THE INFLUENCE OF FINANCIAL FACTORS AND LOCAL GOVERNMENT CHARACTERISTICS ON FINANCIAL DISTRESS

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ABSTRACT

The success of regional autonomy can be reflected in the quality of the public services provided. This research was conducted in the local government of cities and regencies in Central Java Province. This study aimed to identify and analyze the effect of financial factors and local government characteristics on financial distress in city and district regional governments in Central Java Province for the 2017-2021 period. This research uses causal associative research with a quantitative approach. In determining the sample, a purposive sampling method was used with a population of all regencies and cities in Central Java Province for the 2017-2021 period. This study utilized eight independent variables and data processing instruments used in Microsoft Excel and Econometric Views (E-Views) version 10 with a panel data regression model.

This study's results are partially the effectiveness and efficiency ratio that affect financial distress. While the other six variables (income growth ratio, independence ratio, regional solvency ratio, population, and audit opinion) partially do not affect financial distress. However, simultaneously the independent variables affect financial distress.

Keywords: Financial Factors, Financial Distress, Government Characteristics.

INTRODUCTION

The success of regional autonomy can be reflected in the quality of public services provided. The positive image of a regional government can also be seen in the quality of

its public services. The quality of public services in Indonesia ranks 82 out of 176 countries. This is based on the results of The Global Economy satisfaction survey in 2019. According to Nainggolan (2020), Finland, the Netherlands, Germany, Norway, and Sweden are the countries with the best service.

Meanwhile, in 2021, the Ombudsman of the Republic of Indonesia will collect compliance survey data in 24 Ministries, 15 Boards, 34 Provinces, and 98 Cities. This survey is a mandate from the Republic of Indonesia Law No. 25 of 2009 regarding public services. Here is the data from the compliance survey of the Republic of Indonesia agency.

**Table 1. Results of the Agency Compliance Survey
of the Republic of Indonesia Year 2021**

Instance	Category			Amount
	Red	Yellow	Green	
Ministry	0	7	17	24
Board	0	3	12	15
Province	2	19	13	34
City	3	61	34	98

Source: Ombudsman of the Republic of Indonesia, 2022

Based on the compliance survey results, the compliance assessment is categorized into three: a red report for institutions with low compliance, a yellow report for institutions with sufficient or moderate compliance, and a green report for institutions with high compliance. So that refers to the report as public service in the environment of the ministry and the environment of higher institutions. However, in the provinces and cities, it is sufficient or moderate. It is reinforced by complaints about the quality of service that is felt to be sufficiently low in 2019, namely 1,690 complaints, and regarding the quality of services specifically at the regional government level, as many as 2,274 complaints (Nainggolan, 2020). The data above shows that the quality of public services in Indonesia still needs to be improved, including in local governments, which still have high levels of moderate compliance and low levels of compliance. Public service is crucial. Public service, according to Sholihah et al. (2015), is one of the community's demands that the government needs to pay attention to so that every agency needs to provide the best service in order to provide satisfaction for service users as well as to reduce various bad complaints about the quality of service.

In reality, the government has authority over the right to power, one of which is managing crucial funds, namely the budget for regional spending income. So there is a need for control to know a government's financial health. The purpose is to realize regional autonomy following the mandate of regional autonomy. However, the achievements that the government wants to make through regional autonomy face various obstacles and problems, one of which is the findings of an independent institution that supervises the implementation of regional autonomy stating that the financial condition of the region tends to be critical and worrying as a result of the abuse of authority that the central government has given to the regions characterized by a large number of routine spending allocations that are less productive and reduced allocations for capital spending. If this continues every year, it is feared that the regional government will experience financial distress.

According to Yanti (2018), the financial distress that occurs in the government is the government's inability to provide services that have been approved and set. Financial distress is a problem that one does not want to have. Financial distress in the local government can generally be marked when the local government cannot provide the best public service to the community. Financial distress in the public sector, such as regional government, has yet to be quantitatively measured. The measurement of this condition can be seen from the minimum capital expenditure projection of 30% following the statement of the Directorate General of Financial Construction of the Ministry of Interior that the setting of quality standards for each district against the phenomenon of financial distress with a minimum of 30% for capital expenditure allocation, reinforced in the Presidential Decree of the Republic of Indonesia No. 2 of 2015 on the National Medium-Term Development Plan, the allocation of capital expenditure measures the phenomenon of financial difficulties in local governments, which must be a minimum of 30%. Other measurements can also be done with the debt service coverage ratio (DSCR) indicator set out in Government Regulation 54 of 2005 regarding regional loans.

Financial distress in this research is measured using the capital expenditure allocation indicator. The purpose is to encourage the development of public service infrastructure, such as building schools, hospitals, bridges, and other public facilities. Hence, the r calculation formula for financial distress is as follows. (Pitaloka & Guritno, 2021).

$$\text{Formula} = \frac{\text{Capital Spending}}{\text{Total Spending}} \times 100\%$$

In European countries, financial distress is caused by a deficit figure that is too high with an increase in income that cannot cover the production budget deficit, so it cannot provide optimal public services to the community. An excessively high deficit figure also occurred in one of the regional governments of Central Java Province. Based on Wardoyo (2022), Sragen Regency also experienced a deficit of IDR. 285 billion. An increase in the deficit of IDR. the 30 billion is the most significant history of the Sragen Regency. So that according to the People's Representative Council of Commission II, the excessive deficit figure shows an imbalance in the budget composition.

In 2017, regencies and cities in Central Java Province experienced inequality in spending allocations, with capital spending allocations between 13%-29%. Even in 2021, districts and cities in Central Java Province also experienced lower capital expenditure allocation inequality, which is between 7%-24%. The Director General of Financial Construction of the Ministry of Interior said to set quality standards for each district against financial distress with a minimum of 30% for capital expenditure allocation. Strengthened in Presidential Decree Republic of IndonesiaI No. 2 of 2015 regarding National Medium Term Development Plan (NMTDP) explains that capital expenditure allocation is a benchmark for financial difficulties in local governments, which must have a minimum portion of 30%.

One of the implications of capital expenditure allocation inequality can be reflected in the development of road access in several districts of Central Java Province. The crazy rich phenomenon in Grobogan Regency, for example. Crazy rich in Grobogan Regency has built a road using his money. Based on Okezone Team (2022), the crazy rich is Joko Suranto. Joko Suranto is an alumnus of Sebelas Maret University Surakarta, Faculty of Law. This phenomenon became a trending topic and garnered many comments from

various netizens. Of course, it triggers many questions about whether the minimum service standards follow the applicable regulations. The road in Jetis Village, Karangyung, was built with an estimated IDR. 2.800.000.000,00 and with a length of 1.8 km. The government has not fully repaired the road for 20 years.

In addition to Grobogan Regency, damaged roads were also experienced in Pemalang Regency. According to Demokrasi (2022), damaged access roads reached 242.92 km, with light damage along 79.5 km and heavy damage along 163.17 km. The government of Pemalang Regency has only been able to repair 6% of the damaged roads. The Regent of Pemalang Regency has promised that road access can be solved within ≤ one year of his leadership. Complaints about inadequate road access also occur in Blora Regency.

Based on Blorakab (2021), Blora Regency has hundreds of kilometers of district roads with moderate to severe damage. The damage to the road reached 439.45 km with an estimated cost of IDR. 300 trillion to improve road access. It is one of the problems that have yet to be achieved, according to the Regional Poverty Management Plan (RPMP) development indicators, in the second quarter of 2021. Until then, the government still needs to work on infrastructure development. However, the Blora District Government's estimate for infrastructure funding projections from the Regional Revenue and Expenditure Budget (RREB) 2022 is only Rp. 60 billion. Slamet Pamudji, SH, M.Hum as Plt have approved the budget limitation. Head of Blora Regency BPKAD. With these limitations, the Regent of Blora Regency plans to submit a loan to the bank of IDR. 250 billion. This loan scheme utilizes the infrastructure budget for 2023 and 2024, which will be implemented all at once in 2022.

That can influence financial difficulties in local governments. One of Zakia & Setiawan's (2021) research results used eight indicators that affect financial distress. Elfiyana & Arza (2022) use six indicators that affect financial distress. While in this research, eight indicators are used, of which five financial factor indicators are the effectiveness ratio, efficiency ratio, regional natural income growth ratio, regional financial independence ratio, and solvency ratio, as well as three regional government characteristic indicators, namely the area of the region, population and audit opinion.

The indicator of the first financial factor is the effectiveness ratio. The regional government uses this effectiveness ratio to evaluate financial performance. The financial performance of the regional government can be effective when it meets the following predicate values. First, The regional government can be very effective with a more than 100% predicate. Second, The regional government can be effective with a predicate between 90%-100%. Three, The regional government is quite effective with a predicate between 80% and -90 %. Four, The regional government can be said to be less effective with a predicate between 60%-80%. Five, The regional government can be said to be ineffective with a predicate of less than 60%. According to Zakia & Setiawan (2021), the effectiveness ratio has no significant effect on financial distress. In contrast, Elfiyana & Arza (2022) stated that the value of the effectiveness ratio of local governments significantly influences significant financial distress. Therefore the hypothesis is as follows.

H_1: The effectiveness ratio is thought to influence financial distress.

The indicator of financial factors the second is the efficiency ratio. Efficient spending allocation is if the regional government has an efficient ratio of less than 100%.

On the other hand, if it exceeds 100%, it can be concluded that there is budget waste or it is not good. While if it is equal to 100%, then it can be considered efficient and balanced. Researchers Elfiyana & Arza (2022) also asserted that the ratio of efficiency to financial distress has a significant influence with a positive coefficient direction. However, this differs from the research of Zakia & Setiawan (2021) and Wulandari & Arza (2020), which is produced if this ratio does not influence financial distress. Therefore the hypothesis is as follows.

H$_2$: The efficiency ratio is thought to influence financial distress

The regional natural income growth ratio, determines income growth from year to year. So that can know whether the financial performance growth is positive or negative, it is said to increase when the financial performance has a positive value. On the other hand, it is said to decrease when financial performance has a negative value. According to Elfiyana & Arza (2022), Rusdi & Fuad (2018), as well as Wulandari & Arza (2020) that the growth ratio of regional natural income does not affect the symptoms of financial distress. Differently, according to Zakia & Setiawan (2021) and Eliu (2014), research was produced that this ratio influences the number of financial distress. Therefore the hypothesis is as follows.

H$_3$: The income growth ratio is thought to influence financial distress

The regional financial independence ratio illustrates that regional government involvement with external assistance is decreasing. In addition, this ratio also illustrates community participation in the form of taxes, and retribution in regional development is increasing. When the community can give, community well-being is also high. The following financial ability from the analysis of the survival ratio is 1). Financial ability is deficient when the independence ratio is between >75% - 100%. 2). Low financial ability when the independence ratio is between > and 50%-75%. 3). Moderate financial ability when the independence ratio is between >25% - 50%. 4). High financial ability when the independence ratio is between 0% - 25%. Therefore the hypothesis is as follows.

According to Sari & Arza (2019), Wulandari & Arza (2020), Rusdi & Fuad (2018), and Windiyanti & Isfaatun (2019), it was found that the financial independence ratio does not influence financial distress. Meanwhile, according to Elfiyana & Arza's (2022) hypothesis testing, it was found that the financial independence ratio has a significant influence on financial distress.

H$_4$: The financial independence ratio is thought to influence financial distress

The independent variable on the last financial factor is the solvency ratio. This ratio describes the ability of the local government to pay off debts with the assets it owns. An entity's solvency is in trouble if the value exceeds 1.0 (Fitra, 2019). Islamiyatun et al.'s (2021) research looked at the effect of the solvency ratio on financial distress. Meanwhile, according to Pangku & Radjak (2021), the solvency ratio does not affect financial distress. Therefore the hypothesis is as follows.

H$_5$: Solvency ratio is thought to influence financial distress

In addition to the financial ratio analysis, financial performance can be reflected in the government's characteristics. The size of the territory in a region describes the reach of the regional government in providing services. The more comprehensive the region's coverage, the more regional governments allocate funds for public service needs, as well as the probability of financial distress, which is getting higher. Therefore, allocating more

significant capital expenditure for more significant development is necessary so that the region's area can be a measure of the indication of financial distress. According to the research of Wulandari & Arza (2020) and Sari & Arza (2019), the region's size significantly influences financial distress. This research differs from the results of Zakia & Setiawan (2021) in that the region's size does not significantly affect financial distress. Therefore the hypothesis is as follows.

H_6: The size of the region is thought to influence financial distress

A population is the number of residents of each area, where, when the population increases, the demand for services will also increase. It is because the community, as residents, has the right to obtain public services. The community also has a role in overseeing the government's performance in optimizing capital expenditure. According to Wulandari & Arza (2020), in their research, it was produced that the number of people has a population is one of the characteristics of the local government in a significant influence on the indication of financial distress. This research differs from Zakia & Setiawan (2021) in that the number of residents does not significantly affect financial distress. Therefore the hypothesis is as follows.

H_7: The total population is thought to influence financial distress.

The variable on the last government characteristic is the audit opinion. The regional government inspects the annual report by the Financial Inspection Agency to produce an audit opinion. The result of the opinion will later be included in the inspection report. The audit opinion in this research is measured using a dummy variable. The concept of this variable is a categorical variable that only has a value of 0 and 1. Where the value of 1 is for the unqualified audit opinion. At the same time, the value is 0 for audit opinions other than unqualified opinion (Panjawa & Sugiharti, 2021). According to Zakia & Setiawan (2021) and Wulandari & Arza (2020), their research obtained a t-test output that this variable has no influence whatsoever on financial distress. This research rejects the thinking from Indriaty's (2018) research if the audit opinion variable affects financial distress. Therefore the hypothesis is as follows.

H_8: Audit opinion is thought to influence financial distress.

RESEARCH METHODS

This research is included in the type of causal associative research. At the same time, the approach used is quantitative because this research in solving the problem formulation tends to be based on data in the form of numerical processing and calculation utilizing presenting, analyzing, and estimating the research results. Based on the hypothesis, the thinking framework that can be reflected in this research model is as follows.
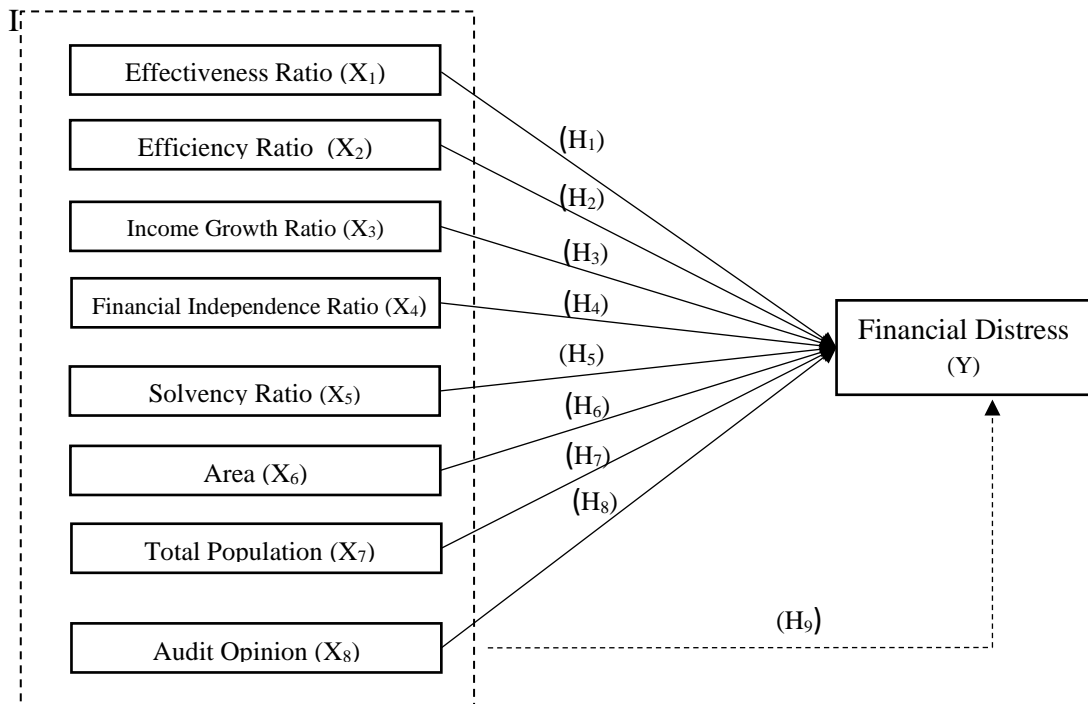
Figure 1. Research Model

Description

X: Independent Variable

Y: Bound Variable

⟶ : Partially

------▶ : Simultaneously

This research utilizes secondary data in the form of inspection results reports on regional government financial reports that can be accessed through the official website of the Central Java Representative Financial Inspection Agency on the E-PPID service. Research data can be obtained through the official website of the Central Java Representative Financial Inspection Agency, the official website of the regional government itself, the official website of the National Land Agency of Central Java Province, the official website of the Central Java Provincial Statistics Agency as well as from various other sources that researchers are needed during the period 2017-2021. The time studied is 2017-2021.

According to Hardani et al. (2020), the population is all research objects from data sources, whether data about humans, animals, things, plants, activities, incidents, or phenomena with specific criteria/conditions in research. The population in this research is all local governments in Central Java Province for 2017-2021. When totaled, there are 35 regional governments consisting of 6 cities and 29 districts.

A sample is an element that is part of the population structure. In determining the sample, a method is required, namely the purposive sampling method. This selection method is determined according to the conditions/criteria that are eligible to be used (Sugiyono, 2017). The following is a sample in this research.

Table 2. Research Data Sample Criteria

Criteria	Amount
Districts and cities that are part of Central Java Province in the 2017-2021 period.	35
Maximum team member spending 50%.	(20)
Total sample	15

Source: Data processed

The table at on a selected sample of 15 cities and districts in Central Java Province. So that the total number of research samples during the years 2017-2021 is 75 cities and districts. The variables used in this research are dependent variables, namely financial distress, and independent variables, namely financial factors and regional government characteristics. The following will be explained in more detail in the table below:

Table 3. Operational Definition

Variable	Definition	Indicator	Scale
Financial distress (Y)	Financial distress is a financial situation that has experienced a decline/ deterioration that can cause financial performance to be unstable. (Pitaloka & Guritno, 2021)	$\dfrac{\text{Capital Expenditure}}{\text{Total Spending}} \times 100\%$	Ratio
Effectiveness Ratio (X_1)	This ratio compares the realization of Regional Original Income / ROI with the estimated ROI.	$\dfrac{\text{Realization of Original Regional income}}{\text{Regional Original Revenue Budget}}$	Ratio
Efficiency Ratio (X_2)	Local governments can be considered efficient when the efficiency ratio is less than 100%.	$\dfrac{\text{Realisasi Belanja Daerah}}{\text{Realisasi Pendapatan Daerah}} \times 100\%$	Ratio
Income Growth Ratio (X_3)	This ratio is used to determine income growth from year to year. (Wulandari & Arza, 2020)	$\dfrac{\text{ROI Year}^t - \text{ROI Year}^{(t-1)}}{\text{ROI Year}^{(t-1)}} \times 100\%$	Ratio
Financial Survival Ratio (X_4)	This ratio illustrates the strength of the government in managing its income. (Wulandari & Arza, 2020)	$\dfrac{\text{ROI}}{\text{Transfer Pusat} + \text{Provinsi} + \text{Pinjaman}} x$	Ratio

Table 3. (continuation)

Variable	Definition	Indicator	Scale
Solvency Ratio (X_5)	The solvency ratio shows the size of the assets owned by the local government to fund all the debts incurred. (Fitra, 2019)	$\dfrac{\text{Total Kewajiban}}{\text{Total Aset}} \text{x} 100\%$	Ratio
Area of Territory (X_6)	The reach of the region that receives local government services. (Sari & Arza, 2019)	$\dfrac{\text{Luas Wilayah Pemda}}{\text{Total Luas Wilayah Provinsi}} \text{x} 100\%$	Ratio
Total Population (X_7)	The total population in the regional government follows the administrative aspect. (Sari & Arza, 2019)	JP= Ln (Populasi Penduduk)	Ratio
Financial Inspection Agency Audit Opinion (X_8)	The audit opinion is given independently on the audited financial report. (Zakia & Setiawan, 2021)	BPK's audit opinion can be measured by using a dummy variable	Nominal

Source: Data processed

This research utilizes data processing instruments like Microsoft Excel and Econometric Views (E-Views) version 10. The technique or method used in this research is to choose an estimation model that consists of standard effect models, fixed effect models, and random effect models through chow's test, hashum's test, and Lagrange's test, then continue with panel data regression. Panel data regression combines cross-sectional and time-series data, where the same cross-sectional data unit is measured at different times. Panel data is taken from several individuals observed in a certain period. The panel data regression model has the following regression equation.

$$Y_{ti} = \alpha + b_1 X_{1ti} + b_2 X_{2ti} + b_3 X_{3ti} + b_4 X_{4ti} + b_5 X_{5ti} + b_6 X_{6ti} + b_7 X_{7ti} + b_8 X_{8ti} + \varepsilon_{ti}$$

Description:

Y   = Financial Distress

A   = Constant

$b_{1\ to\ 8}$ = Regression Coefficient

$X_{1\ to\ 8}$ = Independent Variable

ε = Error

t   = Time

i   = Entity (Regional Government)

RESULTS AND DISCUSSION

The following table will show the results of the sample selection that has been carried out in this study.

Sample Selection Results

Table 4. Sample Research Data

No.	District/City	No.	District/City
1	Banjarnegara District	9	Magelang District
2	Banyumas District	10	Magelang City
3	Blora District	11	Pekalongan City
4	District Boyolali	12	City of Salatiga
5	Brebes District	13	City of Semarang
6	Cilacap District	14	The city of Surakarta
7	Grobogan District	15	Tegal City
8	Jepara District		

Source: Data processed

The research in this research takes the object of the regional government agency. The governments used are cities and districts that are part of Central Java Province from 2017-2021. The Government of Central Java Province has 35 cities and districts, of which 29 are included in the district government and the remaining six are included in the city government. However, these researchers did not sample all local governments. Referring to the criteria set, the researcher obtained 15 city governments and regencies of Central Java Province Year Period 2017-2021 as total research data.

Model Selection Results

The stages performed before analyzing panel data regression are as follows.

Table 5. Chow Test Results

Redundant Fixed Effects Tests			
Equation: FEM			
Cross-section fixed effects test			
Effects Test	Statistics	df	Prob.
Cross-section F	3.821129	(14,52)	0.0002
Cross-section Chi-square	53.057063	14	0.0000

Source: Data processed

Referring to the data processing output of E-Views 10, the cross-section chi-square value is 0.0000. It means that the value of the cross-section chi-square is less than a significant value of 5%. Based on those values, the first model testing selected was FEM. Further, before comparing FEM and REM on the Hausman test later.

Table 6. Hausman Test Results

Correlated Random Effects - Hausman Test			
Equation: REM			
Cross-sectional random effects test			
Test Summary	Chi-Sq. Statistics	Chi-Sq. df	Prob.
Random cross-section	24.189778	8	0.002100

Source: Data processed

Based on theory, it is explained that if the random cross-section value is smaller than the α value of 5%, then the correct model is Fixed Effect Model/FEM. So referring to picture 2, it is known that the value is less than the α value of 5%, which is 0.0021. It means that the correct model is FEM. Since the correct model has been selected, the Lagrange multiplier test does not need to be performed.

Results of Panel Data Regression Analysis

The results of the panel data regression analysis with the fixed effect model can be seen in the following table.

Table 7. FEM Model Panel Data Regression Results

Variable	Coefficient	Std. Error	t-Statistics	Prob.
C	3.246373	2.025188	1.602998	0.115000
X_1_Effectiveness Ratio	-0.226366	0.062290	-3.634035	0.000600
X_2_Efficiency Ratio	0.198750	0.095381	2.083756	0.042100
X_3_PAD Growth Ratio	-0.002155	0.012200	-0.176660	0.860500
X_4_Survival Ratio	-0.010796	0.076959	-0.140280	0.889000
X_5_Solvency Ratio	0.030032	0.045291	0.663082	0.510200
X_6_Area Area	0.082672	0.068278	1.210806	0.231400
X_7_Total Population	-0.235094	0.150508	-1.562011	0.124400
X_8_Audit Opinion	-0.038309	0.033235	-1.152700	0.254300
R-squared	0.540280	Mean dependent variable		0.198400
Adjusted R-squared	0.345783	SD dependent var		0.049129
F-statistics	2.777833	Durbin-Watson stat		1.406904
Prob (F-statistic)	0.001289			

Source: Data processed

Above analysis, t-test (partial) and f-test (simultaneous) were produced. The t-test (partial) is applied to determine whether there is a partial influence between the independent and dependent variables. This test has a benchmark limit that H_1 accepted when the significance probability value is < 0.05 and t-calculation > t-table. Besides, that means H_1 was rejected. In conclusion, it is necessary to compare the table's t-value of 1.99656. This value is obtained from df = nk-1 = 75-8-1= 66, with a significance level of 0.05 and a two-sided test. While the f test (simultaneous) aims to see the simultaneous impact between the influence of variable X on variable Y. This test can be detected through the calculated F value and significant value. Significant values use the 5% significance level. Meanwhile, the calculated F value compares with the table F value from the equation formula: df_1= k-1 and df_2 = nk. So table F of 2.15 is produced from df_1= 7 and df_2= 67.

In the results above, a discussion was produced that the effectiveness ratio affects financial distress with t count -3.634035 > t table 1.99656 and amplified prob value 0.0006 < 5%. Until the first hypothesis is accepted, the higher the effectiveness ratio of a regional government in managing financial performance, the lower the indicators of financial distress. A government that can effectively manage financial performance is considered a good government. It is because the community trusts the government to provide the best performance. Whereas if the government cannot manage financial performance effectively, then the government is less able to provide public services to public as much as possible. The many community demands regarding public services, such as road access in Pemalang Regency, Blora Regency, and others, prove it. Of course, this is the impact of the capital expenditure allocation, which is less than 30%.

The effect of the efficiency ratio on financial distress in this research produced a prob value of 0.0421 < 5%. Strengthened by t count 2.083756 > t table 1.99656. Until the second hypothesis is accepted, the more efficient the regional government's financial performance, the smaller the indication of financial distress. A small, efficient ratio illustrates if the regional government can minimize operational costs by referring to the regional income in real terms (realization) so that the funds can be transferred to allocate capital expenditure to build facilities and infrastructure for the community.

The influence of the regional natural income growth ratio on financial distress in this research produced a prob value of 0.8605 > 5%. Amplified by t count -0.176660 < t table 1,99656. Therefore, the third research hypothesis, which says that the regional natural income growth ratio variable is influential based on statistical analysis, is rejected. It means that the growth of local income over time does not affect the problem of financial distress. The higher growth of the regional government pad will not affect the symptoms of financial distress. It is because other indicators need to be considered, such as locally generated revenue which has not touched the capital expenditure allocation according to the minimum target of 30%.

The influence of the financial independence ratio on financial distress in this research, a prob value of 0.8890 > 0.05, was produced. Amplified by t count -0.140280 < t table 1,99656. So hypothesis 4 is rejected. It means that the higher the financial ability of a government, the more the needs of the region can be fulfilled so that the chance of financial difficulties will be smaller than in areas with low financial ability.

The influence of the solvency ratio on financial distress in this research was produced with a prob value of 0.5102 > 5%. Furthermore, it strengthened with t count 0.663082 < t table 1,99656. Therefore, hypothesis 5, which states that the solvency ratio variable affects financial distress based on statistical analysis, is rejected. It means that when local governments can pay their obligations, they tend not to experience financial distress.

In this research's influence of regional variables on financial distress, a significance value of 0.2314 > 5% was produced, amplified by calculated t value 1.210806 < table t value 1.99656. It means that the wider the reach of the city and regency government, it does not have influence the symptoms of financial distress. Therefore, hypothesis 6, which states that the wide varieties of the region/region affect financial distress based on statistical analysis, is rejected. The reason is that the area within the government's reach is only some of the area's government allocating spending for facilities and infrastructure. In addition, the area is not necessarily populated or even uninhabited. Another reason is that having a large area makes it possible to have a high per capita income. Therefore, the

extent of a region does not necessarily mean that the needs of a region are also significant. It needs to be considered from various points of view so that the wide variable of region/region does not affect financial distress.

The influence of the population variable on financial distress in this research produced a significance value of 0.1244 > 5%. It is amplified by calculated t value -1.562011 < table t value 1.99656. Only after hypothesis 7 is rejected will the population affect by financial distress. The reason is that the number of people who come within reach of the government will contribute to the government through taxes to regional retribution. Therefore, the population does not affect financial distress. It is proven that the original income of the region mostly comes from tax and regional retribution (parking, et cetera.). It is just that the city and district governments in Central Java Province need to allocate capital expenditure with a minimum of 30%.

In this research's influence of audit opinion variables on financial distress, a significance value of 0.2543 > 5% was produced, amplified by calculated t value -1.152700 < table t value 1.99656. So hypothesis 8 is rejected. According to the research sample data, only the city of Tegal in 2017 and the Brebes district in 2017-2018 have reasonable opinions with exceptions. In addition to the city and district, it has a reasonable opinion without exception. The audit opinion can be used to prepare the following year's budget. However, the audit opinion only shows the percentage of capital expenditure that does not conform to the standard (minimum 30%). Thus, the audit opinion cannot influence the tendency of city and district governments in Central Java Province in 2017-2021 to experience financial problems.

Based on the results of the simultaneous test of the independent variable in this research, it affects financial distress. It is proven with a prob (f-statistic) of 0.001289 < 0.05. This conclusion is also strengthened by the calculated f value of 2.777833 > table f of 2.15. So that was referring to the research results simultaneously. The government can simultaneously use all the independent variables as a consideration in decision-making on optimizing the Regional Revenue and Expenditure Budget. It needs to be done so that the regional government in Central Java Province can avoid indications of financial distress.

It adjusted the R-squared coefficient value of 0.345783. The independent variable only explains 34.57% of the effectiveness and efficiency ratios. In contrast, the remaining 65.43% is explained by other independent variables outside the research.

CONCLUSION

According to the data analysis above, several red threads can be drawn that can be used as research conclusions that the effectiveness ratio significantly affects financial distress with a negative coefficient direction. The efficiency ratio significantly affects financial distress with a positive coefficient direction. While the six independent variables in this research partially do not have a significant effect on financial distress. However, financial distress occurred together (simultaneously) in district and city governments in Central Java Province in 2017-2021. This research also has limitations on research objects, variables, and time. Therefore, further research can explore further so that the limitations in this research can be perfected and developed.

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