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# Why Is The Financial Performance Of Pekanbaru City Government Still Poor? A Descriptive Qualitative Study

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## ABSTRACT

**Study's aim:** This study aims to analyze the financial performance of the Pekanbaru City Government and qualitatively explore the underlying factors affecting its budget realization. Specifically, it addresses two key questions: (1) why the city's budget realization has not reached its target over the last three years, and (2) how financial ratios are utilized in assessing regional financial performance. **Design/Methodology/Approach:** This study employs a qualitative descriptive approach. Secondary data were obtained from the Pekanbaru City Government's Budget Realization Reports for the period 2016–2020. Primary data were collected through in-depth interviews with two executive officials of the Regional Financial and Asset Management Agency (BPKAD), namely the Head of the Budget Department and the Head of the Accounting and Reporting Department. **Findings:** The findings indicate that budget realization during 2016–2020 consistently failed to meet the predetermined targets. Revenue realization was significantly lower than expenditure realization, suggesting limited fiscal capacity and a declining performance trend in revenue generation. Contributing factors include regulatory misalignment between central government regulations (PMK) and regional budgeting processes, as well as suboptimal performance of several regional work units (OPDs). Nevertheless, the local government uses financial ratios as analytical tools for future planning and budgeting decisions. **Theoretical Contribution/Originality:** This study enriches public sector accounting literature by highlighting how financial ratios are applied in local government decision-making under regulatory and institutional constraints. **Practitioner/Policy Implication:** The findings emphasize the need to use financial performance analysis substantively in strategic budgeting to strengthen fiscal discipline and accountability. **Limitation/Implication:** The study focuses on a single local government and includes a limited number of interview participants, limiting generalizability. Future research should involve multiple regions and adopt mixed-methods approaches to broaden validation.

**Keywords:** Financial Performance; Regional Financial Ratio; Budget Realization; Qualitative Descriptive



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## Introduction

The delegation of development authority from the central government to regional governments is aimed at increasing the efficiency and effectiveness of financial resources. As part of granting this authority, local governments are required to improve their performance (Zukhri, 2020). This is also a form of public pressure, making organizational and financial management more accountable and transparent (Ahyaruddin & Amrillah, 2018). Good regional financial management will make it easier for regions to map

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and allocate regional development priorities, thereby increasing regional performance significantly (Ahyaruddin & Amrillah, 2018; Sayadi, 2021). Therefore, it is necessary to measure the performance of local governments' resource management (Patompo & Untu, 2019). One aspect that needs to be measured to see local government performance is the financial performance aspect (Melatunan & Pinatik, 2019; Susanto, 2019; Khairuddin & Aminah, 2017; Patompo & Untu, 2019; Suranta et al., 2017; Halim & Abdullah, 2006). Based on the Supreme Audit Agency (BPK) audit results, the government's financial management performance has continued to improve (Financial Audit Agency, 2020). The BPK in its 2020 first semester audit results summary (IHPS) stated that 82% of local governments received a reasonable opinion with an unqualified predicate (WTP) in 2018 and increased to 90% in 2019.

However, conditions on the ground experienced various kinds of problems related to the performance of the government as a whole. The current government has not been able to deliver an efficient, effective, and productive government that realizes good governance and clean government (Sofyani et al., 2018). At present, there is significant criticism of local governments across governance and development, both within the country and from the international community (Rini & Damiaty, 2017). In fact, the government's current performance is often seen as pseudo-performance (Nurkhamid, 2008; Akbar et al., 2012; 2015; Ahyaruddin & Akbar, 2016; 2018). For example, the government's performance in the fiscal sector over the last seven years has decreased. Data submitted by the Ministry of Finance in 2019, as shown in Table 1, indicate that tax revenue realization was only 86.51%, and even the latest data as of September 2020 reached only 58.19% (APBN KITA, 2020). If tax revenue performance is not optimal and even declines, efforts to reform the bureaucracy and governance will face obstacles because their implementation requires significant budgetary resources and costs. The downward trend in tax revenue realization is a major problem for the government, as it can hinder economic development and affect growth. Moreover, so far, the government has not been able to solve many major problems (Ahyaruddin & Amrillah, 2018).

**Table 1.** Target and realization of tax revenue 2014-2020 (in trillion rupiah)

Years	Target	Realization	Percentage (%)
2014	1.246,1	1.146,9	92.03
2015	1.489,3	1.240,4	83.28
2016	1.539,2	1.285,0	83.48
2017	1.472,7	1.339,8	90.97
2018	1.424,0	1.315,9	92.41
2019	1.786,4	1.545,3	86.51
2020*	1.786,3	1.039,4	58.19
2020**	1.404,5	892,4	63.54

\*APBN As of September 2020

\*\* Revised APBN (Perpres 72/2020-Pandemic Covid-19) September 2020 Source: Ministry of Finance of the Republic of Indonesia (data processed)

On a smaller scale, this can also be seen in local government performance. One case example is the Pekanbaru city government. For five consecutive years from 2016 to 2020, the amount of revenue and expenditure realized never met the target, as shown in Table 2. This can be seen that the target of realization of the regional revenue and expenditure budget for Pekanbaru City on average from 2016-2020 is still below 85 %, meaning that from 2016-2020 it never reached the expected target every year. This raises many questions about the performance of the Pekanbaru City government so far. In fact, when viewed from the regional income of Pekanbaru City, it has increased every year, but the increase has not been as expected or reached the target. The city of Pekanbaru itself has great potential in increasing regional income, one of which is through regional original income (PAD). However, Pekanbaru City's PAD realization is still far from the budget target. It was recorded that in 2018, Pekanbaru City realized a PAD of 54.60%; in 2019, 73.68%; and in 2020, 54.87%. This shows that the realization of PAD is still far from the budgeted target (source: Pekanbaru City Budget and Expenditure Realization Report 2018-2020).

**Table 2.** Realization of the regional revenue and expenditure budget of Pekanbaru 2016-2020

Years	Budget	Realization	Percentage (%)
2016	2.425.866.099.699	2.025.563.454.217	83,50
2017	2.629.290.035.710	2.152.172.723.978	81,85
2018	2.639.311.006.654	2.220.359.504.220	84,13
2019	2,725,558,944,245	2,365,257,960,185	86,78
2020	2,829,653,134,593	2,341,181,180,840	82,74

Source: Pekanbaru City Revenue and Expenditure Budget Realization Report 2016-2020 (data processed)

Several empirical studies on financial performance have been conducted. For example, Zukhri (2020) examined the financial performance of the Bangka Belitung Islands province using a quantitative descriptive approach and found results that the independence of regional financial capabilities is in the low category with a consultative relationship pattern. Furthermore, Sayadi's (2021) analysis of variance revealed that state revenue performance during the COVID-19 pandemic declined significantly. The same research was also conducted by Fatmawati & Syafitri (2021) using a quantitative method, which revealed that financial performance, as measured by effectiveness and efficiency ratios simultaneously, affects economic growth. Previous research on financial performance has predominantly used a quantitative approach. In this research, the researchers aim to use a different method within a qualitative approach to provide a detailed picture of the financial performance of local governments, especially Pekanbaru City. Throughout the literature search, qualitative methods related to financial performance issues have been used infrequently by previous researchers. Therefore, this study seeks to fill this gap by qualitatively analyzing and exploring what actually happened regarding the Pekanbaru City government's financial performance. In particular, this study wants to explore in more depth the following two questions: (1) why has the Pekanbaru City government's budget realization over the last three years never reached the target?; and (2) how does the government of Pekanbaru City use financial ratios in assessing its financial performance?. These two questions are important to explore because, based on data from the Pekanbaru City government, the budget reported to date has not yielded satisfactory results. This is undoubtedly a separate problem for the region to address in its development process. If the government's performance improves, citizen satisfaction with services will increase, thereby boosting participation and support for the government, ultimately increasing tax revenues (Timmons & Garfias, 2015).

This research is expected to contribute to the development of the literature, especially in the area of regional financial accounting. In addition, the findings of this research are expected to serve as input and illustration for local governments in determining policies and directions, and formulating strategies to improve local government financial performance and optimize the realization of regional revenue and expenditure budgets in the future.

## Literature Review

### Institutional Theory

In recent years, interest in the use of institutional theory in the accounting literature has increased. Burns & Scapens (2000) identified three institutional theories commonly used in the accounting literature: new institutional economics (NIE), old institutional economics (OIE), and new institutional sociology (NIS).

This study adopts the theory of new institutional sociology (NIS), which emphasizes that organizations are organized within a symbolic matrix to gain legitimacy and external support (DiMaggio & Powell, 1983; Pratiwi & Akbar, 2018). Furthermore, DiMaggio & Powell (1983) stated that an organization tends to move towards homogenization, leading to a condition called isomorphism, or isomorphic pressure.

The isomorphism expressed by DiMaggio & Powell (1983) consists of competitive and institutional isomorphism. Competitive isomorphism is related to organizational efficiency (technical or economic explanations), while institutional isomorphism develops through three mechanisms: coercive, mimetic, and normative. In the concept of competitive isomorphism, an organization will change when there is a cheaper, better, or more efficient way to do something. Meanwhile, in the idea of institutional isomorphism, an organization is influenced by an institutional environment called the organizational field, where the organization as a whole is a recognized area of institutional life, namely key suppliers, product resources, and customers, regulatory dependencies, and other organizations providing similar services and products (Erro & Sánchez, 2012). Based on the process of competitive and institutional isomorphism, an organization does not compete for resources or customers but rather for efforts to gain political support for power and legitimacy, in addition to social welfare and economic results (DiMaggio & Powell 1983; Erro & Sánchez 2012; Akbar et al. 2012; Ahyaruddin & Akbar 2016, 2018).

The concept of institutional isomorphism is a valuable way to understand organizational policies that are heavily influenced by "formal ceremonial and administrative" politics and culture, which largely determine the course of modern organizational life (Erro & Sánchez, 2012; Sofyani & Akbar, 2015). In reporting the performance of government organizations, three forms of institutional isomorphism play an essential role. Coercive isomorphism arises from formal regulations (for example, PP number 8 of 2006, Presidential Decree number 29 of 2014, and most recently PP number 12 of 2019) that compel every government organization to prepare and submit financial reports and performance reports. Other pressures can also take informal forms, such as agreements, codes of ethics, and cultural beliefs within society related to organizational activities. This coercive isomorphism will usually create an organization that is only concerned with administrative performance, as it provides information to convey a good image to external parties (Erro & Sánchez, 2012).

Mimetic isomorphism arises when organizations experience environmental uncertainty, an inability to understand existing technology, and ambiguous organizational goals (DiMaggio & Powell, 1983). Organizations under mimetic pressure will imitate others, even with limited knowledge, to gain social recognition or legitimacy (Pratiwi & Akbar, 2018; Erro & Sánchez, 2012). This condition often arises in Indonesian government organizations when preparing financial and performance accountability reports by imitating more successful organizations, making it easier for them to produce reports, thereby fostering organizational homogenization.

Normative isomorphism can occur because of the profession or professionalization of the people who make decisions in the organization. Professionalization lays the cognitive and legitimacy foundations for organizational autonomy (DiMaggio & Powell, 1983). Professionalization of organizational management, for example, appears through courses, training, outreach, and other forms, so that organizations have a standard way of understanding, interpreting, and solving the problems they face. This normative isomorphism will create a similar cognitive mindset, develop identical behavior patterns, and provide similar solutions to improve organizational management (Erro & Sánchez, 2012). Financial and performance reporting, which is influenced by the pressure of this normative isomorphism, is everyone's hope because the organization's activities and changes are driven by the cognitive basis and professional awareness of everyone to move in a better direction, not by coercion or imitation.

Within the theoretical framework, this research analyzes the performance of the Pekanbaru city government, particularly its financial performance. Specifically, this research focuses on the following two research questions:

RQ1: Why has the Pekanbaru City government's budget realization over the last three years never reached the target?

RQ2: How does the Pekanbaru City government use financial ratios in assessing its economic performance?

## Method

This research uses a descriptive qualitative approach. The data used in this research come from two sources: secondary and primary data. Secondary data are used for an initial analysis of the financial performance of the Pekanbaru City government, based on the Pekanbaru City Regional Budget and Expenditure Realization Report for 2016-2020. Meanwhile, primary data is qualitative data obtained through in-depth interviews with two respondents as key informants, namely the head of the budget department (Respondent – R1) and the head of the accounting and reporting department - spending (Respondent – R2) of the Financial Management Agency and Regional Assets (BPKAD), Pekanbaru City. An interview with R1 was conducted on Friday, 11 December 2020, at 09.46 WIB, with the aim of confirming previously identified data on the budget, which consistently increases even though the previous year's target was not achieved (as reported in the 2016-2020 Budget Realization Report). The interview with R2 was conducted on Monday, 14 December 2020 at 10.09 WIB, to confirm the researchers' findings on the calculation of financial ratios used by the Pekanbaru City government and to determine whether these conclusions align with the actual conditions.

Secondary data from the budget realization report is used to assess the financial performance of the Pekanbaru city government by calculating financial ratios. The ratios used are based on previous research: effectiveness ratios, efficiency ratios, independence ratios, activity ratios, and compatibility ratios (Susanto, 2019; Khairuddin & Aminah, 2017; Suranta et al., 2017; Zukhri, 2020). Qualitative data from interviews were analyzed using the interactive model analysis of Miles & Huberman (1994), which divided the data analysis process into three parts: data collection, data reduction, and data display. ) and drawing conclusions or verification (conclusions).

## Results

### Pekanbaru City Government Budget Realization for the 2016-2020 Period

The results of secondary data analysis of the 2016-2020 budget realization report (LRA) found that budget realization never reached the target set by the Pekanbaru City government (see Table 3). Pekanbaru City's regional income over the past three years has never been realized, and the results of regional taxes and levies are far from the target. This means that the Pekanbaru City Government must emphasize to the public the importance of paying taxes and fees to maximize PAD. In the regional income component, PAD is smaller than transfer funds (central/provincial government assistance). This implies that a government with high transfer revenue is highly dependent on external sources and will perform poorly (Trussel & Patrick, 2009; Ahyaruddin & Amrillah, 2018).

**Table 3** Summary of the percentage of realization of the Pekanbaru budget 2016-2018 (in %)

Years	Realization of Regional Original Income (PAD)	Direct Spending Realization	Indirect Spending Realization	Local Tax Realization	Realization of Regional Retribution
2016	55.4	75.2	93.6	72.6	21.2
2017	60.7	76.6	89.9	62.7	32.5
2018	55	80.1	90.7	58.9	23.3

Source: Results processed by researchers based on data on the realization of the Pekanbaru city budget 2016-2018 (2021)

Based on Table 3, the realization of PAD in 2016 was only 55.4%, local taxes were 72.6%, and regional levies were 21.2%, which means that the realization of Pekanbaru city government revenue, both in PAD components, regional taxes, and regional levies, is still very far from what is expected. Meanwhile, direct spending in the same year accounted for 75.2%, and indirect expenditures accounted for 93.6%. This indicates that spending realization is much higher than income realization, suggesting that budget absorption is quite good. However, the Pekanbaru city government's ability to generate revenue remains suboptimal, so that, in the

medium term, if this problem continues, it will affect the region's sustainability and fiscal health (Rambe, 2020). This is because expenditure growth must be followed by balanced income growth (Mahmudi, 2016).

In 2017, the realization of PAD and regional levies increased slightly from the previous year, namely 60.7% and 32.5%, respectively, but in 2018 they decreased again to 55% and 23.3%, respectively. Then, more severe data are shown in the regional tax component, where local tax collection declined from 2016 to 2018. This leads to the conclusion that the Pekanbaru city government's ability to find sources of income is poor and has a trend of poor performance. If this condition continues, the medium term will bring its own problems for regional fiscal health and sustainable development. Moreover, the need for local government spending continues to grow each year, yet an increase does not match a significant increase in actual expenditure.

Based on interviews with key informants at BPKAD Pekanbaru City, it was revealed that the experience of low income and consistently not meeting expectations was caused by several problems. In terms of the realization of local tax revenues and regional fees, it is low because some OPDs do not fulfill their duties, thereby limiting the potential of existing fees. The following statements of respondents confirm this:

"...Because almost 50% comes from balancing funds and in general the balancing funds are for the distribution of TW4 in the year or in the TW1 trip of the following year, that's from the side of the balancing fund the reason for not achieving it is in accordance with the predetermined PMK, but for PAD, it is admitted that many OPDs or several OPDs have PAD targets, have not worked optimally and have not carried out their tax collection duties optimally. So that the existing potential PAD targets are quoted as a whole, and for other legitimate income, several policies implemented by the relevant regions do not grant the right to use buildings, such as the HPL-HPL in Sudirman, so we don't have the right to collect the levy. again because most of the HPLs have expired" (R1, Head of the Pekanbaru City BPKAD Budget).

Meanwhile, in terms of expenditure realization, it was also not as expected due to the impact of low realized income. The city government of Pekanbaru implemented various budget efficiency measures that, in the end, failed to meet regional spending targets.

"...by not achieving the revenue target, the city government must do what is called efficiency from the existing budgets. However, implementing efficiency does not reduce the program output that has been prepared. Maybe the volume just decreased. Maybe that is the reason that led to the realization (shopping-ed) below the target" (R1, As Head of the Pekanbaru City BPKAD Budget)

Furthermore, problems with revenues and expenditures that were not properly realized were caused by PMK regulations issued late, which became a problem when preparing the regional income and expenditure budget. The following statements of respondents confirm this:

"...and the problem is, this allocation comes after we set the APBD, so that when we have set the revenue target. For example, 1 trillion: it turns out that the PMK issued after we set the PMK, after the APBD, was only 900 billion. This means that the issuance of PMK is very slow, while this APBD must be prepared according to schedule, namely 6 months before the end of the fiscal year or after the semi-annual report. So the allocations submitted are often late before we draw up the APBD." (R1, As Head of the Pekanbaru City BPKAD Budget)

Apparently, this has been a concern of the Pekanbaru City government for a long time; the discrepancy in the timing of the issuance of the PMK and the schedule for preparing the budget is considered to be mutually unresponsive, so that achieving the realization target will be difficult because the budget preparation is only based on the previous year's evaluation. The constraints that arise can also serve as a correction for the government.

"... So in the future, maybe the Pekanbaru City government, before compiling the APBD or before compiling the APBD spending, must prepare a real income. This means the city government must really take into account Pekanbaru City's potential. This potential should be supported by data so that what we predict or calculate is close to reality, ensuring that the target we have budgeted for will indeed be achieved or realized according to our wishes, taking into account the income that is our ability. Then we arrange the expenditure name. The tendency so far is that we first arrange the expenditure, then the income, which we sometimes rearrange, becomes an obstacle" (R1, Head of the Pekanbaru City BPKAD Budget Division)

Even though realization doesn't always reach the target, the government of Pekanbaru City is optimistic about increasing the budget target every year. This is based on the tendency of PAD, which is constantly growing. Therefore, the Pekanbaru City Government always sets a higher budget target than the previous year.

"... seeing trends. Indeed, from the target's perspective, it has not been realized, but there is always a tendency to increase PAD achievement. That is, at least the achievement of PAD from year to year increases by around 10-15% if we look at the achievement of the realization, not the achievement of the target. For example, maybe in 2018 we reached 400 (read: billion), then in 2019 we reached 500, so those factors make us optimistic that preparing our APBD will increase every year, even though later, when preparing the APBDP, it will decrease. And the second factor is that there are special funds, such as BOS funds and Bankeu, which result in a structured increase in our APBD. In addition to the APBD funds, there are also funds from the center that already have a designation" (R1, Head of the Pekanbaru City BPKAD Budget Division)

Based on this explanation, it can be concluded that many factors are preventing the Pekanbaru city government's budget from reaching its target. Institutional factors play a significant role in local governments' inability to achieve budget realization, for example, regulations such as PMK (Ministry of Finance Regulation). This regulatory factor is a form of coercive isomorphism in institutional theory, expressed by DiMaggio & Powell (1983). In addition, the collection of regional taxes and fees that were not carried out optimally by several OPDs indicated the occurrence of institutional isomorphism, which tended to work only to gain political support for power and legitimacy compared to organizational efficiency and effectiveness (Dimaggio & Powell 1983; Erro & Sánchez 2012; Akbar et al. 2012; Ahyaruddin & Akbar 2016, 2018). This indicates that performance achievement is not the result of a cognitive basis and professional awareness for everyone to move towards a better direction, but rather coercion (coercive) or imitation (mimetic), so that the resulting performance tends to be pseudo or even just a mere formality (Nurkhamid, 2008; Ahyaruddin & Amrillah, 2018).

### **Financial Ratios as a Tool to Help Pekanbaru City Government Assess Regional Financial Performance**

Based on Table 4, the average financial performance of the Pekanbaru city government, as reflected in the independence ratio, is low at 37.76%, indicating that development activities still rely on external financing sources (balancing/transfer funds). Pekanbaru city government has not been able to finance government activities, development, and community services using internal funding sources from local revenue. (Trussel & Patrick, 2009; Siddi, 2016; Ahyaruddin & Amrillah, 2018; Zuhri, 2020). This leads to the conclusion that the regions' ability to implement decentralization as a form of regional autonomy remains low and falls into the category of consultative relationship patterns (Halim & Kusufi, 2013; Sularso & Restianto, 2011; Zuhri, 2020). This offers hope that, in the future, the government of Pekanbaru City will be able to maximize local revenue, primarily from regional taxes and fees, so that the implementation of decentralization runs optimally and local government performance improves.

In the effectiveness ratio component, with a value of 83.56%, which is categorized as quite effective in maximizing potential real income receipts. However, the Pekanbaru City government's concern should be maximizing the realization of regional revenues, which year after year do not reach the target. Then, the efficiency ratio component yields a value of 98.89%, indicating that local governments are less efficient, as the costs incurred to produce PAD are almost equal to the amount of PAD received (Ahyaruddin & Amrillah, 2018).

If annual expenses increase, a budget deficit is feared in the APBD. This implies that the implementation of regional autonomy has so far been considered inefficient.

**Table 4** Results of calculating financial performance ratio of Pekanbaru 2016-2018 (in %)

Information	Budget Year			Average	Note	Summary
	2016	2017	2018			
Regional Financial Independence Ratio	29.90	47.30	36.08	37.76	Low	Pekanbaru City Government is classified as low in financing government activities with internal funds
PAD Effectiveness Ratio	83.68	82.52	84.56	83.56	Sufficient	The Pekanbaru City Government is quite effective in increasing regional income.
Regional Financial Efficiency Ratio	96.92	99.10	100.66	98.89	Not enough	Pekanbaru City Government is less efficient in maximizing regional spending
<b>Growth Ratio:</b>						
1. Growth of PAD	-2.13	27.50	-15.02	3.46	Positive	The average PAD growth tends to be positive and shows an increase in PAD performance
2. Regional Revenue Growth	1.08	3.91	2.92	2.63	Positive	The average regional income growth is positive, indicating an increase in Pekanbaru City's regional income performance.
3. Indirect Spending Growth	1.50	-8.75	-2.02	-1.74	Negative	The average indirect expenditure growth tends to be negative, and it is feared that it will harm the people of Pekanbaru City because it directly touches the community
4. Direct Spending Growth	-34.42	21.64	7.16	-1.89	Negative	The average growth in direct spending tends to be negative, and it is feared that it could hinder the development of Pekanbaru City's infrastructure in the future.
<b>Compatibility Ratio:</b>						
1. Operational Expenditure	77.7	78.3	76.1	77.36	Operational	The average operating expenditure exceeds capital expenditure. This shows >Capital that the government is focusing more on Expenditure routine spending, such as personnel spending, goods, services spending, and other expenditures.
2. Capital Expenditure	22.2	21.7	23.4	22.43	Capital	The average capital expenditure is smaller expenditure than the operating expenditure and is used < for expenses made in the Operational framework of the procurement of tangible expenditure fixed assets.

The growth ratio component shows that the Pekanbaru City government is less able to maintain regional financial growth; this is reflected in inconsistent, very volatile growth, and even the spending growth ratio is

negative. It is feared that this will hamper the implementation of government spending and development, and infrastructure projects in Pekanbaru City. Finally, the activity ratio component shows an imbalance in the distribution of operating or routine expenditures with capital or investment expenditures. If this imbalance persists, it is feared that it will affect the city of Pekanbaru's economic growth and development, including the lack of infrastructure intended for the community. The Pekanbaru city government is more likely to allocate a budget for routine expenditures, such as personnel, goods, and services.

Based on the ratio calculation data, the authors conducted an in-depth exploration to identify how the Pekanbaru city government uses this ratio in assessing its financial performance. Ideally, the results of financial ratio calculations are expected to serve as indicators or parameters for various financial decisions, including the preparation of the Pekanbaru City APBD report. The results of the interviews conducted revealed that the government of Pekanbaru City uses many parameters to plan and make decisions. There are various ratios used, such as the ratio of the degree of fiscal decentralization, the ratio of efficiency and effectiveness of PAD, the ratio of independence, and various other financial ratios (Melatunan & Pinatik, 2019; Khairuddin & Aminah, 2017; Patompo & Untu, 2019; Hendawati et al, 2017; Sinambela & Pohan, 2016; Mahmudi, 2016). As stated by the following respondents:

"...Yes, of course, using various parameters such as ratios to assess financial performance. Because our alloy is a performance indicator measured across multiple parameters. So that when making decisions and plans for the City of Pekanbaru, they are not arbitrary but are well considered. For example, we know how independent Pekanbaru City is, whether it is dependent on the central government or not. It should always be evaluated at the end of the period. And whether income or expenditure is efficient. (R2, As Head of Accounting and Reporting of Pekanbaru City BPKAD).

"...Many parameters are used, and the community can also calculate for comparison, but what must be known is that the basis of the performance indicators used is budget performance and performance budgeting. We have to analyze whether the APBD is in surplus or deficit, then measure the degree of fiscal decentralization and financial independence, determine the fiscal position, assess the effectiveness of PAD implementation, and examine various indices, including the regional tax and retribution index. We also measure the City of Pekanbaru's borrowing capacity, and the financial ratios requested are also material for consideration later. So there are many and complex because this measurement is to determine the future of Pekanbaru City." (R2, As Head of Accounting and Reporting of Pekanbaru City BPKAD).

In assessing financial performance, various obstacles arise, even though they are general rather than specific. For example, the failure to achieve the budget can affect the measurement of ratios used to assess financial performance, thereby affecting optimal management of PAD. The following is the statement of the respondent:

"Every activity must have obstacles that occur. We also experienced various obstacles when assessing financial performance. The fact that Pekanbaru's realization was in the low category has become an obstacle and a corrective measure for us going forward, to boost performance. And also Pekanbaru has a high dependence on the center, so this is our homework, so that we maximize PAD so that it can be categorized as an independent area." (R2, As Head of Accounting and Reporting of Pekanbaru City BPKAD).

Even though the general problems described above recur each year, the government remains hopeful that Pekanbaru City's financial performance will improve in the future.

"..We certainly hope that Pekanbaru City's performance will continue to improve each year. Previously, the income figure increased each year, but that was mostly due to balancing funds. We hope to maximize PAD, such as taxes and fees, and we pay more attention to this because if it is maximized, our PAD will be realized. Financial performance can be assessed as good by the

people of Pekanbaru City” (R2, As Head of Accounting and Reporting Division of BPKAD Pekanbaru City).

Based on this explanation, the Pekanbaru City Government uses the results of financial ratio calculations to make program and budget planning decisions and to evaluate future economic performance. However, implementation in the field has not run optimally as expected by many parties, especially the public as users of government services.

## Conclusion

Based on the analysis, this study concludes that the Pekanbaru city government budget for 2016-2018 has never reached the predetermined target. The findings reveal that income realization is much lower than spending, indicating that the Pekanbaru city government's ability to generate income is poor and has a trend of poor performance. Factors contributing to the low budget realization included regulations that were out of sync between the PMK issued and the budgeting process in the regions, and several OPDs that did not perform their functions optimally. These findings indicate that institutional factors play a significant role in the implementation and absorption of budgets. Institutional isomorphism affects the way local governments operate, often focusing only on gaining political support for power and legitimacy rather than on organizational efficiency and effectiveness. In addition, performance achievement is not generated from a cognitive basis and professional awareness to move towards a better direction, but rather from coercion (coercive) or imitation (mimetic), so that the resulting performance tends to be pseudo or even just a mere formality.

However, this study found that the Pekanbaru city government uses the results of financial ratio calculations in making program and budget planning decisions and in assessing future economic performance. Although implementation in the field has not run optimally as expected by many parties. Several indicators or financial ratios used to inform future planning include the independence ratio, the degree of fiscal decentralization ratio, the efficiency and effectiveness ratio, the regional tax and fee index, and various other financial ratios.

This research has several limitations. First, the data used are limited to budget realization reports for the years 2016-2018. This is because the researcher only obtained the document in full for the period from 2016 to 2018. Second, this research was carried out during the COVID-19 pandemic; therefore, the researcher was able to interview only two key informants, and it was not possible to interview all areas of BPKAD Pekanbaru. Future research is expected to increase the number of key informants and to explore in detail the perspective of a higher-level official who is fully responsible for the local government's financial performance, for example, the regional secretary or mayor/regent.

Theoretically, this research contributes to additional literature on the use of institutional theory in studies in the field of public sector accounting and regional financial accounting. Methodologically, the use of qualitative methods, specifically in-depth interviews, in this study makes an interesting contribution to the exploration of budget realization in local governments. In practice, the findings of this study are expected to provide input and insights for local governments in determining policies and strategies to improve regional financial performance. This research also has implications: the use of financial performance information as a basis for future decision-making must be done correctly and carefully so that the budgeting process actually produces real performance, not just to fulfill formal requirements or gain political legitimacy.

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### **Conflict of Interest**

The authors declare no conflict of interest. The founders had no role in the design of the study, the collection, analysis, or interpretation of data, the writing of the manuscript, or the decision to publish the results.