

The Performance of Spending Budget: Governance and Human Resource Competence Perspectives (A Study on Ministries and State Institutions in Indonesia)

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The realization of a spending budget was often late in Indonesia. Delays occurred in both regional government and state institutions. The purpose of this study is to compare factors affecting the realization of budgets between ministries/institutions that have a high and low budget realization. Factors that were considered to influence the realization of the spending budget were (1) understanding of budget governance, (2) systems and procedures, and (3) human resource competencies. The populations are ministries and state institutions, and samples are chosen based on random and willingness to participate. The results of the study show that budget governance and human competencies have a significant positive effect on the realization of the spending budget.

Key words: *Budgeting, Competence, Spending, Human Resources, Governance.*

Introduction

The low level of spending budget in Indonesia is a phenomenon that almost occurs annually. The Government Report on the Implementation of the 2016 Semester I State Budget states that 41 Ministries/Regional Institutions were included in the high budget group (more than 34.2%); 16 Ministries/Regional Institutions have moderate spending (27.5% - 34.2%); and 30 Ministries/Regional Institutions are in the low budget group (less than 27.5%) in figure 1.

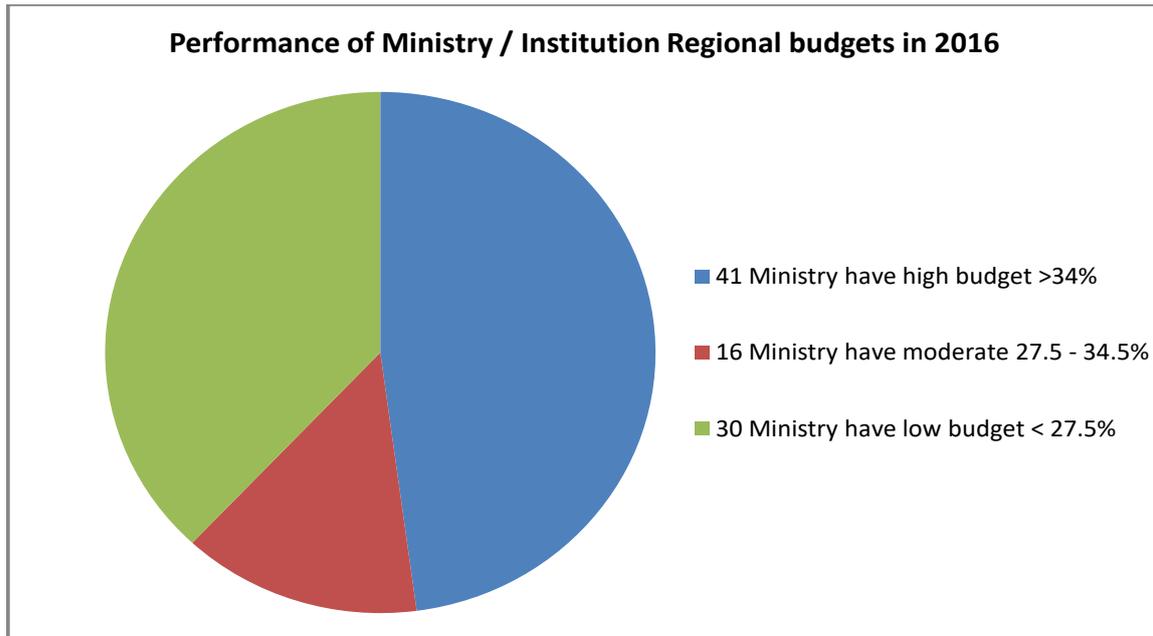


Figure 1. Performance of Ministry / Institution Regional budgets in 2016

Source: Kemenkeu (2016)

The achievement of spending budget (expenditure) is influenced by a) the development of macroeconomic indicators that influence the realization of subsidy management programs and state debt management programs; b) the government obligation to make payment on the outstanding amounts resulting from previous year's expenditure components. Furthermore, Ratih & Helmy (2013) who examined the quality of DIPA and accuracy of cash planning on the quality of budget in the KPPN Malang Regional Working Unit, concluded that the quality of DIPA has a positive effect on the quality of budget and accuracy of cash planning did not affect the quality of budget. Mardiasmo (2009) and Turner, Imbaruddin, & Sutiyono (2009) explain that various factors cause low budgets in the first semester and thus accumulate at the end of the year, including budget planning factors; money supply; procurement documents; administrative records; and human resources.

Agus & Utami (2017) conducted a study on the influence of external pressure, organizational commitment, and understanding of financial management systems and procedures on-budget performance. The results indicated that understanding financial management systems and procedures had a positive and significant effect on the Salatiga City Government budget performance. It was also found that external pressure in a statistical test does not have a significant effect, because the form of time pressure, unclear procedures and rules are not accommodated in the questionnaire items. Funds transferred from the central government greatly influence regional economic growth, as identified by Hidayah & Setyowati (2014). This study aims to identify if there are there any differences in the competencies of Human Resources between groups of ministries/agencies that have a high budget and those that have

a low budget as well as identify what are the determinant factors that affect the budget in the group of high budget and low budget.

Literature Review

Agency Theory

This theory explains principal and agent relations and is rooted in economic theory, decision theory, sociology, and organizational theory. The principal-agent theory analyzes contractual arrangements between two or more individuals, groups, or organizations. One of the parties (principal) makes a contract, both implicitly and explicitly, with another party (agent) in the hope that the agent will do the work as desired by the principal (in this case, there is the delegation of authority). Lupia & McCubbins (2000) state delegation occurs when a person or group of people (principal) choose another person or group (agent) to act in the interests of the principal.

Agency Relationship between Executives and Legislative

In the governmental relationship between the executive and the legislature, the executives are agents, and the legislature is the principal (Halim, 2007). As stated earlier, agency and agency problems always occur among principals and agents. Therefore, the problem that often arises between the executive and the legislature is also an agency affair. The Government or committee agency relations occur after the agent makes a policy proposal and end after the proposal is accepted or rejected (Carr & Brower, 2000). Latifah (2010) explains executive or bureaucratic relations with the legislature or congress through the self-interest model. In this case, legislators want to be re-elected, bureaucrats want to maximize their budgets, and constituents want to maximize their utility. To be re-elected, legislators are looking for programs and projects that are popular in the eyes of constituents. Bureaucrats propose new programs because they want their agency to develop, and constituents believe that they receive benefits from the government without having to pay the full costs (Gilardi, 2001). According to Colombatto (2001), the existence of discretionary power in one party will lead to violations of agency contracts, such as the occurrence of rent-seeking and corruption.

Agency Relationship between Legislature and Public

In the agency relationship between the legislature and the public (voters), the legislature is an agent. The public is the principal, and in terms of policymaking, Von Hagen (2002) argues that the principal-agent relationship that occurs between voters and the legislature shows how voters choose politicians to make decisions about public spending for them, and they provide funds by paying taxes. When the legislature is then involved in making decisions on the

allocation of expenditure in the budget, they are expected to represent the interests or preferences of the principal or the voter (Inggarwati, 2016).

Budget Governance

Government Budget Governance establishes ten governance principles, some of these being: managing budgets within clear, credible, and predictable limits for fiscal policy; straightening the budget strictly with the government's medium-term strategic priorities (Heffernan, & Flood, 2000; Surianti & Dalimunthe, 2015); designing a capital budgeting framework to meet national development needs cost-effectively and coherently; ensuring that budget documents and data are open, transparent, and easily accessible; providing inclusive, participatory, and realistic debates regarding budget choices, etc. (James, 2016).

The financial management cycle, includes four stages:

a. Planning stages

Planning activities are the beginning/estuary of the financial cycle of an agency. It starts from the formulation of a framework of macro assumptions, principles of fiscal policy, preparation of funding requirements in the relevant budget year, indicative ceiling determination and implementation of the trilateral meeting.

b. Budgeting stages

The stages of budgeting consist of two main activities, namely budgeting and budgeting setting activities. Budgeting setting activities are an advanced stage after planning. At the start of budgeting, the budget ceiling is determined, a review of the Ministries/Institutions Work Plan and Budget (RKA-K / L) is completed, a preparation of the State Budget (RAPBN) Draft, APBN Bill, Financial Note is completed and they set a RKA-K / L. In contrast, in the budget setting activities, the allocation ceiling is determined, there is determination of the RKA-K / L, and they prepare a Presidential Decree (Keppres) and the details of the APBN 2016 (Kemenkeu, 2016).

c. Stage of budgeting

The budget document produced at the budgeting stage will be used as a reference in implementing the budget. The implementation of the budget is focused on evaluating the application of the budget, especially capital expenditure implemented by echelon I units within the Ministry of Finance.

d. Stages of accountability

The accountability of the implementation of the budget of an agency is outlined in the form of financial statements. In a broader/national scope, this is provided through drafting the bill on accountability for the implementation of the budget. For financial statements that have been prepared, checks are then carried out to ensure accountable financial management (McLeod & Harun, 2014). Examinations can be classified into financial checks, performance checks, and certain checkpoints.

Budget Quality

The budget is a plan of the regional government that contains plans for revenues and expenditures within a certain period. The New Public Management approach provides a new approach that prioritizes the mechanism of determining and making prioritization, systematic and rational approaches in the decision-making process (Pohan et al., 2018; Siddiquee, 2013).

Performance Budget System

A performance-based budget is implemented in the public sector so that the use of the budget can be assessed for its usefulness and usefulness to the community (Saratih & Abdillah, 2017).

Budget Systems and Procedures

The Regulation of the Republic of Indonesia Number 71 of 2010 concerning Government Accounting Standards, states that financial accountability is reflected in government financial reports which contain the elements of Budgetary Reports, Financial statements, and Notes to Financial Statements (Kemenkeu, 2010).

Human Resource Competence

According to Mangkunegara (2012), competency in human resources is a competency that relates to knowledge, skills, abilities, and personality characteristics that directly affect performance.

(a) Knowledge

Knowledge reflects an employee's cognitive abilities in the form of the ability to know, understand, realize, and perform a task. Because of this, someone's knowledge can be developed through education, both formal and informal, as well as experience. Education provides a person with the basics of knowledge, theory, logic, analytical skills, and character

and personality development (Robbins & Judge, 2009). Based on this, the knowledge employees have about their duties/jobs can be measured by indicators such as understanding of tasks.

(b) Skills

Skills are the capacity needed to carry out a series of tasks and develop through training and experience. A person's expertise is reflected by how well they carry out a specific activity, such as operating equipment, communicating effectively, or implementing a business strategy (Hersey & Blanchard, 2004). Based on the above understanding, it can be concluded that skill means the ability to perform a job effectively and easily.

(c) Attitude

There are several components of attitude. Schwarz & Clore (2007) say attitude involves three interconnected components, namely: 1) The cognitive component, being the knowledge, beliefs or thoughts based on information, which relates to an object; 2) Affective component, which refers to the emotional dimension of attitude, which is related to an object. The object here is perceived as either pleasant or unpleasant; 3) Component of behavior or conative, which involves one of the predispositions to act on objects. This component is related to the tendency to act.

Budget performance

The stages of this budget began when the DPR passed the State Budget Law. Problems with a low budget in the middle of the fiscal year in Indonesia are caused by: 1) Weak budget planning, carefully constructed planning should not need revisions and there are definite activity schedules that do not accumulate at the end of the fiscal year; 2) The duration of the budget discussion process, the length of the process of discussing the budget in the House of Representatives is due to the many opposing interests. 3) Slow tender process, which is caused by commitment makers and the power of budget users who still do not understand the provisions of the procurement of goods and services, and the implementation of the budget (Erlina, & Muda, 2017; Adhika et al., 2018).

Methods

Types of research

This research uses quantitative research, where the process of extracting information is manifested in the form of numbers as a tool to find information about what is known.

Quantitative research emphasizes objective phenomena and maximizes objectivity. Quantitative research is based on the calculation of percentages, averages, and others.

Hypothesis

This study uses comparative hypothesis, which is a test that compares or guesses whether there is a significant difference in the value of two or more groups. Comparative hypothesis just distinguishes and does not pay attention to the relationship between variables. If H_0 in the application is accepted, the comparison value of two or more samples can be generalized to the entire population where the sample is taken with a certain level of error.

The research hypotheses are proposed as follows:

H1: There are differences in the understanding of budget management between Ministries/Institutions that have a high budget and absorptive capacity and those who have a low budget.

H2: There are differences regarding the competence of Human Resources between a group of Ministries/Agencies that have a high budget and those who have a low budget.

Sample and Population Research

The population in this study are Indonesian Ministries and Institutions. The example in this study was chosen based on criteria, namely Ministries and Institutions that have high budget ratings in the first semester of 2015-2016 and Ministries and Institutions that have low budget ratings in the first semester period of 2015-2016. The levels of ministry budgets in the first semester of 2015 - 2016 are presented in the annex.

Data Collection Techniques

The researchers used the following data collection techniques: 1) Library research is done by collecting, reading, and understanding various literature, books, journals, and regulations related to the thesis research material. The purpose of library research is to obtain theoretical knowledge that will be used in the discussion of this study; 2) Distribution of questionnaires. Questionnaires are obtained from previous studies and are distributed to respondents to be filled based on the perceptions of each respondent using a Likert scale.

Analysis Method

This study uses data analysis methods using SmartPLS version 3.0 software that is run with computer media. There are several reasons why PLS was used in this study, these being: first,

PLS (Partial Least Square) is a method of data analysis based on the assumption that the sample does not have to be large, if the number of samples is less than 100 analysis can still be done. Second, PLS (Partial Least Square) can be used to analyze theories that are still said to be weak, because PLS (Partial Least Square) can be used for predictions. Third, PLS (Partial Least Square) allows algorithms to use series ordinary least square (OLS) analysis to obtain the efficiency of logarithmic calculations (Ghozali, 2015). Fourth, in the PLS approach, it is assumed that all variance measures can be used to explain.

Results and Discussion

Descriptive Analysis

The population of state ministries and institutions is 81. Questionnaires were sent to institutions according to the number of budget bureaus. The number of returned questionnaires was 45. Based on the returned questionnaires, the ministries/institutions were then identified as belonging to the low and high absorptive groups or the low groups. The responses to the questionnaires classified 20 organizations as low and 25 as high. Table 1 presents the mean of budgeting indicators for high and low groups.

Table 1. Score means indicator budgeting

| Indicator Budgeting | Mean | | |
|---|--------------------------------|---------------------------------|-----------------|
| | low-level spending (n = 20) | high-level spending (n = 25) | all (n = 45) |
| Budget planning is structured to achieve organizational goals and has accommodated all planned activities | 4.11 | 4.44 | 4.30 |
| The results achieved from the realization of the budget provide benefits | 4.16 | 4.52 | 4.37 |
| not implementing programs or activities whose budgets do not yet exist | 4.33 | 4.72 | 4.55 |
| Implementation of the budget has been by the predetermined schedule, can achieve the expected output and can be accounted for | 3.77 | 4.28 | 4.06 |

Budgeting is a plan that is systematically arranged in the form of numbers and is referred to in Table 3. It can be seen that the mean scores of ministries/institutions that are low have a lower quality of budgeting than the high groups. The biggest gap is in the implementation of the sacker budget by the schedule, which is 3.77 for high, indicating a mean score of 4.28. The difference in the mean score, which is relatively high between the two groups, can

evidence that budgeting for these groups is indeed superior in planning, budget conformity, obedience in time, and accountability.

The aspects of government governance related to systems and procedures are illustrated and presented in Table 2.

Table 2. Mean score indicators for systems and procedures

| Indicator system & Procedure | Mean | | |
|---|-----------------------------|------------------------------|--------------|
| | low-level spending (n = 20) | high-level spending (n = 25) | all (n = 45) |
| The budgeting process contains performance information, budget details and is guided by the Institutional Ministry Work Plan and Government Work Plan | 4.16 | 4.64 | 4.44 |
| Payments for all bills are not made before the goods, and services are received | 4 | 4.44 | 4.25 |
| The Commitment Making Officer has carried out his work by the contract stipulated | 4.16 | 4.52 | 4.37 |
| The SPM Signing Officer has verified the billing file before submitting the fund's disbursement to the KPPN | 4.27 | 4.6 | 4.46 |
| The bill is settled in no later than 30 (thirty) calendar days since the receipt of the receipt is complete | 3.61 | 4.12 | 3.90 |
| The Financial Management Officer / Officer can classify/classify all expenses according to the type of expenditure | 4.11 | 4.56 | 4.37 |

Table 3. Mean scores on employee competency indicators

| Indicator Competency | Mean | | |
|---|-----------------------------|------------------------------|--------------|
| | low-level spending (n = 20) | high-level spending (n = 25) | all (n = 45) |
| There is risk mitigation for work related to financial management | 4.05 | 4.28 | 4.18 |
| Most of the Financial Management Officers / Officers have participated in training/training related to their duties as financial managers | 4.55 | 4.28 | 4.39 |
| The Financial Management Officer / Officer has and implements the SOP in carrying out his duties | 4.44 | 4.36 | 4.39 |
| The Financial Management Officer / Officer is assisted by executives who are competent in their fields with an adequate number of staff | 3.94 | 4.16 | 4.06 |
| There are no complaints from stakeholders/users of the work of the Officers / Officials of Financial Management | 3.77 | 3.76 | 3.76 |

Based on Table 3, it can be seen that the understanding of systems and procedures in ministries/institutions that have a low capacity is lower than the level of understanding of ministries/institutions with a high capacity. The mean score gap between the two groups is relatively large. In the low group, the most striking weakness is related to the Staker's ability to settle bills of less than 30 calendar days (mean score of 3.61). Related officials are also less able to classify expenditures according to type.

Employee competencies are also considered to have an important role in supporting the planned budget relocation. Table 3 presents the mean scores of employee competency indicators. Table 3 indicates that ministries/agencies with a low capacity have a higher mean score. Training groups with a low absorbency score of 4.55 and a high capacity of 4.28 can mean that groups with low capacity are more often participating in the training. Training may be conducted to improve the performance of ministries/institutions that still have budget performance that reaches the target (low).

On the other hand, human resources in each sacker have different competencies, causing many problems in the implementation of the disbursement process. Some problems that arise

can cause the Sacker to come more than once in the process of disbursing funds. For example, the lack of documents that must be attached to each request for disbursement of funds, input errors in budgeting, errors in writing descriptions of Paying Orders (SPM), errors in Computer Data Archives (ADK) and other problems. These problems can occur even though the procedure is a recurring activity (Nugroho et al., 2018). The budget power indicators for each group are presented in Table 4 below.

Table 4. Mean budget indicator score.

| Indicator Spending Budgeting | Mean | | |
|---|-----------------------------|------------------------------|--------------|
| | low-level spending (n = 20) | high-level spending (n = 25) | all (n = 45) |
| The total percentage of the budget for goods expenditure and capital expenditure at the end of the third quarter has reached 75% or more | 3.83 | 4.04 | 3.95 |
| The percentage of the budget for goods expenditure and capital expenditure is by the rate targeted at the monthly fund withdrawal plan | 4 | 3.83 | 3.93 |
| Working units You can realize: 1) Goods/services that have been planned to be purchased, and; 2) All activities planned to be carried out at the end of the relevant fiscal year. | 3.83 | 4.2 | 4.04 |
| The Main Performance Indicators for the budget have reached more than 90% at the end of the fiscal year | 4.09 | 4.56 | 4.34 |

Referring to Table 4, it is known that the budget indicator score in the low group is empirically lower than the high group score. This means that the respondents in the low group are indeed unable to clarify the budget according to a predetermined schedule. To absorb the budget every month, an indication is obtained that the low group has a relatively high achievement target score compared to the high group. This result seems inconsistent with the results of answers on other indicators, which tend to be lower.

Convergent validity

Convergent Validity is measuring the validity of a reflexive indicator as a measure of variables that can be seen from the outer loading of each variable indicator. An indicator is

said to have good reliability if the outer loading value is above 0.70 for confirmatory studies, and the value of loading factors between 0.6 - 0.7 for exploratory research is still acceptable (Ghozali, 2015).

Discriminant Validity

The first criterion for discriminant measurement indicators can be seen in cross loading between indicators and constructs validity test. It is determined that the construct correlation between budgeting, system, procedure, and competency is higher than the correlation of indicators of budgeting spending. This is the opposite of the predictive indicators on their blog which are better than other blog indicators.

The second has sufficient discriminant validity if the AVE roots for each construct are greater than the correlation between other construct constructs. The expected AVE value is > 0.5 ; in this study, there is an AVE value above 0.5 (Table 6), meaning that more than 50% of the variance of the indicator can be explained.

Reliability

In addition to construct validity tests, construct constructive tests were also carried out, which were measured by two criteria, namely Cronbach's Alpha and composite reliability. Both of these values reflect the reliability of all indicators in mode. In this study, Cronbach's alpha value > 0.5 and reliability composite value > 0.7 , so that all indicators of reality (Table 5).

Table 5. Result discriminant validity

| Variable | Low-level | High-level | All sample | Low-level | High-level | All sample | Low-level | High-level | All sample |
|-------------------------------|-----------|------------|------------|-----------------|------------|------------|-----------------------|------------|------------|
| | spending | spending | | spending | spending | | spending | spending | |
| | AVE | | | Cronbach' alpha | | | Composite Reliability | | |
| Budgeting | 0.528 | 0.710 | 0.650 | 0.591 | 0.864 | 0.826 | 0.769 | 0.907 | 0.881 |
| Competency | 0.654 | 0.691 | 0.595 | 0.868 | 0.852 | 0.831 | 0.904 | 0.899 | 0.880 |
| System & Procedure | 1.000 | 0.626 | 0.543 | 1.000 | 0.881 | 0.832 | 1.000 | 0.909 | 0.876 |
| Spending Budgeting | 0.576 | 0.597 | 0.544 | 0.630 | 0.776 | 0.720 | 0.801 | 0.856 | 0.826 |

Process: PLS.3.0

Coefficient Path

In reference to output Path Coefficients (Table 6), the effect of each variable based on the size of the parameter coefficient can be seen and thus the t value of statistics must be greater

than t-table. The budgeting variable has a parameter coefficient of 0.030, which means there is a positive influence between budgeting on spending budgeting, or it can be interpreted that the better the rules in budget performance (budgeting), the better the budgeting performance.

Table 6. Path Coefficient

| Variable | Low-Level Spending | | High-level spending | | All sample | |
|--|--------------------|--------|---------------------|--------|------------|--------|
| | T | P | T | P | T | P |
| | Statistics | Values | Statistics | Values | Statistics | Values |
| Budgeting -> Spending Budgeting | 2.167 | 0.031* | 1.810 | 0.071 | 2.178 | 0.030* |
| Competency -> Spending Budgeting | 2.341 | 0.020* | 0.620 | 0.535 | 2.017 | 0.044* |
| System & Procedure -> Spending Budgeting | 1.143 | 0.254 | 2.006 | 0.045* | 0.398 | 0.690 |

Process: PLS.3.0

Furthermore, the competency variable has a parameter coefficient of 0.044, which means that there is a positive influence between competency on spending budgeting, or it can be interpreted that the better the competency of human resources (competency), the better the budget performance.

The next system variables and procedures have a parameter coefficient of 0.690, which means there is no influence between the systems and procedures on budgeting spending.

In a ministry with a high level of budget, the system variables and procedures influence the spending budgeting at 0.045, or it can be interpreted that the better the systems and procedures, the better the spending (spending budgeting). However, for variable competency and spending budgeting, the statistical value of t is smaller than t table so it does not affect the performance of the budget (spending budgeting). However, in a ministry with a low level of budget, the value of variable budgeting and competency variable has a t-value statistic greater than the t table, but not with systems variables and procedures. This can be interpreted as meaning that the better the rules in budget performance (budgeting) and human resource competencies (competency), the better the performance of budget (spending budgeting)

The results of the goodness-fit-model test (Table 7), explain that the influence of the budgeting variable, competency, and system and procedure on budgeting spending give a value of 0.405. This identifies that the construct variable spending budgeting can be explained by budgeting variables, competency, and system and procedure of 40.5%. In comparison, the remaining 59.5% is explained by other variables.

Table 7. R Square

| | Low-level spending | High- level spending | All Sample |
|---------------------------|-----------------------|----------------------------|---------------|
| Spending Budgeting | 0.487 | 0.490 | 0.405 |

Source: PLS.3.0

The ministries with a high level of budget, budgeting variable, competency, and system and procedure have a variable construct spending budgeting of 0.490 or 49%. In comparison, the remaining 51% is explained by another variable.

The ministries with a low level of budget, budgeting variable, competency and system, and the procedure have construct spending budgeting of 0.487 or 48.7% while the remaining 51.3% explained by other variables

Conclusions and Recommendations

Conclusion

1. State ministries/institutions that have a high capacity have a better budgeting aspect compared to ministries/institutions with low capacity.
2. The level of implementation of systems and procedures for ministries/institutions that have high capacity is better than those of ministries/institutions that have low capacity.
3. HR competencies in high capacity ministries/institutions are not significantly different (not significant) with HR competencies in ministries/institutions with low capacity.
4. Budgeting and HR competency have a significant effect on the ministry/agency budgets and have positive coefficients. Therefore, improvements in the budgeting aspects and HR competencies can increase the budget.
5. In ministries/institutions with high capacity, the procedure systems have a significant influence on the budget. This means that improvements to the systems and procedures will accelerate spending budget.

Recommendations

1. In the ministry of low capacity, attention and policy are to be more focused on improving the quality of the budgeting aspects and employee competencies. Improvements to these two things are expected to accelerate budget realization and at the same time they will improve government governance.
2. In ministries with a high budget, there is not significant constraints on the implementation of budgeting and employee competency. However, if the government desires to speed up



the realization of the budget, a system procedure improvement must be carried out. The main development is related to the procedure for paying bills at the Satker. The current procedure targets payment realization of fewer than 30 days. If the payment procedure is reduced to less than 15 days, the budget will be quickly realized so that development and activism can soon impact on the welfare of the people.

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