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THE EFFECT OF SOLVABILITY ON ASSET MANAGEMENT ON THE OBLIGATION OF SALATIGA CITY GOVERNMENT

(Empirical Study on Salatiga City Government for the 2021-2022 Period)

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Abstract

The financial statements of local governments include assets that represent their economic wealth, which are presented in the balance sheet. However, the balance sheet of Salatiga City's local government financial statements shows an increase in inventory, long-term investments, fixed assets, and other assets. This study aims to examine the financial condition of the Salatiga City area and assess the Salatiga City Government's ability to fulfill its debts or obligations using the solvency ratio. The research method employed in this study is quantitative with a descriptive approach, involving the analysis of numerical data through calculations. The results indicate that the financial condition of the Salatiga City Regional Government demonstrates optimization in the management of current assets, as evidenced by a decrease in the solvency ratio. However, the Salatiga City Regional Government should implement strategies and improve the management of current assets and cash to enhance its ability to meet short-term and long-term financial obligations. The decline in asset value in 2021 in the Salatiga City Regional Government can be attributed to a decrease in current assets and cash.

Keywords: *Asset Management, Fulfillment of Liabilities, Solvency Ratio*

1. INTRODUCTION

Effective asset management is crucial for efficient government spending. By successfully managing assets, the government can reduce the costs associated with asset maintenance, repairs, and replacements (Kawatu, 2019; Labasido & Darwanis, 2019; Saraswati et al., 2017). This, in turn, enables the government to meet its financial obligations without undue financial strain. In addition to the financial benefits, proficient asset management also plays a significant role in shaping the government's trust and reputation. When the government effectively maintains and manages its assets, it fosters trust among the public and investors. Such trust makes it easier to secure loans or financial support from external parties. Conversely, poor asset management can tarnish the government's reputation and hinder the fulfillment of financial commitments.

According to Government Accounting Standard No. 7/2010, fixed assets are tangible assets utilized in government activities, with an economic life exceeding 12 months, and are accessible to the general public. These assets possess a reliable measurable acquisition value but are not tradable. Fixed assets are reported in the financial position. Overall, proficient and effective asset management strongly influences the government's ability to meet its liabilities (Najib, 2011; Sari & Yousida, 2019). Efficient management of assets, diversified funding sources, spending efficiency, and a good reputation can improve government solvency. Consequently, it is crucial for governments to prioritize asset management to maintain financial equilibrium and ensure the timely fulfillment of obligations.

The statement of financial position, based on Government Regulation No. 8/2006 Article 1 on Financial and Performance Reporting of Government Agencies, provides

information about the government's assets, liabilities, and equity within a specific period. Fixed assets play a pivotal role in this report due to their high value owned by local governments. Mismanagement of fixed assets can lead to issues, such as receiving a WDP (Reasonable With Exception) opinion from BPK (Financial Supervisory Agency). Therefore, effective management of fixed assets is essential. According to Government Regulation No. 71 of 2010 concerning Government Accounting Standards, assets should be more appropriately referred to as fixed assets. The responsibility for managing fixed assets lies with local governments, necessitating clear regulations pertaining to these assets. As mentioned by Umar et al. (2018), regional fixed assets require clear regulations to ensure transparent and accountable financial management, promoting good governance. Regional assets also serve as indicators of local governments' ability to meet long-term and short-term liabilities or debts. This ability can be measured through the solvency ratio, which compares total debt to total liabilities.

The Salatiga City Government has essentially implemented the fixed asset management process by referring to Minister of Home Affairs Regulation (Permendagri) No.17, Article 4 of 2007. However, the Government Agency Performance Report (LKjIP) revealed planning issues in 2018, including misalignment between planning documents. The LKjIP does not explicitly state the location of the misalignment. Researchers indicate that this misalignment occurs in the mechanism of planning needs and budgeting. The reason behind this is the differences in writing the Regional Property account code, as specified in the Minister of Home Affairs Regulation, compared to the accounting account code. Lack of coordination and assertiveness in reporting these documents contributes to this discrepancy, resulting in variations between the recorded budgeting amount and the actual expenditure.

The study conducted by Labasido & Darwanis (2019) demonstrates that DPPKAD Aceh, as a management assistant, has implemented ten cycles in fixed asset management. However, out of the fourteen required documents, only thirteen were available, indicating that the management of fixed assets in DPPKAD Aceh does not fully comply with PP No. 19 of 2016. It is recommended for DPPKAD Aceh to coordinate with all SKPDs as the users/responsible parties in creating the List of Regional Property Maintenance Needs (DKPBMD) and List of Regional Property Maintenance Results (DHBMD) to ensure compliance with applicable regulations. Saraswati et al. (2017) indicate that the accounting treatment of fixed assets listed in the Madiun Regency government balance sheet for 2015 and 2016 aligns with Government Regulation No. 71, concerning SAP PSAP No.07. Additionally, the accounting treatment of fixed assets in the preparation of the Madiun Regency government balance sheet is in accordance with PP No. 71 of 2010 concerning SAP. Previous studies primarily focused on assessing the readiness of the Indonesian government to implement accrual-based SAP in terms of human resources and information technology resources. In contrast, this research examines the readiness of the Salatiga City Government through policy aspects of fixed asset accounting treatment.

According to Wahyuningrum et al. (2013), the management of regional assets in Salatiga City has not been optimized due to the lack of discipline among asset users in adhering to applicable regulations. Furthermore, supporting this point, the audit results from the BPK (Supreme Audit Agency) for the past three years consistently issued an unqualified opinion on the Salatiga City Financial Statements, except for fixed assets. The 2010 BPK audit identified issues with fixed asset inventory and recommended that

the Head of DPPKAD conduct a comprehensive inventory of all fixed assets in Salatiga City and develop an accounting policy aligning with SAP for attributing expenditures to fixed assets. The 2011 BPK audit found discrepancies in the recording of fixed asset mutations and the inclusion of assets that did not meet the minimum capitalization limit in the balance sheet. Similar problems were found in the BPK audit results of 2012, specifically related to the control of fixed assets, resulting in an untrustworthy fixed asset balance. Further examination of the presentation of fixed asset balances in SKPDs revealed that the Salatiga City Government's accounting policy on capitalization does not align with Government Accounting Standards.

Considering the issues surrounding the impairment of current assets and cash in the Salatiga City local government, the problem formulation revolves around assessing the Salatiga City Government's ability to meet its debts or liabilities. This study aims to evaluate the Salatiga City government's performance in managing assets and determine its capacity to fulfill its debts or liabilities, providing insights for further improvements.

2. LITERATURE REVIEW

2.1. Solvency Ratio

The solvency ratio is one of the ratios that provide information about the ability of local governments to meet their long-term and short-term obligations (Mahmudi, 2016). This ratio is calculated by dividing the total assets by the total debt. It signifies the extent to which total assets can cover total debt. The solvency ratio offers an overview of the local government's capacity to fulfill its financial obligations in both the short and long term. It indicates the degree to which the local government possesses assets that can guarantee the payment of its liabilities or debts. Additionally, the solvency ratio is used as a benchmark for evaluating the credit risk level of local governments.

The purpose of analyzing the solvency ratio is to assess the local government's ability to meet all its obligations, whether short or long term. The ratio compares the total assets of the local government with its total liabilities, indicating whether the local government possesses sufficient assets to cover its liabilities.

Solvency Ratio = (Total Debt) / (Total Assets) × 100%

2.2. Fixed Asset Management

According to Siama et al. (2022), management is defined as the process of working with people individually or in groups to achieve organizational goals. As per Government Regulation Standards (SAP) No. 71 of 2010, assets are economic resources controlled or owned by the government that are expected to yield future economic or social benefits for both the government and society. These assets can be measured in monetary units and include non-financial resources required to provide services to the general public, as well as resources maintained for historical and cultural reasons.

Local government assets constitute a component of the statement of financial position, providing information about the economic wealth owned by local governments. Based on these two aspects, it can be concluded that regional asset management refers to all regional properties obtained or purchased through the Regional Budget and Revenue or other legal means, which are then managed by a local government equipped with

devices or employees responsible for control and accountability to achieve predetermined objectives (Arsita, 2021; Awaliyah, 2022).

2.3. Liability

Government liabilities or debts play a crucial role in a country's or government's economy. However, it is essential for the government to ensure that its debt does not exceed its ability to repay. Long-term liabilities are debts that must be repaid within a period of less than one year (Mogi & Morasa, 2013). These long-term liabilities are typically utilized to finance major projects such as infrastructure development or the acquisition of fixed assets. On the other hand, short-term liabilities are used to fund daily expenses such as employee salaries or the purchase of raw materials. It is important for the government to effectively manage its debt to avoid incurring a heavy financial burden in the future. This can be achieved by balancing expenditures and revenues, prioritizing debt utilization for productive projects, and maintaining fiscal discipline.

3. RESEARCH METHODS

The researchers employed quantitative methods combined with descriptive research, analyzing numerical data through calculations. Purposive sampling was used to select samples that met specific criteria and conditions. The research relied on secondary data, typically in the form of existing documentation or report data. In this study, the financial statements of Salatiga City for the 2021/2022 period served as the sample for analysis, with the solvency ratio analysis being the chosen data analysis technique.

The utilization of quantitative methods and descriptive studies, along with numerical data analysis, is well-suited for examining financial statements as it offers a clear and structured representation of Salatiga City's financial condition. Purposive sampling ensures that the obtained sample fulfills the necessary criteria and conditions. Furthermore, the utilization of secondary data helps save time and resources in data collection. The research methodology and data analysis techniques employed in this study are appropriate and provide valuable insights into Salatiga City's financial condition during the 2021/2022 period.

4. RESULTS AND DISCUSSION

Salatiga City plays a crucial role in implementing Law No. 1 of 2004 on the state treasury. In order to ensure accountability and transparency, the local government of Salatiga City prepares an annual financial report that includes a balance sheet. These reports are prepared in a professional and credible manner, providing information about the local government's assets. They serve as a tool for evaluating performance and controlling financial resources. The publication of financial statements enables the public and stakeholders to access accurate and reliable financial information regarding the assets managed by the local government.

Table 1. Asset Growth Data in Salatiga City Local Government Balance Sheet 2020-2021

Account	2020		2021		Growth
Current Assets	Rp	242.117.887.308	Rp	216.742.919.795	-10,48%
Cash	Rp	156.720.813.526	Rp	143.518.363.968	-8,42%
Inventory	Rp	27.856.535.289	Rp	30.091.861.913	8,02%
Long-term Investments	Rp	140.649.185.762	Rp	149.023.550.651	5,95%
Fixed Assets	Rp	2.656.541.260.532	Rp	2.750.897.875.513	7,52%
Other Assets	Rp	83.389.095.072	Rp	83.727.427.263	2,17%
Total Assets	**Rp**	**3.307.274.777.489**	**Rp**	**3.374.001.999.103**	**1,98%**

Source: Data processed, 2023

A comparison of the growth of Salatiga City local government assets in 2020 and 2021 is shown in Table 1. The growth of fixed assets reached 7.52%, while long-term investments experienced growth of 5.95%. Current assets did not experience growth as the value was negative (-10.48%). However, other assets showed growth of 2.17%, and the total assets experienced growth of 1.98%.

The Head of Accounting and Reporting of BPKAD Salatiga City stated that the decrease in asset value in 2020-2021 was due to restrictions or reductions in spending by local governments during the Covid-19 pandemic. Analyzing the decrease in assets on the local government balance sheet requires the use of financial ratios, such as solvency ratios, which are issued by the local government as part of their financial accountability. The solvency ratio of the local government balance sheet measures its ability to meet short-term and long-term liabilities or debts, with a standard solvency ratio of 2:1. Information about assets on local government balance sheets is relevant for ratio analysis because financial statements are not profit-oriented.

Comparing data from multiple periods of financial statements, such as balance sheets, can identify progress in local government financial performance. Analyzing a local government's balance sheet over two or more periods can be useful for determining the percentage decrease or increase (in rupiah). The decline in the value of Salatiga City local government assets in 2020-2021 can be analyzed using financial ratio analysis techniques, such as the solvency ratio (Mahmudi, 2019). The 2:1 solvency ratio mentioned earlier is often used as a benchmark to ensure that local governments have sufficient assets to fulfill their liabilities. By analyzing the solvency ratio, the local government of Salatiga City can evaluate its financial stability and make informed decisions regarding managing its assets and liabilities. Additionally, stakeholders and the public can use this information to gain a better understanding of the local government's financial health and assess its ability to meet its obligations.

Table 2. Solvency Ratio Calculation Results of Salatiga City Local Government in 2020-2021

Year	Total Assets	Total Debt	Solvency ratio
2020	Rp 3.122.697.428.674	Rp 35.120.126.433	1,125%
2021	Rp 3.200.391.773.222	Rp 31.685.527.286	0,990%

Based on Table 2, the ratio between total assets or assets and total debt or liabilities of the Salatiga City Government in 2020 is 1.125:1. This means that 1.125 rupiah of total assets or assets owned by the Salatiga City Government can guarantee 1 rupiah of all debts or liabilities. Meanwhile, the solvency ratio in 2021 is 0.990:1. This means that 0.990 rupiah of total assets of the Salatiga City government can guarantee 1 rupiah of all debts or liabilities.

Table 2 illustrates the change in the solvency ratio that can be met by the Salatiga City local government in fulfilling its obligations. In 2020, the solvency ratio of the Salatiga City local government was 1.125, and it decreased to 0.990 in 2021. This decrease was influenced by an increase in the nominal value of total assets from Rp 3,122,697,428,674 in 2020 to Rp 3,200,391,773,222 in 2021.

The declining solvency ratio indicates that the Salatiga City Government has effectively managed its current assets. Assets that have not been used or are no longer needed have been optimized for development and public services. This decrease does not indicate solvency risk, considering the reasonable comparison between the solvency ratios of 2020 and 2021. Therefore, the Salatiga City Government can be considered solvent as it has fulfilled its long-term and short-term obligations or debts, as indicated by the ratio comparison meeting the standard success rate of 2:1. This standard success rate aligns with the statement by Mahmudi (2019).

According to Priyono (2018), if the local government has sufficient assets, obtained from investments, equity, and its own resources, all debts or liabilities can be fulfilled. The Salatiga City government possesses sufficient investments, equity, and resources, enabling the fulfillment of long-term and short-term liabilities or debts. This independence from external sources of funds, such as loans, makes the Salatiga City area self-sustainable. Additionally, it is important to calculate other obligations apart from debt or central tax obligations, such as general allocation funds (DAU) and third-party calculation funds (PFH). This aligns with Hadi's statement in 2010 (Hadi, 2010), which states that these two types of debt are not included in local government funding sources.

According to Keown's grand theory (2005), the higher the risk, the higher the potential return, and vice versa. Failure to fulfill obligations will deplete the provided insurance capital. However, excessive solvency can lead to an overabundance of funds, which may remain unproductive and waste opportunities to generate profits.

5. CONCLUSION

Based on the calculation of the solvency ratio, the results indicate a decrease from 1.125% in 2020 to 0.990% in 2021 for the Salatiga City Local Government. This decrease suggests that the management of current assets has been optimized. However, further analysis of the financial statements and factors influencing the ratio is necessary to gain a comprehensive understanding. A decline in the solvency ratio can be attributed to various factors, such as a decrease in local revenue or an increase in debt, which can impact the local government's ability to meet its financial obligations.

Therefore, it is crucial to conduct a thorough analysis and evaluation of the overall financial performance of the Salatiga City local government. In doing so, the government should strategize and enhance the management of current assets and cash flow to improve its ability to meet short-term and long-term financial obligations. This, in turn, will ensure the restoration of quality public services for the community. Additionally, the observed

increase in total asset growth by 1.98% indicates improved liquidity for the Salatiga City Local Government, with investments and other assets remaining relatively secure.

However, attention should be given to the declining percentage value of assets and cash equivalents. Effective management of fixed assets is also crucial, as it represents the highest percentage among other components. Local governments should prioritize the solvency ratio in their financial management practices by diversifying assets, restructuring debt, reducing unnecessary expenditures, and ensuring efficient and optimal asset management.

It is important to note that government liabilities or debts should not be avoided but rather managed wisely to contribute to the economic welfare of the region and its residents. By striking a balance between managing liabilities and meeting financial obligations, the Salatiga City local government can enhance its economic well-being and provide better services to the community.

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