

The Role of Financial Report Analysis in the Efficiency and Effectiveness of Financial Performance

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Abstract

This study aims to analyze the influence of effectiveness and efficiency in financial management at the village and regional levels. The main focus of this research is to evaluate how the financial management system implemented can affect the effectiveness of achieving financial goals and efficiency in budget use. The method used in this research is a literature review method that examines various journals related to village and regional financial management. This approach is done by collecting, comparing, and analyzing the findings of five relevant journals. From the results of the analysis, it was found that although effectiveness in achieving financial objectives tends to be high, efficiency in budget use still faces major challenges. Factors affecting low efficiency include limited human resource capacity, weak supervision, and mismatches between budget planning and execution. This research also shows that transparent and structured financial management systems, such as SISKEUDES, can improve management effectiveness, but do not guarantee optimal efficiency without improvements in human resource training and supervision. As a suggestion, increasing the capacity of financial managers, strengthening the supervision system, and increasing transparency at every stage of budget management are essential to achieve more efficient goals.

Keywords: *Effectiveness, Efficiency, and Financial Performance.*

INTRODUCTION

Based on Law Number 23 of 2014 concerning Regional Government, the role of regional government is very important in carrying out government affairs which fall under its autonomous authority. The aim is to improve community welfare through better services, community empowerment, and increasing regional competitiveness, while maintaining the principles of democracy, justice, and regional privileges in the context of the Unitary State of the Republic of Indonesia (Nasution & Welly, 2023). Regional financial management is an important element in achieving this goal. is very important, many companies find it very difficult to see and measure how dissatisfied, less satisfied, satisfied, or very satisfied their customers are with the products or services they offer.

Financial performance has an important role in planning management within the scope of financial reports in an organization, both government and private (Nasution et al, 2024). Financial performance always focuses on achieving predetermined financial targets, especially in measuring effectiveness and efficiency in realizing regional income and expenditure. Financial ratios are the process of comparing the numbers contained in financial reports by dividing one number by another (Kasmir, 2018). Halim (2012) also stated that one tool that can be used to analyze regional financial performance in financial management is to carry out an analysis of the financial ratios that have been determined and implemented in the APBD. Analysis of the effectiveness and efficiency of local government finances is a crucial aspect in assessing financial performance that contributes to development and community welfare (Nasution, 2023).

The effectiveness ratio is something that is done to achieve a planned target, while the efficiency ratio is something related to minimizing existing ones and maximizing existing resources without having to reduce the quality obtained (Nasution et al, 2021). The effectiveness ratio and efficiency ratio in the government's financial performance section aims to ensure that the budget and expenditure are in line with the direction intended by a government agency.

In recent years, many paradigms from managers of government financial reports have been skeptical. People often ask about the principles of good governance that exist in a line of government organization. Developments in the management of government financial reports are increasingly emphasizing accountability, transparency and efficiency in using public funds. This is reflected in government regulations, namely Law Number 6 of 2014 and Law Number 23 of 2014. However, the implementation and performance of financial management at the central level, regional level and village level are still well synchronized so that this is a matter of great concern. big for stakeholder figures, especially the community as distributors of public funds (Nasution et al, 2024). This research provides a better understanding of the extent of government performance.

In facing increasingly tight global competition, companies must be able to manage resources effectively and efficiently to achieve goals. Financial reports are an important tool for companies to measure financial performance and identify areas of improvement. Financial report analysis can help companies understand their financial position, identify strengths and weaknesses, and make strategic decisions

Many companies still face difficulties in managing finances effectively and efficiently. This is caused by a lack of ability to analyze financial reports and interpret financial data. Therefore, this research aims to investigate the role of financial report analysis in improving the efficiency and effectiveness of company financial performance.

Public Management Theory focuses on managing public resources to achieve predetermined goals, taking into account efficiency and transparency in the implementation of public policies. In this context, financial management in the public sector needs to ensure that the budget is used optimally to meet community needs. Effectiveness in public management includes achieving budget or program targets, while efficiency assesses the extent to which resources, whether funds, time or energy, are used optimally in achieving these goals. In this theory, one approach that is often used is the results-based management model (performance-based management). This approach emphasizes measuring organizational performance based on the results achieved, as well as using minimal resources to achieve maximum results. The use of this model in financial management in the public sector is very relevant to assess how the budget is used effectively and efficiently in creating value for society. Along with the development of information technology, this theory is increasingly relevant to the application of digital systems in financial management, such as those implemented in the Village Financial System (SISKEUDES).

Effectiveness comes from the word effective, which in English means effective or successful. Effectiveness is a measure that shows the extent to which management has achieved previously set targets, both in terms of quantity, quality and time (Berliana, 2022). Effectiveness generally refers to the extent to which results are achieved. In this context, regional government effectiveness can be interpreted as the ability to achieve predetermined goals in accordance with planned needs. Based on Minister of Home Affairs Regulation Number 13 of 2006 article 4 paragraph 4, effectiveness is defined as achieving program results that are in accordance with the targets that have been set, which can be seen through a comparison between output and

results. Thus, effectiveness is a comprehensive picture of the extent to which an organization has achieved its goals (Mahmudi, 2019).

Effectiveness can also be interpreted as completing activities on time according to predetermined plans. Therefore, if an organization succeeds in achieving its goals, it can be said that the organization has operated effectively. From this explanation, it can be concluded that effectiveness is a comparison between output (results) and goals. To evaluate the effectiveness of financial management, it is necessary to compare actual spending and spending targets. Thus, analysis of the effectiveness of the Village Fund Budget can be carried out by comparing actual expenditure against expenditure targets (Mahmudi, 2019). Effectiveness refers to the extent to which the level of achievement of the output produced is in accordance with the expected output from the input used in an organization or individual (Syam, 2020). In this context, effectiveness means success in achieving predetermined goals. The closer the results of the activity are to the set goals, the higher the level of effectiveness, and vice versa (Agustina, 2020).

Effectiveness refers to how well a job is carried out and the extent to which the resulting results meet expectations. In other words, if a task is completed according to plan both in terms of time, cost and quality, it can be considered successful (Ikbal, 2014). Effectiveness is also related to achieving set goals; The higher the level of effectiveness of a budget, the greater the success of the organization in implementing the planned programs (Siregar, 2017).

Efficiency is the ability to complete tasks correctly. This involves a comparison between output and input. An organization is considered efficient if it can produce higher output, such as results, productivity, and performance, compared to the inputs used, such as labor, materials, money, machines, and time. In other words, efficiency is achieved when the costs of using resources are minimized to achieve a predetermined output, or vice versa, when output can be maximized with limited input. (Halim, 2014). Efficiency measures can be determined by comparing actual costs with predetermined standard costs, such as a budget. From this explanation, efficiency can be interpreted as the ratio between output and input. Output (expenditure) reflects the costs incurred to obtain regional revenues, in this case expenditure, while input (input) is the realization of regional revenues, namely income. To analyze the level of efficiency in financial management, it is necessary to compare the realization of the expenditure budget and the realization of the income budget. (Halim, 2014).

According to Dekrita (2021:40), financial performance refers to financial ratios that assess the extent to which a company can generate profits with available capital. This relationship can also provide guidance for company management in making financial decisions and evaluating company performance, so that profit becomes an important indicator for managers, as stated by Horne and JR (2005)

RESEARCH METHODS

This research method uses a literature analysis approach to analyze various journals that are relevant to village and regional financial management, especially those related to effectiveness and efficiency in budget use. The first step in this research was to collect journals that discuss public financial management, which were selected based on topic relevance, current publication period (2023-2024), and focus on analysis of fund management at the village and regional government levels. After the journals are collected, content analysis is carried out to identify patterns, gaps and differences in research results. This analysis also aims to understand

the factors that influence the effectiveness and efficiency of financial management, such as human resource capacity, supervision and the management system implemented. Next, a comparison of findings from one journal with other journals was carried out to see the similarities and differences in financial management practices and their impact on efficiency and effectiveness. Based on this comparison, conclusions can be drawn regarding the influence of these factors on achieving financial management objectives, as well as the challenges faced in implementing financial policies in regions and villages. By using this method, it is hoped that this research can provide deeper insight into the obstacles and opportunities that exist in efforts to increase the effectiveness and efficiency of public financial management.

RESULTS AND DISCUSSION

In an increasingly competitive Village Financial System (SISKEUDES), measuring financial performance is a crucial aspect that cannot be ignored. Financial performance not only reflects how well a company generates profits, but also describes the effectiveness and efficiency of its operations. In this case, the concept of effectiveness is an important indicator for assessing the extent to which a company achieves its stated goals. Effectiveness in the context of financial performance means how well a company uses existing resources to achieve desired results. It covers a wide range of elements, from capital use and cost management, to asset and revenue management. For example, effective companies are able to generate more revenue at lower costs, as well as optimize the use of assets to support growth.

Mardiasmo (2018:166) states that effectiveness is basically related to achieving the goals or targets set in the policy (results). Effectiveness refers to the relationship between output and the goals or objectives to be achieved. An operational activity is considered effective if the process is able to achieve the final goals and objectives of the policy (managing expenditure wisely). If an organization succeeds in achieving its goals, then the organization is considered to be operating effectively. Assessment of the effectiveness of an organization or program is carried out based on the output's ability to meet objectives and be managed well and appropriately.

In measuring financial performance, several ratios can be used to assess effectiveness, such as profitability ratios, return on investment (ROI) ratios, and asset turnover ratios. These ratios provide a clear picture of how the company utilizes its resources to achieve maximum profits. Thus, analysis of these ratios is key to identifying the company's strengths and weaknesses. However, measuring effectiveness does not just stop at the numbers seen in financial reports. Identifying patterns, trends and external factors is also important for understanding the context in which a company operates. For example, changes in markets, consumer behavior, and government regulations can impact overall financial performance. The following are Effectiveness measurements:

$$\text{REPAD} = \frac{\text{Realization Of Revenue}}{\text{Budget}} \times 100\%$$

The importance of involvement of all levels of management in financial performance measurement cannot be ignored. Every individual in the organization has a role in driving effectiveness, from strategic planning to operational execution. With high involvement, companies will be better able to adapt to change and maximize their financial performance. Overall, measuring financial performance with the concept of effectiveness is not just about ensuring that the company generates profits, but also assessing how efficiently and effectively

resources are used to achieve larger goals. This encourages companies to continue to innovate and adapt, for the sake of continuity and sustainable business growth. With the right approach, effectiveness is not just a number; it became the philosophy underlying the company's long-term success.

In the increasingly competitive Village Financial System (SISKEUDES), measuring financial performance is one of the crucial aspects that every company must pay attention to. One approach that can be used in this measurement is the concept of efficiency. Efficiency not only relates to how well a company generates profits, but also includes how resources are managed to achieve optimal results. Measuring financial performance with a focus on efficiency provides a more comprehensive picture of a company's financial health. Efficiency can be interpreted as a comparison between the output produced and the input used. In this context, companies are expected to be able to produce products or services at minimal cost, without sacrificing quality.

Measuring efficiency in managing state finances is an important aspect. According to the Republic of Indonesia Minister of Finance Regulation Number 214/PMK.02/2017, efficiency is measured by comparing actual expenditure and supposed expenditure. Expenditures should refer to the planned budget to achieve certain targets, while actual expenditure is the realization of the budget. In line with this, Mahmudi (2013) defines efficiency as the relationship between output and input. This means that efficiency is the ability to produce maximum output with minimum input. An organization or program is said to be efficient if it succeeds in producing optimal output at the lowest cost or produces maximum output at a certain cost. The following is the efficiency measurement

$$\text{REKD} = \frac{\text{Expenditure Realization}}{\text{Revenue Realization}} \times 100\%$$

One method commonly used to measure efficiency is financial ratios. This ratio compares various elements of financial statements, such as cost-to-income ratios, profitability ratios, and asset-to-liability ratios. By analyzing these ratios, management can identify areas that need improvement and take steps to increase operational efficiency. For example, if a company has a high ratio of operational costs compared to its income, this is an indicator that the company is less efficient in managing costs. Management can evaluate production processes, marketing strategies and supply chain management to find savings opportunities. By considering the concept of efficiency in measuring financial performance, companies not only focus on short-term profits, but also on long-term sustainability. Good efficiency will not only increase profitability, but also create added value for stakeholders, including employees, customers and shareholders.

At the literature review stage regarding the role of financial report analysis in the effectiveness and efficiency of financial performance, this research took references from the Google Scholar database by selecting a number of previous studies that were relevant to the theme that the researcher was conducting. The aim of this research is to understand the role of the farud triangle in financial statement fraud.

Effective and efficient financial management is fundamental in achieving sustainable development goals, both at the village, regional and government levels in general. The success of financial management will be greatly influenced by the extent to which available funds can be managed effectively, both in terms of achieving program objectives (effectiveness) and in utilizing existing resources in an optimal way (efficiency). In the context of financial

management in villages, the implementation of digital systems such as the Village Financial System (SISKEUDES) is one of the strategic steps to increase the effectiveness and efficiency of implementing village financial management. However, although this system is designed to increase transparency and accountability, challenges in implementation and use of resources are still issues that need attention.

Arum Setiaya Ningsih (2023) in his research on the Effectiveness and Efficiency of Implementing the Village Financial System (SISKEUDES) stated that although this system can improve financial management in villages, uneven implementation and limited human resource capacity at the village level are still obstacles. This can have an impact on low efficiency in the use of village budgets, even though many goals are effectively achieved. In addition, an analysis of village fund management in North Toraja Regency carried out by Martina Meti (2024) shows that although there has been an increase in achieving the objectives of using village funds, efficiency in the use of these funds is still a problem. Non-optimal management in budget distribution causes waste which can reduce the potential benefits of village funds themselves.

On the other hand, in regional government financial management, Dika Firza Hardinata (2024) conducted an analysis of regional financial effectiveness and efficiency ratios to measure regional government financial performance. His research shows that although the effectiveness ratio in some regions tends to be high, the efficiency ratio is still low, which indicates an imbalance in financial management. Good performance in terms of achieving targets is often not commensurate with the resource efficiency efforts made. Apart from that, in an analysis of income effectiveness and spending efficiency carried out by Sorayah Mohammad (2023) in Pematang Siantar City, it was found that even though regional income was recorded as quite high, inefficient regional spending resulted in budget waste. The same thing was also found in Maria Paskalia Dua Vina's research (2023) regarding the effectiveness and efficiency of the regional income and expenditure budget at the Sikka Regency Tourism and Culture Office, which shows that even though the budget has been well planned, the implementation of the budget still faces obstacles in terms of efficiency. budget use.

These findings indicate a significant gap between effectiveness and efficiency in financial management, both at the village and local government levels. Even though effectiveness is achieved well in many cases, the challenge in achieving optimal efficiency is still a major problem that influences the final results of financial management. Therefore, this research aims to dig deeper into the factors that influence effectiveness and efficiency in financial management and look for solutions that can be implemented to overcome these problems.

CONCLUSION

Based on analysis from various studies, it can be concluded that financial management at the village and regional levels shows a significant influence on effectiveness, but efficiency is often a problem. Although many regions have succeeded in achieving their stated budget goals, many of them experience difficulties in using their budgets efficiently. This is caused by limitations in the capacity of human resources to manage finances, a lack of strict supervision, and a mismatch between budget planning and implementation in the field. Several studies show that although effectiveness in achieving budget objectives has been achieved, efficient use of the budget is still low due to factors such as discrepancies between the planned budget and its allocation in the field. In some cases, even though regional income is quite high, inefficient

expenditure management means that budget allocation does not have an optimal impact. Overall, although effectiveness in financial management is often achieved, efficiency remains a significant challenge. To overcome this, it is important to increase the capacity of human resources who manage finances, tighten supervision, and ensure there is better alignment between budget planning and execution. With the differences in results found in this study, it can still be researched further to find more significant results.

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