

## The Influence of PAD Changes, Changes in Regional Expenditure and Budget Performance on Financial Performance in Aceh

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### ARTICLE INFO

*Keywords:* Local Revenue Budget Changes, Local Expenditure Budget Changes, Budget Performance, Financial Performance

*Received :* 24, January

*Revised :* 26, February

*Accepted:* 28, March

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### ABSTRACT

This research aims to test the effect of changes in local revenue budgets, changes in regional expenditure budgets, and budget performance on financial performance. The approach of this research used of quatitative. This study uses a census technique with a total of 92 district/city government financial report data in Aceh province. The secondary data has been used the type of data obtained from [djk.kemenkeu.go.id](http://djk.kemenkeu.go.id) web data, budget realization reports and operational reports. This study uses multiple linear regression methods with the help of IBM SPSS statistical software 26. The results of the research findings show that changes in local revenue budgets and changes in local expenditure budgets have a negative impact on local government financial and budget performance has a positive impact on local government financial performance.

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## INTRODUCTION

Regional finance plays an important role in running the government, because public welfare will be easier to achieve if regional finances are in an optimal state (Maulina et al., 2021). Government financial performance can be used as a guide to improve all aspects of government for the better. Good financial performance requires efficient and targeted regional financial governance, because the financial condition of a region is closely related to how the finances are managed well or poorly (Atikah, 2023).

In accordance with Government Regulation No. 71/2010, local government financial statements are prepared and presented by applying accrual basis accounting principles, replacing the application of the cash basis. The accrual basis records financial transactions in the period in which they occur, regardless of when cash receipts or payments are made. The implementation of accrual-based accounting at the local government level aims to increase accountability and transparency in the use of government resources and policies. This approach is also expected to increase appropriate resources, improve the quality of policy making, provide better control over assets, and identify debts more accurately (Halim, 2012).

Local government financial performance can be measured through the amount of surplus/deficit in LO that use the accrual basis. Financial performance is good if it has a surplus rather than a deficit, because a surplus indicates efficient financial management with revenues exceeding expenses. In its application, the accrual basis can lead to overreporting of surpluses/deficits (Atikah, 2023). The following table presents data on the comparison of surpluses/deficits in the LRA and LO in several districts/cities in Aceh.

**Table.1 Comparison of Surplus Deficit of District/ City Governments in Aceh in 2021**

No	District/ City	Surplus Deficit Amount		Description
		LRA	LO	
1	Banda Aceh City	2.030.988.460,33	57.772.967.704,54	Surplus LRA < LO
2	Aceh Besar District	-64.095.672.739,15	33.365.970.649,26	LRA Defisit, LO Surplus
3	District Pidie	120.104.722.655,62	209.522.430.072,76	Surplus LRA < LO
4	Aceh Timur District	-26.714.838.635,77	98.264.802.405,71	LRA Defisit, LO Surplus
5	Gayo Lues District	575.870.852,64	47.419.034.993,27	Surplus LRA < LO
6	Nagan Raya District	16.543.980.052,82	107.889.080.749,71	Surplus LRA < LO

*Source: Processed Data (2024).*

From table 1 it can be concluded that the surplus/deficit comparison between the LRA (using the cash basis) and LO (using the accrual basis) differs between regions. The surplus/deficit realized in the LRA reflects the difference between income from revenues and expenditures for expenditures and transfers. On the other hand, the surplus/deficit figure in the LO reflects the difference between recognized revenues and recognized expenses, without considering cash inflows and outflows (Abdullah & Junita, 2020). A deeper understanding of the differences in accrual and cash recognition is key to optimizing the evaluation of local government financial performance and formulating effective strategies in the overall management of financial resources.

The first factor that can affect financial performance is changes in PAD budgeting. PAD is income received by the region from various sources in its own territory which is collected in accordance with the provisions of the applicable law (Pratiwi, 2018). Local governments can make PAD a source of funding and implementation of regional autonomy. Revenue targets at the beginning of the APBD are based on assumptions of potential income from the region or center, which can change due to policies in financial management. Previous research such as research by Nauw & Riharjo (2021), Verawaty et al. (2020) and Sari & Halmawati (2021) state that PAD has a positive impact on the financial performance of local governments. Other research also conducted by Jauharriah (2022) and Thalib (2019) states that PAD has a negative influence on the financial performance of local governments. In contrast, research by Ratnasari & Meirini (2022) and Djuniar & Zuraida (2018) found that PAD has no effect on local government financial performance.

In addition, financial performance can also be caused by changes in regional expenditure budgets. Local governments that have significant regional expenditures are expected to produce optimal work. The higher the level of expenditure allocated by a region, the easier it will be to implement the development plan that has been prepared by the region. In its implementation, the regional expenditure budget can also change to adjust to the current year's APBD assumptions that have been determined in the previous year (Anessi et al., 2012). Changes in regional expenditure budgets if they increase are expected to be able to improve public services and improve infrastructure. Conversely, if there is a decrease in regional expenditure, it can limit local governments from being able to provide basic services.

Research conducted by Sari & Halmawati (2021) and Salsabilla & Rahayu (2021) found that regional expenditure has a positive influence on the financial performance of local governments. Other research conducted by Amanda (2023) and Nugroho & Prasetyo (2018) found the result that the region has a unidirectional influence on the financial performance of local governments. In contrast to research conducted by Dasmar et al. (2020) found that regional expenditure has no effect on the financial performance of local governments.

Financial performance can also be influenced by budget performance. The budget performance is the realization of the set budget target. The success of budget performance is measured well if it is able to achieve realization in accordance with what has been determined. Performance measurement with SiLPA aims to evaluate the efficiency of budget management in local governments. In preparing a good APBD, SiLPA should not remain, it is financing receipts that are expected to cover the budget deficit, so that the budget can be utilized effectively to improve overall financial performance (Djuniar & Zuraida, 2018). SiLPA which has a positive value should be used to support development programs in the region.

Research conducted by Ratnasari & Meirini (2022) and Djuniar & Zuraida (2018) found that SiLPA has a negative impact on local government financial performance. In contrast to research conducted by Putri & Ratnawati (2023) found that SiLPA cannot be linked to the financial performance of local governments. This study examines data using two basic accounting recording methods, namely, the cash basis contained in the LRA and the accrual basis contained in the LO. In addition, the measurement of financial performance uses a surplus/deficit in the LO. Then this study tested the data using the 2019 to 2022 fiscal years to produce the latest data and relevant to the conditions of the last few years.

## **LITERATURE REVIEW**

### ***Signaling Theory***

According to Morris (1987), signal theory is used as a solution to overcome the problem of information gaps in the company. This approach aims to increase the flow of signals to parties whose information is lacking, namely stakeholders from parties who have more information related to financial management in the company. Signal theory can also be applied in the public sector, this theory explains why the government needs to provide signals to the public. The government can provide this signal as a response to the information gap between the government and the public. The government conveys signals in the form of financial information that has quality and reliability, and involves disclosure with more in-depth details. In the context of this research, the use of signal theory shows that local governments as devices that have an obligation to the community to give signals. This signal is realized through the realization of optimal local finance and prioritizing the public interest, of course.

### ***Financial Performance***

Regional financial performance is a result that is assessed by the government for all activities carried out during a certain period. Regional financial performance is an evaluation of the achievements of local governments in managing their finances and is used to assess the ability of a region to organize and utilize its financial resources. Financial performance measured through surplus deficit in the statement of operations provides insight into how the organization managed its financial resources in a period. A surplus, which arises when revenues exceed expenses, indicates that the organization managed to make more money than it spent. This can be interpreted as a sign of financial

health and the organization's ability to achieve excess revenue from its operating activities. On the other hand, a deficit occurs when expenses are greater than income, creating a financial imbalance. Deficits can signal challenges or inefficient policies in managing financial resources. This situation may require further attention and evaluation to understand the causes and find appropriate solutions.

H1: Changes in PAD Budget, Changes in Regional Expenditure Budget and Budget Performance jointly affect Local Government Financial Performance.

### ***Budget Amendment of Regional Original Revenue***

In accordance with Law Number 23 of 2014's requirements regarding regional government, regional own-source revenue (PAD) is revenue obtained by the regions in accordance with statutory regulations. PAD gives local governments the authority to seek sources of funding as a form of decentralization and implementation of regional autonomy. Revenue targets at the beginning of the Regional Original Revenue Budget (APBD) are based on assumptions of potential regional or central revenue that can change due to regulations in financial management. Therefore, each local government has the right to make changes to the budget in the revenue section, including in the regional own-source revenue post (Rafli & Sari, 2021).

Changes in the PAD budget have a very substantial influence on the financial performance of a region. Increases in own-source revenue can provide positive opportunities and challenges at the same time. This increase is generally considered beneficial as it can increase the capacity of regions to fund development programs and provide better public services. Greater funds can be allocated for infrastructure, health, education, and other social programs. According to signaling theory, changes in PAD can be linked to this theory, in the way that these changes are a way for local governments to provide information to the public about their financial performance. An increase in revenue may be interpreted as a positive indicator, indicating effective financial management and economic growth. Conversely, a decrease in revenue may be perceived as a sign that may raise concerns or questions from the public.

H2: Changes in the Regional Original Revenue Budget affect the Financial Performance of Local Governments.

### ***Amendment of Regional Expenditure Budget***

According to the Regulation of the Minister of Home Affairs of the Republic of Indonesia Number 27 of 2020, regional expenditure is considered a responsibility that must be fulfilled, and this obligation is recognized as a factor in the value of reducing the assets of a region during the period of the fiscal year. Regional expenditures are all expenditures made by local governments during one budget period. The regional expenditure budget means that the budget is used to finance various needs in carrying out government tasks in the region. In the implementation of the APBD, the regional expenditure budget can change in accordance with the APBD assumptions for the current year that have been determined at the end of the previous year. This change in regional expenditure

is an adjustment to the amount of regional expenditure figures in the current year based on the development of the current year.

Changes in local expenditure have complex implications for the financial performance of local governments. Increases in expenditure levels, if managed well, can provide a positive boost to growth and community welfare. However, the effect depends on how the expenditure is allocated and managed. Increased budgets for strategic programs such as infrastructure, education, and health can improve the quality of public services and create long-term positive impacts. Signaling theory reflects the way local governments communicate with the public through actions, including changes in local spending. An increase in spending in a particular sector can be perceived as a signal of commitment, while a reduction in spending can be a sign of economic challenges. The importance of these signals lies in their effect on public perceptions. Positive signals can increase support, while negative signals can create doubt. Therefore, changes in local expenditure have a function as a communication tool that influences the public's view of local government financial performance.

H3: Changes in Regional Expenditure Budget affect Local Government Financial Performance.

### ***Budget Performance***

The meaning of performance in Regulation Number 12 of 2019 by the Government pertaining to Regional Financial Management is the result of the implementation of an activity in relation to the budget used, measured by quantity and quality. Budget performance reflects the extent to which targets are achieved from the budget setting that has been carried out. The success of budget performance can be measured precisely when it reaches realization in accordance with the predetermined target. Performance evaluation can be carried out through three aspects, namely implementation, benefits, and context as outlined in the Regulation of the Minister of Finance of the Republic of Indonesia stipulated by Number 249/PMK.02/2011 concerning assessment and measuring work results and budget management by Ministries/Institutions.

Budget performance as measured by the SiLPA indicator in the LRA and financial performance as measured using the surplus/deficit indicator in the LO are interconnected and influence each other in evaluating the financial health of local governments. The LRA provides insight into how well funds have been realized in accordance with the budget plan. A high level of realization may reflect effectiveness in the implementation of programs and projects. However, budget realization alone does not provide complete information on the real impact of the use of funds, which is where LOs become important.

Signaling theory reflects how local governments use budget performance as a message or information to the public about financial health. Good budget performance can increase public trust and support. Signals from budget achievements also reflect government accountability and efficiency in financial management. Therefore, the influence of budget performance on local government financial performance is intertwined with the way budgets are articulated as messages or signals that influence public perceptions.

H4: Budget Performance affects Local Government Financial Performance.

## METHODOLOGY

The quantitative approach of this research is used to test the research hypothesis. The independent variables studied were variations in regional income, changes in regional expenditure, and budget performance, while the dependent variable was financial performance. Data that is not directly obtained is in the form of secondary data as an intermediary means, usually in the form of records, evidence, and historical reports that have been compiled (Ramdhany et al., 2019). The use of data in the study was taken from official APBD documents, Operational and Budget Realization Reports for the 2019 to 2022 fiscal years. Documentation is a research method used as information about research variables. comes from analyzing pre-existing sources.

All 23 districts/cities in Aceh in 2019-2022 were used as the population of this study. Based on this population, this study took a sample with the census sampling technique (saturated sampling) used. The saturated sampling technique is a way of determining if all members of the population are sampled. So as to produce 23 districts/cities in the observation in the study.

There is a dependent variable in the study, namely Financial Performance. Financial performance is a quantitative assessment of the implementation of programs or activities aimed at achieving the goals and objectives of a local government. This variable is described by the amount of surplus/deficit in the operational report using the accrual basis. There are also several independent variables in this study, namely PAD budget changes, regional expenditure budget changes, and budget performance. The PAD budget change variable uses a measurement, namely the difference between the amount of PAD in the revised APBD and the amount of PAD in the pure APBD. The variable change in regional expenditure is measured by calculating the difference in regional expenditure in the APBD change with regional expenditure in the pure APBD. This study uses SiLPA as an indicator of variable measurement of budget performance, SiLPA is the final target of the APBD which is at the bottom line of the APBD and the SiLPA figure is taken from the LRA.

Descriptive statistical analysis is used to interpret the analysis of quantitative data descriptively. Descriptive statistics aim to present summaries and attributes of the processed data, including measures such as mean, standard deviation, values at maximum and minimum, and others. In the case of this study, there are various classical assumption tests used, specifically the tests for heteroscedasticity, multicollinearity, and normalcy.

In this study, the IBM Statistical Package for Social Science (SPSS) version 26 application was utilized to assist in the multiple linear regression technique analysis performed to test the hypothesis. In addition to the F test, t test, and coefficient of determination, hypotheses were also examined. The purpose of multiple linear regression analysis is to evaluate the relationship between the independent and dependent variables. Accordingly, the following regression equation model is used:

$$Y = \alpha + \beta_1x_1 + \beta_2x_2 + \beta_3x_3 + e \dots\dots\dots (1)$$

Keterangan:

- Y = Financial Performance
- $\alpha$  = Contstant
- $\beta_1, \beta_2, \beta_3$  = Regression Coefficient
- $X_1$  = Increase in Regional Original Revenue (PAD)
- $X_2$  = Changes in Regional Expenditure
- $X_3$  = Budget Performance
- e = Error term

**RESEARCH RESULT**

Descriptive statistical testing is carried out to obtain the minimum, maximum, mean, and standard deviation results of each research variable. The results of descriptive statistical analysis can be seen in table 2:

**Table.2 Descriptive Statistics Results (N=92)**

Variabel	Minimum	Maksimum	Mean	Std. Deviasi
Financial Performance	-49.680.367.926	305.606.312.307	63,659,833,133.80	87,719,621,298.183
PAD Budget Amendment	-2.293.522.660	72.000.000.000	1,846,921,078.040	20,889,596,928.773
Amendment of Regional Expenditure Budget	-88.135.090.719	380.336.991.844	43,372,801.080	149,959,442,187.447
Budget Performance	-3.557.402.948	258.162.267.273	54,196,457,872.210	46,238,704,059.182

*Source: Data processed (2024).*

Based on Table 2, descriptive statistics of districts/cities in Aceh Province in 2019-2022 are obtained. The financial performance variable has a minimum value of -349,680,367,926, namely in North Aceh Regency in 2022, a maximum value of 305,606,312,307, namely in East Aceh Regency in 2019 and an average value of 63,659,833,133.80 with a standard deviation of 87,719,621,298.183. For the variable Regional Original Revenue Budget Change (PAD), the minimum value is -92,293,522,660, namely in North Aceh Regency in 2021, meaning that North Aceh Regency in 2021 experienced a decrease in PAD from that budgeted in the APBD at the beginning of the year. The maximum value is 72,000,000,000, namely

in Aceh Besar Regency in 2022, which means that Aceh Besar Regency in 2021 experienced an increase in PAD from the budget in the APBD at the beginning of the year. The average value is 1,846,921,078.04 with a standard deviation value of 20,889,596,928.773.

In the Regional Expenditure Budget Change variable, the minimum value is -788,135,090,719, namely in Aceh Singkil Regency in 2021, meaning that Aceh Singkil Regency in 2021 made budget savings from the budget set in the APBD at the beginning of the year. The maximum value is 380,336,991,844, namely in Central Aceh Regency in 2019, meaning that Central Aceh Regency in 2019 experienced an increase in regional expenditure from the budget set in the APBD at the beginning of the fiscal year. The average value is 43,372,801.08 with a standard deviation value of 149,959,442,187.447.

For the Budget Performance variable, the minimum value is 3,557,402,948, namely in Gayo Lues Regency in 2020, meaning that the Gayo Lues Regency government in 2020 has optimized budget management in financing regional expenditures and expenses. The maximum value is 258,162,267,273, namely in Pidie Regency in 2021, meaning that the Pidie Regency government in 2021 has not optimized budget management or there are financing funds that have not been utilized to finance regional expenditures. The average value is 54,196,457,872.21 with a standard deviation value of 46,238,704,059.182.

Analyzing multiple linear regressions seeks to determine how the independent variable affects the dependent variable. The following table displays the multiple linear regression results:

**Table 3 Multiple Linear Regression Analysis Results**

Coefficients <sup>a</sup>					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1					
(Constant)	4455232972.349	6969023040		6.393	.000
PAD Budget Amendment	-0.789	0.335	-0.225	-2.353	0.021
Amendment of Regional Expenditure Budget	-0.126	0.053	-0.223	-2.388	0.019
Budget Performance	0.478	0.097	0.470	4.917	0.000

a. Dependent Variable: Financial Performance

Source: Data processed (2024).

The results of the analysis in table 3 show that the equation for multiple linear regression results is as follows:

$$Y = 44552329722.349 - 0,789X_1 - 0,126X_2 + 0,478X_3 + e \dots\dots(2)$$

The results obtained from the regression equation produce the following statement:

1. The constant value is 44552329722.349. This means that when the PAD Amendment Budget (X1), Regional Expenditure Budget Amendment (X2), and Budget Performance (X3) are held constant, it means that the Financial Performance variable (Y) is 44552329722.349.
2. The regression coefficient that shows the impact of PAD Budget Changes is -0.789, which means that every increase in PAD Budget, Financial Performance decreases by a magnitude of -0.789, assuming all other independent variables are equal or zero.
3. The regression coefficient of APBD changes with a magnitude of -0.126 means that every increase occurs has an impact on changes in the APBD which have an impact on the decline in Financial Performance with a magnitude of -0.126 assuming other variables are the same as fixed or zero.
4. The Budget Performance regression coefficient is 0.478 which indicates that an increase in Budget Performance causes an increase in Financial Performance of 0.478 under the assumption that the other independent variables are fixed or zero.

The results of the data displayed in table 4 below get the results of the F-test with a significant value of 0.000 < 0.05, which means that the independent variables of PAD Budget Changes, Regional Expenditure Budget Changes, and Budget Performance simultaneously have an impact on Financial Performance.

**Table.4 Simultaneous Significance Test Results (F-test)**

		ANOVA <sup>a</sup>				
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	6.373E+22	3	2.124E+22	14.468	0.000 <sup>b</sup>
	Residual	1.145E+23	78	1.468E+21		
	Total	1.783E+23	81			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Financial Performance, P-BD, P-PAD

*Source: Data processed (2024)*

Independent variables, namely PAD Budget Changes, Regional Expenditure Budget Changes, and Budget Performance can explain the relationship to the existing dependent variable, namely financial performance with a proportion of 35.8 percent and the remaining 64.2 percent for other factors that are not involved in this study in the form of data in the table below:

**Table.5 Test Results of the Coefficient of Determination**

Model Summary <sup>b</sup>				
Model	R	R square	Adjusted R Square	Std. Error of the Estimate
1	0.598 <sup>a</sup>	0.358	0.333	38320113066.206
a. Predictors: (Constant), Kinerja Anggaran, P-BD, P-PAD				
b. Dependent Variable: Kinerja Keuangan				

Source: Data processed (2024).

## DISCUSSION

### *The Effect of Changes in PAD Budget, Changes in Regional Expenditure, and Budget Performance Simultaneously on Local Government Financial Performance*

After testing the combined hypothesis, it gets a value with a significance of 0.000 where the value is less than 0.05. This means that it shows that the independent variables, namely PAD Budget Changes, Regional Expenditure Budget Changes, and Budget Performance simultaneously have an impact on Financial Performance. This finding validates the initial hypothesis that PAD budget changes, Regional Expenditure Budget Changes, and Budget Performance simultaneously have an impact on Financial Performance.

When viewed from the coefficient of determination ( $R^2$ ), it is known how strong the dependent variable in the regression model can explain fluctuations in the dependent variable. With an  $R^2$  value of 0.358, it means that there is a correlation of 35.8 percent between the independent variable and the dependent variable. It can be obtained that variations in the Regional Original Revenue (PAD) Budget, changes in the Regional Expenditure Budget, and Budget Performance are related to 35.8 percent of Financial Performance, while the remaining 64.2 percent can be estimated to have an effect other than the variables taken into account in this study.

### *The Effect of PAD Budget Changes on Local Government Financial Performance*

The results of statistical testing of the PAD Budget Change variable have a value of -0.789. So it means that the relationship between PAD Budget Changes on Financial Performance in district/city governments in Aceh has a negative relationship and the second hypothesis can be accepted. Budget changes in the case of increasing or decreasing PAD after regressing found the results of a negative influence on Financial Performance. This negative relationship occurs because the Aceh provincial government is still highly dependent on transfers from the center, a government that is highly dependent on central transfers can experience difficulties when the transfer funds are reduced or unstable. Although PAD increases, if the dependence on transfer funds is very high, then financial performance may decrease.

In 2019, out of 23 districts/cities in Aceh Province, 14 districts and cities had an increase in PAD, 6 districts and cities saw a decline in PAD, and 3 districts/cities experienced no change in PAD. Entering 2020, there were 14 districts/cities that experienced an increase in PAD, 8 districts/cities also experienced a decrease, and 1 district/city experienced no change in PAD. Similarly, in 2021, there were 14 districts/cities that experienced an increase in PAD, 7 districts/cities experienced a decrease, and 2 districts/cities experienced no change. Furthermore, in 2022, there were 15 districts/cities where an increase in PAD occurred, 7 districts/cities where a decrease occurred, and 1 district/city where no change in PAD occurred.

According to Abdullah (2013), it is possible that the PAD target is deliberately set lower than the actual situation and revised upwards when there is a change in the APBD due to new sources of income that cannot be predicted in advance. Effective performance is seen when PAD exceeds the set target. This explains why managers, who act as planners, implementers, and supervisors of PAD, often set PAD targets that are conservative compared to actual potential (Abdullah & Nazry, 2014). In signal theory, PAD can serve as a signal about the condition of the local economy, the financial health of local governments, and their ability to manage finances well. If PAD is low or insufficient it can be perceived as a negative signal on the financial performance of the local government. The result can reduce the confidence of both the public and the central government in local governments' capacity to handle their budgets and raise questions about the financial stability of local governments and their ability to meet their financial obligations in the future.

Consistent with the findings of this study, Jauharriah (2022) and Thalib (2019) found that PAD has a negative impact on the financial performance of local governments. It is found that local governments have not been able to fully optimize to show regional potential, for example in identifying, exploring, and managing potential well. As a result, the contribution of PAD is less than optimal and regional revenue has not been maximized. Supposedly, an increase in PAD results in an increase in the financial performance of local governments.

### ***The Effect of Changes in Regional Expenditure Budgets on Local Government Financial Performance***

The results of statistical testing of the Regional Expenditure Budget Change variable produce a value of -0.126. This means that the relationship between the variable Regional Expenditure Budget Changes on Financial Performance at district/city governments in Aceh has a negative relationship and the third hypothesis can be accepted. This negative relationship occurs because the realization of regional expenditures on governments in Aceh from 2020 to 2021 has increased while revenues have decreased, namely 17.29 Trillion in 2020 to 16.75 Trillion in 2021 due to the Covid-19 pandemic. The increase in regional expenditure occurred in personnel expenditure, this expenditure continues to increase because in 2021 the number of Aceh Province apparatus continues to increase. Then revenue sharing expenditure and grant expenditure have also increased since 2020.

In 2020 there were 19 districts/cities in Aceh experiencing a decrease in the regional expenditure budget, due to budget refocusing on the emergence of the Covid-19 outbreak, which resulted in the government having to focus more on health services. Expenditure that has decreased is interest expenditure, expenditure on social assistance, expenditure on subsidies, and also capital expenditure. According to signal theory, changes in local spending can negatively affect financial performance because they signal uncertainty and risk to the public. When local spending changes dramatically and unplanned, this can be seen as a sign of inefficiency and instability in financial management. The public may lose confidence and feel that local governments are not managing their resources well and are raising borrowing costs. As a result, it can undermine the stability of the local economy and ultimately have an adverse impact on the financial performance of the region.

In line with the results of this research with research by Amanda (2023) and Nugroho and Prasetyo (2018), they found that high local government spending is not always directly proportional to increased economic growth. Government spending is still considered less effective in improving services to the community. Due to the fact that the amount of regional expenditure by local regions is allocated more to personnel expenditure than capital expenditure. Therefore, a more targeted allocation of funds is needed to improve the welfare of the community.

### ***The Effect of Budget Performance on Financial Performance***

The results of statistical testing of Budget Performance have a value of 0.478. This means that the relationship between budget performance and financial performance in local governments in districts/cities in Aceh has a relationship with a positive direction and the fourth hypothesis is accepted. Local government financial performance is closely related to budget performance, because good budget management reflects the government's ability to plan and use public resources effectively. Good budget performance indicates the realization of targeted and efficient programs, as well as transparency and accountability in the management of public funds.

Budget performance using the SiLPA indicator in the LRA on local government financial performance has a significant effect by measuring the surplus/deficit in the LO. SiLPA has a key role in local government finance, especially at the beginning of the following year. SiLPA can be the capital for the beginning of the year in financing the activities carried out every day. But in local government, the use of SiLPA funds must be approved in advance before use (Putri, 2022). Large SiLPA funds are found in districts/cities in Aceh, namely in 2019 reaching 2.85 Trillion, 2020 reaching 3.96 Trillion and in 2021 reaching 3.93 Trillion, this indicates that local governments have reserve funds available to address urgent needs or emergencies and support development programs and improve the economy of the people of Aceh without having to rely on additional loans or spending cuts in the future.

In relation to signal theory, government budget performance can serve as a signal to stakeholders about the state of local government finance and management. Good budget performance is usually viewed as an indicator of the government's financial health that can serve as a positive signal. Local governments that achieve budget objectives, manage debt effectively and allocate resources efficiently can provide positive signals to stakeholders.

It demonstrates the government's commitment to financial management principles, as well as their ability to properly meet financial obligations. Effective budget performance has a direct influence on the financial performance of local governments. Effective budget performance is usually associated with stable and sustainable financial performance.

## **CONCLUSIONS AND RECOMMENDATIONS**

From the research findings of this study it can be concluded that changes in the PAD budget, changes in regional expenditure budgets and budget performance simultaneously affect Aceh's district and city local administrations' financial performance. Changes in PAD budgets and changes in regional expenditure budgets have a negative impact on financial performance at district/city local governments in Aceh. However, budget performance has a unidirectional influence on the district and city local governments' financial performance in Aceh.

The determination coefficient obtained is 35.8 percent. This means that the results obtained by this study show an influence on the financial performance variable of 35.8 percent, while the remaining 64.2 percent shows other things that have not been examined in this study. In addition, the period only covers four years, namely 2019-2022, so the results obtained are only relevant for that period.

## **ADVANCED RESEARCH**

Future researchers can add other factors that have an effect on the financial success of local government, such as revenue budget performance, expenditure budget performance, and changes in budget surplus (SiLPA). It is also recommended to use observations or a larger research scope, for example research not only conducted in Aceh Province, as well as using a longer research time with the aim of producing conclusions with accurate information.

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