

Measurement of Regional Financial Performance and Economic Growth: A Lesson from North Sumatra Province, Indonesia

Oktarini Khamilah Siregar (Corresponding author)

Faculty of Economics & Business, University of Pembangunan Pancabudi, Indonesia

E-mail: oktarinikhamilah@dosen.pancabudi.ac.id

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Abstract

The research aims to provide the input to the Government of City and County in evaluating the financial performance in each region. Using the variables include the ratio of the debt to GDP, income of the original of the region and regional income, debt service ratio, the growth of spending, spending and efficiency ratio expenditure regions to GDP. Additionally, analyzing the ratio which has a strong influence on economic growth in the city of Medan, Binjai and county of Deli Serdang in ranging from 2008 to 2014. The results showed that the ratio of the debt to GDP, the ratio of debt to income of original regions, debt service ratio, debt ratio to income region, growth of expenditure ratio, expenditure ratio efficiency, expenditure regions to GDP simultaneously impact to the centre of economic growth (refer to GDP rates apply) in the Government county of Deli Serdang, Medan and Binjai in North Sumatra. Besides, the results showed the ratio of debt to GDP and debt ratio to income of the original regions partially has affected negatively to GDP (rates apply). Otherwise, debt service ratio, and ratio of regional expenditure to GDP have a positive effect on the GDP (rates apply), debt ratio to income regions, the findings result also shows that partially the growth of spending, and spending efficiency ratio have not effect on the GDP (rates apply) to entire the City Government both in county and city as well as in Deli Serdang region, North Sumatra Province. The research results also showed the Adjusted R Square of the debt ratio to GDP, the debt ratio to the Income of the original of region, debt service ratio, the debt ratio against the income regions, the growth of expenditure, expenditure ratio efficiency, expenditure regions to GDP is 68,80%, whereas 31.20% are caused by another factors such as the ratio of financial dependency of the regions, the growth of debt, the realization of revenue and expenditures and the other financial performance ratios.

Thus, this research indicates the importance of the regional financial management is so that

local government purposed, i.e. budget and realization of the obtained outcomes is right on target as well as efficient in its use. On the other hand, the research is expected to be the motivation for Government to prevent and avoid the misuse of the budget that is not productive and ultimately in the public service to the optimum achievement.

Keywords: debt, revenue, expenditure and GDP (rates apply)

1. Introduction

1.1 Background

The economic growth of a region affected by the integration of some of the factors that contribute to them are as follows: investments, inflation, income generation native of the region, the rate of population growth, the labor force, and others. In order to achieve a high economic growth in a region requires strategies and economic policies that focus on strategic sectors and potential. Similarly, in the real sector, finance, as well as infrastructure. Therefore, in order to realize this, the Government has published PP No. 58 in 2005 about the financial management region and PerMendagri No. 13 in 2006 about the guidelines of the financial management region. The principle aims to facilitate its implementation so as not to cause multiple interpretations in its use.

Based on government regulation of the Republic of Indonesia Number 71 in 2010 About accounting standards of Government, explaining that the financial report was instrumental in providing the relevant information regarding the financial position and the transactions during the reporting period. In this case, the financial system can assist and support economic growth. Therefore, it is something that is important to know when and in what circumstances the financial sector has a positive influence on economic growth and what determines the efficiency of the Government so as to know when the financial system changed for the better or worse (Marijana Badun,2009).

In financial management in a region, the role of Government is crucial to success in economic growth in the region. Therefore, it needs to be evaluated against the report realization of Budget income and expenditure the region to measure the financial performance of local government in each period features. Thus the Government is encouraged to improve performance in the following year. The provincial government must also find out whether debt funds that are used by the City and County Government is spending on regions that can improve infrastructures and means. As with any repair accommodate can increase income region with the creation of a conducive investment climate and its impact on the economic growth of this region. Thus, the necessary financial performance measurement tool using the ratio of the debt to GDP, income of the original region and Regional Income, debt service ratio, the growth of spending, spending and efficiency ratio, expenditure regions that have an effect on GDP in the price valid on the city and Regency in North Sumatra, Indonesia

The analysis of the financial performance of local Government includes the composition of the acceptance of APBD as income, debt and the allocation of expenditure. Analysis of the acceptance of the region explains how far the local Government to optimize the potential of the region to be income for that region. Meanwhile, expenditure analysis shows how the role

of the local governments to allocate resources to their development activities. Furthermore, the analysis reveals the ability of government debt in debt manage exactly which will affect the stability of the macroeconomy. Debt can be used in improving the structure of the balance sheet, improve the fiscal structure, maintain fiscal sustainability as well as finance the investments that require large funds so that acceleration of development can be achieved. Along with the previous description, the industrial infrastructure development also provides for real impact against the increase of the income of the original region, so that the construction of various facilities, in the end, increase the self-sufficiency of an region. It is in line with the notes Magdalena K (2012) that top financial performance measurement not only financial indicators on highlights but including non-financial indicators which functions do measurements on the action of financial performance. When the infrastructure is already adequate, have an impact on the security and convenience of the community in carrying out daily activities. And this will affect the improvement of its productivity as well as with adequate infrastructure will attract investors to invest in this region. Similarly, capital spending is increasing, then it will give influence on the forthcoming period as the increase in income of the original region. The original Regional income is all the acceptance region which is derived from the original economic regions through upgrades and infrastructure improvements are expected to encourage the growth of the economy in this region. Therefore, the economic growth of a region will stimulate an increase in the income of the residents in the local region in line with the original income with an increase in the Government District and the local town. On the other hand, economic growth in the region was able to minimize the risk of the payment of the debt, such as a declining reputation in a region and increasing economic risks.

Based on this description, the authors devised a formula as follows:

- 1). What is the ratio of the debt, income of the original region, and income regions, debt services ratio, growth of spending, spending and efficiency ratio expenditure regions have an effect to GDP in North Sumatra province?
- 2). Is anything ratio that has a strong contribution to economic growth in North Sumatra?

2. Literature Review

2.1 Economic Growth

Economic growth is one of the important indicators for the analysis of economic development that occurred in the country. Some of the definitions of economic growth using diverse viewpoints, but basically, all of them have the same meaning. In order to know a country's economic growth, an indicator is required. As with among Sadono (2008) reveals that the indicators that can be used in measuring economic growth, namely:

- a. Gross domestic product (GDP)
- b. Gross domestic product per capita/Income per-capita
- c. Income per working hour

2.2 Financial Report

Reform of public sector relate to reform in the financial region. The regional finance reform in implementing have an impact on the budgeting reform which includes the process of preparing, endorsement and liability budget.

The financial statements are mainly used to compare the realization of revenue expenditure, transfer, and financing with a predetermined budget, assessing the reporting entity, and assist determine the obedience towards legislation (Government accounting conceptual framework, paragraph 21). The purpose of the standard statement to organize the presentation of general purpose financial statements, in order to improve comparability point financial report, both to the budget period, or between entities.

Bastian (2005) mentions that the local government financial reports for general purpose in the future referred to as the local government financial reports are compiled and presented at least once a year to meet a large number of users. Moreover, Bastian (2005) notes that the objective of financial reporting in local governments is to provide useful information for decision-making purposes, and to demonstrate the accountability of the entity for the resources of trusted resources by providing information on the sources, allocation and use of financial resources, how to fund its activities and entities meet the requirements of cash, the financial condition of an entity and changes therein, is useful in evaluating the ability of the entity to finance its activities and to meet the obligations and his commitment and information useful in evaluating aggregate the performance of the entity in terms of cash services, efficiency and achievement of goals.

Type Of Financial Report

Public sector organizations are required to be able to make the external financial reports that include formal financial reports, such as Reports of Surplus/Deficit, Budget Realisation Report, Balance Sheet, Cash Flow Reports and performance reports stated in the size of the financial and non-financial (Mardiasmo, 2007), agreed with this, Bastian (2005) also split the components contained in a complete set of financial statements includes the report of the financial position, Financial performance report and report on changes in Equity Realization of the Budget report, cash flow statement and the notes to financial statements. Suyono (2010) argues that the notes to financial statements at least served with the order as follows:

- 1) Information about fiscal policy/financial, macroeconomic, achievement of target government budget legislation/Perda budgets, the constraints, and obstacles faced in the achievement of the target.
- 2) Achievement of financial performance Overview during reporting.
- 3) Information about the basis of preparation of the financial statements and the accounting policies applied to the selected over those transactions and other important events.
- 4) Disclosure of information required by the statement of accounting standards of governance that has not been presented in the sheet advance finance report.
- 5) Disclosure of information to outposts of assets and the obligation arising in connection with an accrual basis application over revenues and expenses and his reconciliation with the application of the cash base.
- 6) Additionally, a formation is necessary for a fair presentation, which is not presented in the financial report of the face sheet.

7) List and schedule.

The Qualitative Characteristics Of Financial Statements Of Local Government

Qualitative characteristic is the characteristic that makes the information in the financial statements is useful to users. There are four principal qualitative characteristics, i.e., understandable, relevant, and reliability can be compared (Bastian, 2005).

Government Agency Performance Accountability Report

Reporting performance accountability of government agencies is a report containing accountability and performance of a government agency. In the preparation of activity created an input expenses, i.e. the magnitude of the funds needed. A result is a tangible form obtained from the funds released. Further benefits are obtained due to the implementation of the activities of the expenditure and the resulting impact due to the implementation of an activity expense. In reporting performance accountability of Government Agencies must be able to determine the magnitude of the resulting performance quantitatively i.e. the quantity in units of amount or percentage.

Analysis Of The Local Government Finance Report

In order to obtain an overview of the development of a financial company, to do an interpretation or analysis of the financial data of the companies concerned, and financial data it will be reflected in their financial reports. Financial statements that reported the position of the company at any given time as well as operations for some period ago. One of the most widely used techniques for analyzing a financial statement is a financial ratio analysis. As mentioned by Bastian (2005) the result of a calculation of the ratio-financial ratio needs to be interpreted, so that from it can be evaluated the performance of the finance organization and subsequently conducted a specific decision making.

Local Government Performance Measurement

Performance measurement was conducted to assess the accountability of the Organization and the Manager in the service to the public. Accountability of public fund expenditure shows how economically, efficiently and effectively. Centre for accountability was instrumental in creating performance indicators and as the basis for assessing performance. Performance measurement as a way to preserve the achievements of the various works and services carried out by the Government. More than that, the performance measurement helps local government officials to determine the level of achievement of the objectives. Also, performance measurement helps the public to evaluate whether the Government's level of service on par with the money they spend on the services in question. The public sector performance measurement system is a system that aims to help public managers evaluate a strategy through a financial measurement tool and non-financial. In his report, Ihyahul Ulum (2009) explains that the measurement of the performance of the public sector in order to meet the three intentions: first, the measurement of the performance of the public sector to help improve the performance of the Government so that the Government focus on the goals and targets of the programme of work of the unit. And in the end to improve the efficiency and

effectiveness of the Agency in providing services for the public sector. Second, the public sector performance measurement aimed at allocating resources and making decisions. Third, public sector performance measures intended to bring about accountability for the public and improve the institutional communication.

Meanwhile, the purpose of the performance measurement systems according to, among others, is to communicate the strategy better, to measure the performance of the financial and non-financial are balanced so that it can be traced the development of the achievement of the strategy, to accommodate the interests of middle-level managers are understanding and bottom as well as motivated to achieve the goal congruency and as a tool to achieve satisfaction based on an individual approach and the ability of rational collective (Ihyahul Ulum, 2009).

As for the benefits of performance measurement system expressed by Ihyahul Ulum (2009): can give direction to achieve the performance targets that have been set. Subsequently, monitor and evaluate achievement of performance and compare with performance targets, and perform corrective actions to improve performance, then as the basis for reward and punishment (punishment & reward) objectively, as a means of communication between the leadership and subordinate to improve organizational performance. Furthermore, the performance measurement system can identify if customer satisfaction is already fulfilled. Other benefits, to understand the process of the activities of government agencies and ensure decision-making is carried out objectively.

According to Mahmudi (2009) there are some models that will measure the ratio of the financial performance of local government are as follows:

1. The ratio of the debt to GDP

This ratio compares the total amount of government debt between the regions with GDP per year. The benefits of this ratio to find out the capabilities of the region in the burden of debt and meet their obligations based on the ability of productivity belonging to the region.

2. Debt Ratio against the original Revenue Regions

This ratio compares the total debt among a total PAD, this ratio illustrates the capacity of local Government to pay back its debts with PAD, if this ratio the lower will be the better.

3. Ratio of Revenues to Debt Region

This ratio describes the performance of the loans region, i.e. how local Government can restore his loan to the creditors, namely external parties.

4. Debt Service Ratio

This ratio measures the ability of local governments in paying back the loan principal and interest regions include the region.

5. Analysis of the growth of Expenditure

Analysis of the growth of expenditure is helpful to know the development of expenditure from year to year. The growth of expenditure should be followed by balanced revenue growth, because if not then in the medium term can disrupt the continuity and the fiscal health of the region.

6. Efficiency Ratio Expenditure

This ratio compares between the realization of the expenditure spending. The benefits of this ratio are to measure the level of savings in the Government budget.

7. The ratio of Regional Expenditure to GDP

This ratio compares the total expenditure between regions with GDP generated regions. The benefits of this ratio show the productivity and effectiveness of regional expenditure

3. Research Method

The research used causal relationships with the scope of the Government's approach to the City and County in the province of North Sumatra, Indonesia. The research was conducted to find the facts to prove empirically that the ratio of debt, income and expenditure could affect economic growth the Government of Cities and Counties in the province of North Sumatra. Data source derived from balance sheet Reports and reports and Budgets-realization comes from the Central Bureau of Statistics of the province of North Sumatra.

In this research, the determination of the number of samples using a purposive sampling with certain criteria such as the location of the nearest from the provincial capital of North Sumatra. The collection of data using secondary data includes GDP in the price effect, the Financial performance report of local government or city government budgets -realization Reports and district in the province of North Sumatra and literature. These studies use quantitative analysis that aims to look at the impact of the regional financial performance measurement model impact GRP (price) on the Government of the City and Regency in North Sumatra. The following model equation linear regression that has been proposed multiple:

$$RGDP = \beta_0 + \beta_1 RDTGDP + \beta_2 RDTR + \beta_3 DSR + \beta_4 RDTIR + \beta_5 GOE + \beta_6 ERE + \beta_7 RETRGDP + e$$

Description:

β_0 , = Constanta

β_1, \dots, β_7 = Regression coefficient of $X_1, X_2, X_3, X_4, X_5, X_6, X_7$

RGDP (Y) = Regional gross domestic product (price applicable)

RDTGDP (X_1) = Ratio of Debt To GDP

RDTR (X_2) = Ration of Debt To the revenue of origin Region

DSR (X_3) = Debt Service Ratio

- RDTIR (X_4) = The ratio of Debt to Income Region
 GOE (X_5) = Analysis Of The Growth Of Expenditure
 ERE (X_6) = Efficiency Ratio Expenditure
 RETRGDP (X_7) = The ratio of Expenditures to Regional GDP
 e = error

4. Results and Discussion

4.1 Result

Testing the quality of data

Data Normality has seen from the graph the histogram shows the distribution of the residual value data has Gaussian. Likewise, on the norm of probability plot, data is spread across the diagonal line and follow the direction of the line of diagonal. Similarly with a test normality test of residual non-parametric statistics Kolmogorov-Smirnoff (1-sample K-S test) shows that the regression models qualified already test the assumptions of normality of the data.

Normal P-P Plot of Regression Standardized Residual

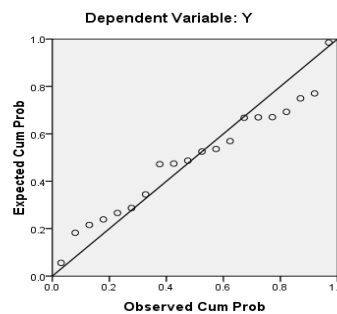


Figure 1. Histogram

Base on the results of statistical tests obtained the value of Kolmogorov-Smirnov with $\alpha = 0.05$ Asymp. Sig. = 0910 > 0.05 so that residual data show Gaussian regression model and meet the assumption of normality.

Table 1. One-Sample Kolmogorov-Smirnov Test

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		20
Normal Parameters ^a	Mean	.0000000
	Std. Deviation	1.2232246,70
Most Differences	Extreme Absolute	.126
	Positive	.126
	Negative	-.115
Kolmogorov-Smirnov Z		.562
Asymp. Sig. (2-tailed)		.910

a. Test distribution is Normal.

Test of Multicollinearity

The Multicollinearity test in this study aimed to test whether the regression models found on the existence of a correlation between independent variables in the model. Good regression models should not happen the correlation between independent variables. The results of statistical tests showed no Tolerance value variables. The tolerance value is independent of less than 0.10, and likewise, the calculation result Inflation Variance Factor (VIF) indicates the value of the VIF is smaller than 10.

Table 2. Collinearity statistics

Model		T	Sig.	Collinearity Statistics	
				Tolerance	VIF
1	(Constant)	-1.166	.266		
	X1	-3.645	.003	.175	5.702
	X2	-2.641	.022	.201	4.975
	X3	3.586	.884	.160	6.553
	X4	.061	.953	.147	6.810
	X5	-.276	.787	.827	1.209
	X6	1.617	.132	.376	2.661
	X7	-2.739	.018	.662	1.510

a. Dependent Variable: Y

Test Heteroscedasticity

Test Heteroscedasticity of this research aims to test whether in regression residual variance inequality occurs from one observation to another observation. Graphs of scatterplots have shown dots randomly spread already under the number 0 on the Y axis and does not form a specific pattern, indicating any going heteroscedasticity.

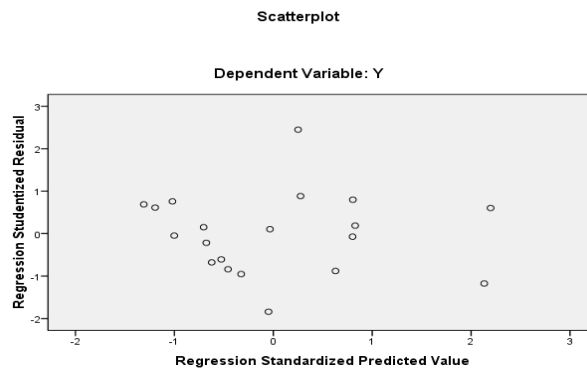


Figure 2. Scatter plot

Autocorrelation Test

Based on the table below shows the value of 1,697 Durbin-Waston, this value between -2 to + 2 so that this didn't happen autocorrelation.

Table 3. Durbin-Waston

Model Summary^b										
Model	R	Adjusted R Square	Std. Error of the Estimate	Change Statistics						
				R Square Change	F Change	df1	df2	Sig. F Change	Durbin-Watson	
1	.896 ^a	.803	1.539190.000 .000	.803	6.993	7	12	.002	1.697	

a. Predictors: (Constant), X7, X3, X5, X6, X2, X1, X4

b. Dependent Variable: y

2. Hypothesis Testing

Simultaneous Testing

Table 4. Simultaneous Testing

ANOVA ^b						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.160E16	7	1.657E15	6.993	.002 ^a
	Residual	2.843E15	12	2.369E14		
	Total	1.444E16	19			

a. Predictors: (Constant), x7, x3, x5, x6, x2, x1, x4

b. Dependent Variable: y

Based on the results of the ANOVA test showed the value of the F - amount of 6,993, with the level of probability of 0000. Thus, it is inferred, $p = \alpha = 0.05$ $0000 <$, that the ratio of the debt to GDP, the ratio of Debt against Income of the original region, Debt Service Ratio, the ratio of Debt against Income regions, an analysis of the growth of expenditure, the ratio Efficiency Ratio Expenditure, Expenditure Region simultaneously to the influential Centre for Economic growth (GDP).

Table 5. Partial Test

Model		Unstandardized Coefficients		Standardized Coefficients		Sig.
		B	Std. Error	Beta	t	
1	(Constant)	-1.01000000	8.666E7		-1.166	.266
	x1	-3143.991	862.469	-1.115	-3.645	.003
	x2	-1.20000000	4.545E7	-.754	-2.641	.022
	x3	1.241000000	3.462E8	1.869	3.586	.004
	x4	.000	.006	.020	.061	.953
	x5	-1.006000000	3.648E7	-.039	-.276	.787
	x6	1.579000000	9.762E7	.338	1.617	.132
	x7	-86.835	31.700	-.431	-2.739	.018

a. Dependent Variable: y

The partial test in this study to find out if all the independent variable effect partially against the centre of economic growth (GDP)

Based on table data above the multiple regression equations model as follows;

$$\text{GDP} = -1,01000000 - 3143,991 X_1 - 1,20000000X_2 + 1,241000000X_3 - 1,00600000X_5 + 1,57900000X_6 - 86,835 X_7$$

Coefficient of Determination

Test of Coefficient Of Determination aims to see how big the ability of the dependent variables is explained in the model. Based on the results of the stats shows the value of Adjusted R Square of 0.688. This indicates that the variable is a variable ratio of Debt against GDP, the ratio of Debt against Income of the original region, Debt Service Ratio, the ratio of Debt against Income regions, growth in expenditure, the ratio Efficiency Ratio Expenditure, Expenditure Regions have contributed to the GDP of 68.80% while the rest 31,20%% is explained by other factors that are not described in this research.

Table 6. Coefficient of determination

Model Summary^b

Model	R	Adjusted R Square			Change Statistics				Sig. F Change
		R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2		
1	.896 ^a	.803	.688	1.53919E7	.803	6.993	7	12	.002

a. Predictors: (Constant), x7, x3, x5, x6, x2, x1, x4

b. Dependent Variable: y

4.2 Discussion

The role of local governments in managing their financial successes in boosting economic growth in a region. Therefore, the necessary evaluation of the report realization of Budget income and expenditure the region in order to measure the financial performance of the local government each period. It implies Government compelled in repairing and improving the performance of the following year. The financial performance of local government, which covers the composition of national income, i.e. acceptance of the debt and the allocation of expenditure. The research found that the Debt ratio simultaneously against the GDP, the ratio of Debt against Income of the original region, Debt Service Ratio, the ratio of Debt against Income regions, an analysis of the growth of expenditure, the ratio Efficiency Ratio expenditure, spending on the upper region GDP has affected the centre of economic growth or GDP (the price) in the reign of Deli Serdang district, the city of Medan and Binjai. The findings also showed that debt owned by the Government of the city of Medan and Binjai, Deli Serdang district for expenditure region capable of creating investment in the region. So

this influence could increase the income of the region and spur economic growth or GDP (the price) in the Government District and the city.

Meanwhile, partially that the ratio of the debt to GDP and Debt Ratio against the original Revenue Region effect negatively to GDP in the price valid on the City Government and a Regency in North Sumatra. It is due to the negative impact that the debt cannot directly stimulate the increase in GDP in the price applicable and Binjai during 2008 and 2009 do not have debt, but to the city of Medan and Deli Serdang district, each year from 2008 to 2014 with an increase in the debt grew. The ratio has a very great contribution is a Debt Service Ratio of Regional Expenditure Ratio and 3,586 against GDP amounted to 2.739 effects of positive against the GDP in the price valid on the Government of the city of Medan and Binjai, Deli Serdang district in North Sumatra. It is indicate that local government debt using funds managed by fund spending regions to invest in increasing revenue, so that increased economic growth and the ability of local government with responsibility in paying its debts. Then the ratio of the debt against Income regions, an analysis of the growth of Expenditure and Expenditure Efficiency Ratio has no effect on the GDP at prices occurred in the city of Medan and Binjai, Deli Serdang district. So the ratio of the third has not yet been able to spur economic growth because this ratio only sees how the amount of funds used in operating activities of local governments.

5. Conclusions

Simultaneously the ratio of Debt to GDP, the ratio of Debt against Income of the original region, Debt Service Ratio, the ratio of Debt against Income regions, an analysis of the growth of expenditure, the ratio Efficiency Ratio Expenditure, Expenditure Regions against the GDP effect and significantly to the center of economic growth (GDP in prices apply) On County Government Deli Serdang, Medan and Binjai in North Sumatra, Indonesia. Partially that the ratio of the debt to GDP and Debt Ratio against the original Revenue Region effect negatively to GDP in the price effect, the Debt Service Ratio and the ratio of regional Expenditure against the GDP positive effect on the GDP in the price effect, the ratio of Debt against Income regions, an analysis of the growth of Expenditure and Expenditure Efficiency Ratio has no effect on the GDP in prices occurred in the city of Medan, Binjai and Kabupaten Deli Serdang in North Sumatra, Indonesia. Adjusted R2 indicates the contribution ratio of the Debt against GDP, the ratio of Debt against Income of the original region, Debt Service Ratio, the ratio of Debt against Income regions, an analysis of the growth of expenditure, the ratio Efficiency Ratio Expenditure, Expenditure Regions against GDP only 68.80%, while the rest 31.20% explained by other factors such as the dependency ratio of the financial region, the analysis of the growth of debt, analysis of the realization of the income and expenses and other financial performance ratios.

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