyah, 2015).

Research conducted by Abdullah & Febriansyah (2015), Jauhar (2016), Puspasari (2016) concludes that local revenue simultaneously has a significant effect on the financial performance of local governments.

So it can be concluded that the Regional Original Revenue is all revenue that comes from the original economic resources of the region, namely local taxes, regional levies, BUMD profits, other legitimate other receipts and not from taxes or levies. The greater the contribution of local revenue to finance development and community services, it can be said there is an increase in the financial performance of local governments. If the original regional income rises, it can be said that the financial performance of the regency and city government is increasing (increasing). The development of a hypothesis based on the above studies and existing theories, the hypotheses in this study:

H1: Local Revenue has a positive effect on the Financial Performance of Regional Governments.

#### **Effect of DAU on Regional Government Financial Performance**

DAU is one of the transfers of central government funds to regional governments sourced from the APBN which is allocated with the aim of equitable distribution of financial capacity between regions to fund regional needs in the context of decentralization. According to Law No. 33/2004, general allocation funds are funds sourced from the APBN which are allocated with the aim of equitable distribution of financial capacity between regions to fund the needs of autonomous regions in the context of implementing decentralization.

This research is in line with research conducted by Juliawati & Jalaluddin (2012) and Rukmana (2013) which states that DAU has a positive effect on the Regional Government's Financial Performance. The higher the amount of DAU received from the center, the lower the Regional Government Financial Performance.

There are several rational reasons why local governments must reduce transfers from the central government, that is, central transfers are usually accompanied by certain conditions, so that autonomy is relatively compromising, especially if transfer funds are the dominant source of local revenue and too often receiving transfers from the center actually reduce creativity local to take policies related to efficient local acceptance.

H2: The General Allocation Fund has a positive effect on the Regional Government's Financial Performance.

### **Effect of Special Allocation Funds on Regional Government Financial Performance**

Special Allocation Funds (DAK) are also funds originating from balance funds in addition to general allocation funds and revenue sharing funds. The purpose of DAK is to reduce the burden of special activity costs that must be borne by local governments. The use of DAK is directed towards investment activities in the development, procurement, improvement, improvement of physical facilities and infrastructure of public services with a long economic life (Abdullah & Febriansyah, 2015).

DAK is given with the aim of financing special activities in certain regions which are regional affairs and in accordance with national priorities, specifically to finance the needs of basic public service facilities and infrastructure that have not yet reached certain standards or to encourage the acceleration of regional development, the higher the DAK will the higher the Regional Government Financial Performance. The increase in DAK disbursement to the regions each year should be accompanied by a more targeted design and its use is really in the interests of the people and not a design that provides an opportunity for budget leakage. If the leak occurs, the level of local government financial performance is low (Abdullah & Febriansyah, 2015).

H3: Special Allocation Funds have a positive effect on the Regional Government's Financial Performance.

### **Effect of Size of Regional Government (Size) on Financial Performance of Local Government**

The size of the organization shows how big an organization is. Companies that have a larger size will also have greater pressure from the public to report the required disclosures. Local governments will tend to provide good news in disclosing their financial statements. Good news can be in the form of a report on the good performance of the local government (Aziz, 2016). Regions that have larger regional size or total assets will have large demands in reporting mandatory disclosure to the public. Local governments need to disclose more about the list of assets owned, maintained and managed (Suhardjanto, Rusmin, & Brown, 2010). This certainly has an impact on the performance of the local government.

The greater the size of the area judged by the greater total assets of the regional government, it is expected that the performance of the regional government will also be higher. This study is in line with research conducted by Aziz (2016) and Pusparari (2016) also concluded that the size of

local government has a significant positive effect on the financial performance of local governments.

H4: The size of the Regional Government has a positive effect on the Financial Performance of the Regional Government.

### **The Effect of Audit Opinion on the Financial Performance of Regional Governments**

BPK audit opinions are cases that are found by BPK against the Regional Government's financial statements on violations committed by an area in terms of internal control and in the provisions of applicable laws. The more opinions that are not fair and do not provide opinions, then show the lower performance of a local government (Dewata, Evada & Ilmiyyah, 2017). The existence of this opinion causes the BPK to request an increase in checks and corrections. Thus, the more the number of opinions that are not fair and does not provide an opinion, the lower the performance of local governments (Puspita & Martani, 2012).

Research linking audit findings with local government performance was conducted by (Kusumawardani, 2012) which resulted that the greater the number of BPK audit findings in a local government, the lower the performance of that local government. While research (Abdullah & Febriansyah, 2015) shows that there is a relationship between BPK's audit opinion on the financial performance of local governments. With reference to the research above, it can be formulated in the final hypothesis of this study (Suryaningsih & Sisdyani, 2016).

H5: Audit Opinion has a positive effect on Local Government Performance

## **RESEARCH METHODS**

### **Population and Sample**

The population and sample in this study are Regencies / Cities in Central Java which have the latest report, namely 2013-2016. sampling through the establishment of criteria that are considered representative of the population. The criteria used are as follows:

1. Regencies / Cities in Central Java registered with the Statistics Indonesia in succession in 2013, 2014, 2015 and 2016.
2. The regencies/cities studied are regencies/cities that have issued financial reports.
3. Complete data relating to the measurement of research variables in the Regency / City in Central Java Province in 2013 to 2016.

### **Measurement and Variable Operational Definitions**

This research is sourced from the APBD Budget Realization Report for all regencies/cities in Central Java obtained from the official website [www.bps.depkeu.go.id](http://www.bps.depkeu.go.id) in the form of APBD realization report in SAP format 2013-2016, taken from the Regional Government Financial Report (LKPD) ) Regency / City in Central Java in 2013-2016 through [www.bps.depkeu.go.id](http://www.bps.depkeu.go.id) and the website of the Ministry of Home Affairs, Ministry of Finance and the State Audit Board (BPK) of the Republic of Indonesia. Data needed in this study are secondary data, according to Sugiyono (2014, p. 141) secondary data is data sourced from literature, books, and company documents.

The operational definitions of the variables used in this study are as follows:

**a. Local Own Revenue (PAD)**

According to Halim (2007) Regional original income is the regional revenue obtained from sources within the region that is collected based on regional regulations in accordance with the applicable laws and regulations. Law Number 33 of 2004 Article 3 paragraph 1 concerning Financial Balance between the Central and Regional Governments stated that the PAD aims to give authority to the Regional Government to fund the implementation of regional autonomy in accordance with the regional potential as a manifestation of decentralization.

Local Original Income formula, namely:

$$\text{PAD} = \text{Regional Taxes} + \text{Regional Retribution} + \text{Results of Regional Wealth Management} + \text{Other Legitimate PAD}$$

**b. General Allocation Fund (DAU)**

General allocation funds are used to close gaps that occur because regional needs exceed the potential of existing regional revenues (Law No. 33/2004, Article 27). The variable General Allocation Fund (DAU) is measured by a comparison of DAU to total regional income (Wiguna, 2017).

**c. Special Allocation Fund (DAK)**

In Law No. 33/2004 Article 38 states that the amount of DAK is determined annually in the APBN. Article 39 of the Act also states that DAK is allocated to certain regions to fund special activities which are regional affairs.

The Special Allocation Fund variable is measured based on the calculation of general criteria allocation, which is determined by considering the financial capacity of the region which is reflected in the general budget revenue after deducting regional civil servant expenditure.

**d. Local Government Size (Size)**

The size of the regional government according to (Aziz, 2016) uses the total assets of the local government because the assets indicate the economic resources that are controlled and or owned by the government as a result of past events and from which future economic benefits are expected to be obtained (Juliawati & Jalaluddin, 2012).

Local Government Size Formula (Size):

$$\text{Size} = \text{Total Assets}$$

**e. Audit Opinion**

The more WTP and WDP opinions found in a Regency / City government are found in BPK audits, the better the government's performance (Puspita & Martani, 2012). Proxy that is used is if the Opinion Without Giving Opinion (Disclaimer), given a score of 0 (zero), the Fair Opinion With Exceptions (WDP) is given a score of 1 (one), and the Fair Opinion Without Exception (WTP) is given a score of 2. The audit opinion used in this study refers to the research

(Suryaningsih & Sisdyani, 2016).

**f. Regional Government Financial Performance**

The financial performance of a Regional Government is the ability of an area to explore and manage the original financial resources of the region in order to meet its needs so that it does not depend entirely on the Central Government. So that it has flexibility in using these funds for the benefit of local communities within the boundaries that are governed by laws and regulations (Jauhar, 2016).

The financial performance of local governments here can be measured by the Regional Financial Efficiency Ratio. Where the efficiency ratio illustrates the ratio between expenditure (output) and revenue (input) (Yudha & Kusnadi, 2017).

Calculation of efficiency ratios are:

$$\text{Efficiency Ratio} = \frac{\text{Realization of Expenditures}}{\text{Realization of Revenue}} \times 100\%$$

**Data analysis method**

Data analysis technique in this research is to use descriptive statistical analysis methods. Descriptive statistical analysis usually presents data information in the form of graphics or numeric

**Research Results and Research Discussions**

**Table 1  
Regression Equation Model**

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.269	.423		.636	.526
	LN_PAD	.057	.019	.324	3.011	.003
	LN_DAU	-.055	.025	-.221	-2.178	.031
	LN_DAK	.022	.010	.213	2.247	.026
	Size	.025	.019	.145	1.311	.192
	Opini audit	.001	.014	.006	.072	.943

a. Dependent Variable: Kinerja Keuangan

From the table above the results of data processing with the help of the SPSS program, the final regression equation model is obtained as follows:

$$Y = 0,269 + 0,057X_1 - 0,055X_2 + 0,022X_3 + 0,025X_4 + 0,001X_5 + e$$



The regression equation above can be interpreted as follows:

- a. A constant value of 0.269 can be interpreted that if the value of the independent variable is constant or fixed, then the financial performance is positive at 1.015.
- b. The regression coefficient value of the region's original income is 0.057, it can be interpreted that if the regional original income increases by 1 percent, then the financial performance increases by 0.057 percent.
- c. The regression coefficient value of the general allocation fund is -0.055, it can be interpreted that if the general allocation fund increases by 1 percent, then the financial performance decreases by 0.055 percent.
- d. The regression coefficient value of the special allocation fund is 0.022, it can be interpreted that if the special allocation fund increases by 1 percent, then the financial performance increases by 0.022 percent.
- e. Firm size regression coefficient value of 0.025, can be interpreted that if the company size increases by 1 percent, then the financial performance increases by 0.025 percent.
- f. Audit opinion regression coefficient value of 0.001, can be interpreted that if the opinion increases by 1 percent, then the financial performance increases by 0.001 percent.

**Simultaneous Test (F Test)**

This test is conducted to determine the effect of regional own-source revenue, general allocation funds, special allocation funds, the size of local governments and joint audit opinions on financial performance. This study shows the results of the simultaneous test as follows:

**Table 2**  
**Simultaneous Significance Test Results**

**ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.157	5	.031	6.035	.000 <sup>a</sup>
	Residual	.699	134	.005		
	Total	.856	139			

a. Predictors: (Constant), Opini audit, LN\_DAK, LN\_PAD, LN\_DAU, Size

b. Dependent Variable: Kinerja Keuangan

The results of testing the regression model obtained a significance value of 0,000. Then sig F (0,000) <  $\alpha$  (0.05), it can be concluded that together the independent variables of regional original income, general allocation funds, special allocation funds, local government measures and aids opinion together on financial performance.

**Determination Coefficient Test (R2)**

The essence of the coefficient of determination (R2) is to determine the extent of the model's ability to explain the dependent variables. The coefficient of determination is between zero and 1 (Ulum, Ghozali, & Chariri, 2009). The coefficient of determination can be illustrated by the table below:

**Table 3**  
**Coefficient of Determination**

**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.429 <sup>a</sup>	.184	.153	.0722243	1.945

a. Predictors: (Constant), Opini audit, LN\_DAK, LN\_PAD, LN\_DAU, Size

b. Dependent Variable: Kinerja Keuangan

The coefficient of determination shown by the adjusted R square value is 0.153. This can be interpreted that the independent variables (local original revenue, general allocation funds, special allocation funds, local government measures and audit opinions) can explain the independent variables (financial performance) of 15.30%, while the rest are explained by other variables that are not observed in this study, such as grant funds, balance funds and others.

**Partial Test (t test)**

The t-test aims to understand the extent to which independent variables influence related variables, namely tax justice, tax discrimination, tax technology and information, tax justice to tax evasion ethics. Terms of the hypothesis are accepted if the significance <0.05 so that Ha is accepted. T test results in this study are as follows:

**Table 4**

**Test Results of Coefficients<sup>a</sup>**

Model	T	Sig.
1 (Constan)	.636	.526
LN_PAD	3.011	.003
LN_DAU	-2.178	.031
LN_DAK	2.247	.026
Size	1.311	.192
Opini Audit	.072	.943

**1. The Effect of Local Revenue on the Financial Performance of Regional Governments**

Based on the table above, it can be seen that the partial test of regional original income has a significant positive effect on financial performance, this is evidenced by a regression coefficient of 3.011 and a significance value of 0.003 where the significance value <0.05. Thus Hypothesis 1 which states that local revenue has a positive effect on financial performance is accepted.

**2. Effect of General Allocation Funds on Regional Government Financial Performance**

Based on the above table, it can be seen that partial testing of general allocation funds has a significant negative effect on financial performance, this is evidenced by a regression coefficient of -2,178 and a significance value of 0.031 where the significance value <0.05. Thus hypothesis 2 which states that general allocation funds have a positive effect on financial performance is rejected.

**3. The Effect of Special Allocation Funds on the Financial Performance of Regional Governments**

Based on the table above, it can be seen that partial testing of specific location funds has a significant positive effect on financial performance, this is evidenced by a regression coefficient of 2.274 and a significance value of 0.026 where the significance value  $< 0.05$ . Thus hypothesis 3 which states the special allocation fund has a positive effect on financial performance is accepted.

**4. Effect of Size of Local Government (SIZE) on Financial Performance of Local Governments**

Based on the table above, it can be seen that the partial test of the size of the local government has not a significant positive effect on financial performance, this is evidenced by a regression coefficient of 1.311 and a significance value of 0.192 where the significance value  $> 0.05$ . Thus hypothesis 4 which states that the size of the regional government has no significant positive effect on financial performance is rejected.

**5. Effect of Audit Opinion on the Financial Performance of Regional Governments**

Based on the table above, it can be seen that the partial test of audit opinion has no significant positive effect on financial performance, this is evidenced by a regression coefficient of 0.072 and a significance value of 0.943 where the significance value  $> 0.05$ . Thus hypothesis 5 which states that audit opinion does not have a significant positive effect on financial performance is rejected.

**Discussion**

**The Effect of Regional Revenue on Financial Performance**

Regional original income has a positive effect on financial performance, this is because the regional revenue can be used to finance all of its obligations in running its government, including to be used in improving the welfare of the community. The higher the local revenue, the better the independence of the regional government, because the regional community is more independent and wants to play a role in increasing regional development through payment of local taxes, regional retribution, so that financial performance is getting better.

Regional Original Revenues are all revenues from regional original economic sources, namely regional taxes, regional levies, BUMD profits, other legal receipts and not from taxes or levies. The greater the contribution of regional original income to finance development and community services, it is said there is an increase in the financial performance of local governments. If the original regional income rises, it can be said that the financial performance of the regency and city government is increasing (increasing). The results of this study are consistent with the results of the study (Mustikarini & Fitriyani, 2012) concluding that local own-source revenue has a positive influence on financial performance

**Effect of General Allocation Funds on Regional Government Financial Performance**

The general allocation fund has no significant positive effect on financial performance, this is because the general allocation fund is a fund sourced from the APBN which is allocated with the aim of equitable distribution of financial capacity between regions to fund the needs of

autonomous regions in the context of implementing decentralization. The General Allocation Fund is one of the funds that come from the balance fund and the balance fund is one of the revenue components in the APBD. The higher the amount of DAU received from the center, the lower the Regional Government Financial Performance, because the dependence of the regional government on the central government is higher, so the financial performance of regional governments is lower.

The results support the research (Rukmana, 2013) also tested the effect of the DAU as part of the Balancing Fund affecting the financial performance of the Riau Islands Province Government. The results of his research prove that DAU affects the financial performance of local governments. The higher the amount of DAU received from the center, the lower the Regional Government Financial Performance.

### **The Effect of Special Allocation Funds on Regional Government Financial Performance**

Special allocation funds have a significant positive effect on financial performance, this is because special allocation funds are funds sourced from the APBD that are allocated to local governments to finance special activities which are regional affairs and national priorities. The purpose of the special allocation fund is to reduce the cost of special activities that must be borne by local governments. Utilization of special allocation funds is directed towards investment activities in the development, procurement, improvement, improvement of facilities and infrastructure of fajar, public facilities, so that financial performance is increasing.

Special Allocation Funds (DAK) are also funds originating from balance funds in addition to general allocation funds and revenue sharing funds. The purpose of DAK is to reduce the burden of special activity costs that must be borne by local governments. The use of DAK is directed towards investment activities in the development, procurement, improvement, improvement of physical facilities and infrastructure of public services with a long economic life. DAK is used to close public service gaps between regions by giving priority to the fields of education, health, infrastructure, marine and fisheries, agriculture, regional government infrastructure, and the environment. If managed properly, DAK, which is specifically used for the construction and rehabilitation of physical facilities and infrastructure, can help alleviate poverty and in general can be used to improve the performance of local governments.

The results of the study support the research (Abdullah & Febriansyah, 2015) which states that special allocation funds have a significant positive effect on regional financial performance, meaning that the higher the DAK, the higher the regional financial performance accompanied by a directed design and utilization that is truly in the interests of the people. In contrast to the results of the study (Jauhar, 2016) which states that special allocation funds negatively affect the financial performance of local governments.

### **The Effect of Local Government Size (SIZE) on Financial Performance of Local Governments**

The size of the regional government has no significant positive effect on financial performance, this is because local governments with small total asset sizes can have good performance if the city/district government can manage its finances well, on the contrary it can also get poor financial performance if not well managed. Thus all related to the ability of human resources in managing regional wealth in determining performance, not the amount of wealth owned by the

region. In addition, financial performance in this study was measured using efficiency ratios, where the comparison of local government revenue and expenditure is less related to total assets, because it is related to needs as a source of expenditure and potential of the region which is a source of regional revenue. In theory, the greater the size of the region judging from the greater total assets of the regional government, it is expected that the performance of the regional government will also be higher.

These results support research (Puspasari, 2016) which states that the size of the regional government has no significant positive effect on regional financial performance.

### **The Effect of Audit Opinion on the Financial Performance of Regional Governments**

Audit opinion does not have a significant positive effect on financial performance, this is because audit opinion is given based on the quality of financial statements, the better the quality of financial statements, the better the audit opinion is given, so it is not related to the efficiency ratio which is a complete performance. In addition, BPK audit opinions are cases that are found by BPK against regional government financial reports for violations committed by an area in terms of internal control and in the applicable laws and regulations, if they are not in accordance with the provisions, audit opinions other than PAPs will be given. In theory, the existence of this opinion causes the BPK to request an increase in checks and corrections. Thus, the more the number of opinions that are not fair and does not provide an opinion, the lower the performance of local governments.

The results of this study concur with research conducted on (Suryaningsih & Sisdyani, 2016) which states that the BPK RI audit opinion has a positive effect on local government performance. The more WTP opinions (Fair Opinions without Exceptions) and WDP (Fair With Exceptions) are found in a Regency / City government, the BPK audit results are found, the better the LG performance. However, it is different from research conducted by (Mustikarini & Fitriasari, 2012) which states that Audit Opinion has a significant negative effect on the financial performance of local governments.

### **Conclusion**

Based on the results of an analysis of 35 regencies and cities in Central Java in the 2013-2016 study period, the following conclusions can be drawn: Original regional revenue has a positive effect on financial performance, general allocation funds have a significant negative effect on financial performance, special allocation funds have a significant positive effect on financial performance, the size of the regional government has not a significant positive effect on financial performance, audit opinion is not a significant positive effect on financial performance.

### **Implication**

For the regional and city governments in Central Java, it can increase local revenue and use it for the benefit of the community, in the form of concrete manifestations of road construction and general advice so that people can see and can play a role in increasing local revenue in the form of tax payments. The government can optimize regional revenues, such as motor vehicle taxes, fees for the transfer of motorized vehicle names, and so on.

### **Research Limitations**

Research carried out still has the following limitations:

1. In this study, the low ability of independent variables in explaining the dependent variable is 15.5%.
2. Limited references regarding general allocation funds to the financial performance of local governments.

### **Research Suggestions**

1. Future studies are expected to add independent variables (such as: flypaper effect, silpa, employee expenditure, etc.) and dependent variables (such as: human development index, implementation of local government work programs, etc.).
2. Researchers will examine in accordance with existing references and in accordance with the rules on these variables.

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