



## The effect of Performance-Based Budget Implementation on the Performance

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### Abstract

This study aims to determine and analyze how much influence the implementation of performance-based budgeting on government agencies' performance accountability at the DPRD Secretariat Office of Boalemo Regency. This type of research is quantitative research, using a survey method. Our survey was conducted using a questionnaire as a data collection tool. The method of data analysis in this study uses path analysis. The results showed that the implementation of performance-based budgeting, which includes performance measurement, rewards and punishments, performance contracts, external and internal controls, and management accountability simultaneously has a significant effect on Performance Accountability at the DPRD Secretariat of Boalemo Regency. Performance measurement variables, rewards and punishments, external and internal controls, and management accountability have a positive and significant effect on performance accountability. In contrast, the sub-variable performance contracts have no significant impact on performance accountability.



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## 1 Introduction

The budget preparation process is an essential part of an organization, both private and public sector organizations (Lannai & Amin, 2020). Public sector budgeting is involved in determining the amount of the allocation of funds for each program and activity in monetary units. The budgeting stage is critical because an ineffective budget can thwart the planning that has been compiled (Sayuti et al., 2018, Rahim et al., 2020). The public sector budget is an accountability (instrument) for public funds management and the implementation of programs financed from public money. The results of regional resource management by each provincial government will be reported in periodic accountability reports or accountability reports (Aliyah S, 2012).

Performance-based budgeting is a budgeting system oriented towards organizational output and is closely related to the organization's vision, mission, and strategic plans. Budget with a performance approach emphasizes the goals desired by the community because it includes public accountability or accountability

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regarding the implementation of value for money, namely economics in the procurement and allocation of resources, efficient use of resources in the sense that their service is minimized and the results are maximized (maximizing benefits and minimizing costs), and practical (useful) in the purpose of achieving goals and objectives (Lestari, 2019).

The implementation of performance-based budgeting in Indonesia was proclaimed through the enactment of Law No. 17 of 2003 concerning State finances, and it was enacted in stages starting from the 2005 budget. The implementation of performance-based funds has challenges that are not easy due to changes in the budgeting system. A more formidable challenge is changing the mindset of the Government as the executive and the House of Representatives (DPR) as a legislative body. The implementation of performance-based budgets has significant value for public accountability. This is because each government agency must present explicit information about the community's goals, objectives, results, and benefits from a budgeted activity or project. Each component in government agencies is responsible for achieving the planning's output/outcome—allocation of costs or inputs that have been determined. The results of the work must be equal to or greater than the specified price or information. In understanding performance-based budgeting, all organizational components' commitment to preparing resources in the form of budgets, activities, and human resources is significant.

The Financial Education and Training Agency (BPPK) in 2008 suggested the supporting elements for implementing a performance-based budget, namely, performance measures, rewards and punishments, performance contracts, external and internal controls Controls that are directed at controlling the input of activities. Managers are responsible for the resulting performance in terms of quantity and quality. With the freedom for managers, managers can perform and express their professionalism optimally. The five stages of elements issued by the BPPK are the supporting elements for implementing performance-based budgets. If the performance-based reserve is met, accountability for government performance is also met. The government considers that with responsibility, it can provide better performance changes in government agencies, or often known as the Government Agency Performance Accountability (AKIP). AKIP is a manifestation of government agencies' accountability for the implementation of the organization in achieving the goals and objectives carried out periodically. The implementation of the blame for government agencies' performance is more effective; it is necessary to have a strong commitment from an organization that has the authority and responsibility in the field of supervision and assessment of the accountability of the performance of government agencies.

The AKIP implementation includes accountability between performance achievement and programs and policies. All officials and leaders must understand the clarity of the budget objectives of a program. The program's vision and mission need to be determined according to the organization's strategic plan. Performance indicators need to be defined for each activity, conduct financial analysis on each exercise, make reports to superiors for each activity. The importance of doing this research is based on the phenomenon of the Office of the Secretariat of the Regional Representative Council (DPRD) of Boalemo Regency. The current government's AKIP performance still requires improvement, such as clarity of budget targets, programs that are not yet understood by all officials, organizational vision and mission that are not, however, understood, and LAKIP as reference material has not been used optimally.

The Government Accounting Standard Board (GASB) states that a budget is a regional financial operation plan that includes budget estimates and income sources to finance work programs within a certain period (Mulyadi, 2010). An account is a systematic quantitative plan (unit of quantity) prepared based on an approved program. A budget is a management tool in achieving goals. So, the store is not a goal and cannot replace management (Wiyono, 2009). The public sector budget contains a plan of activities presented in the form of a method for revenue and expenditure in monetary units (Mardiasmo, 2002). The public sector budget is the responsibility of the organization's management to provide information about all activities and activities of the organization to the owner of the organization for the management of public funds and the implementation of program plans financed with public money.

Ishak (2018) states that employee performance is a measure that can be used to determine the comparison of the results of the implementation of tasks, the responsibilities given by the organization in a certain period and relatively can be used to measure work performance or organizational performance. Therefore, every

employee in the organization is required to make a positive contribution through good performance, considering that organizational performance depends on its employees' performance. Cascio (2012) explains that a performance referral to an employee's accomplishment of an assigned task. Moheriono (2009), Simanjuntak (2011) defines a person's performance as the individual achievement of predetermined goals that must be achieved or functions that must be completed within a predetermined time (Hadi, 2019). The results of a person's work in an organization are closely related to quality, quantity, and timeliness. The public sector budget is the responsibility of the organization's management to provide information about all activities and activities of the organization to the owner of the organization for the management of public funds and the implementation of program plans financed with public money.

Performance-based budgeting is basically a budgeting system that is oriented towards organizational output and is closely related to the vision, mission and strategic plans of the organization (Bastian, 2006). Performance-based budgeting is a method of budgeting for management to link any funding poured into activities with the expected outputs and outcomes, including efficiency in achieving the results of these outputs. Kurniawan (2009). Performance-based budgeting programs are defined as policy instruments that contain one or more activities to be carried out by government agencies to achieve goals and objectives and obtain budget allocations or community activities coordinated by government agencies. Basically, the performance budget is a system for preparing and managing regional budgets that are oriented towards achieving results or performance. This performance reflects the efficiency and effectiveness of public services, which means that it is oriented towards the public interest (Mardiasmo, 2002). The regional budget formulation process first accommodates and selects community needs that will be met within a certain period of time so that the figures listed in the budget are proportional to the fulfillment of the community's needs. Performance-based budgets require the creation of new programs and activities (innovation) and strategies to deal with limited resources.

The performance-based budgeting approach is structured to overcome the various weaknesses in traditional budgets, especially liabilities caused by the absence of benchmarks that can be used to measure performance in achieving public services' goals and objectives. Funding with a performance approach emphasizes the concept of value for money and supervision performance output. This approach also prioritizes the mechanism for determining and prioritizing goals and a systematic and rational approach in the decision-making process (Mardiasmo, 2002). The effect of implementing performance-based budgeting on measurable performance accountability through the stages of elements that must be understood by all parties related to the implementation of performance-based budgeting, starting from performance measurement, rewards, and punishments, contracts for performance, external and internal controls, management accountability.

This research is descriptive quantitative research using numerical figures and a questionnaire to collect primary data. This study used a survey at the DPRD Secretariat of Boalemo Regency with a population of 33 people. Determination of the sample using the census method or taking the entire population as a sample.

## **2 Research Method**

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## **3 Result and Discussion**

### **Result**

Before entering the stage of testing the rare hypothesis, the first thing to do is to test the validity and reliability of the statement indicators on the questionnaire. Analysis of the validity and reliability level can be seen from the results of data processing that has been carried out on 33 research respondents. The fact is done by calculating the correlation of each list of statements with the total score with the Mrs. Excel program's help. A list of questions or questionnaires is primary data that is very supportive of the research implementation.

Therefore it is necessary to test the validity to determine whether the instrument that has been prepared can measure the variables to be measured.

Table 1. Validity test results

Variable	Item	Correlation Coefficient	T Value Count	Table T Value	Info
X1	1	0.560	2.44	2.160	Valid
	2	0.779	4.48	2.160	Valid
	3	0.750	4.09	2.160	Valid
	4	0.609	2.77	2.160	Valid
X2	1	0.793	4.69	2.160	Valid
	2	0.797	4.76	2.160	Valid
	3	0.619	2.84	2.160	Valid
X3	1	0.638	2.99	2.160	Valid
	2	0.821	5.18	2.160	Valid
X4	1	0.696	3.49	2.160	Valid
	2	0.889	7.00	2.160	Valid
	3	0.630	2.92	2.160	Valid
	4	0.700	3.53	2.160	Valid
X5	1	0.608	2.76	2.160	Valid
	2	0.908	7.81	2.160	Valid
	3	0.908	7.81	2.160	Valid
Y	1	0.634	2.96	2.160	Valid
	2	0.641	3.01	2.160	Valid
	3	0.743	4.00	2.160	Valid
	4	0.690	3.44	2.160	Valid
	5	0.740	3.97	2.160	Valid
	6	0.800	4.81	2.160	Valid
	7	0.523	2.21	2.160	Valid
	8	0.610	2.78	2.160	Valid
	9	0.693	3.47	2.160	Valid
	10	0.814	5.05	2.160	Valid

Based on table 1, all questionnaire correlation coefficient items are positive and the t value > (more significant) than the t table value so that these results indicate that all questionnaire items used variables are valid. The results of statistical analysis with the path analysis structure are shown in Figure 1:

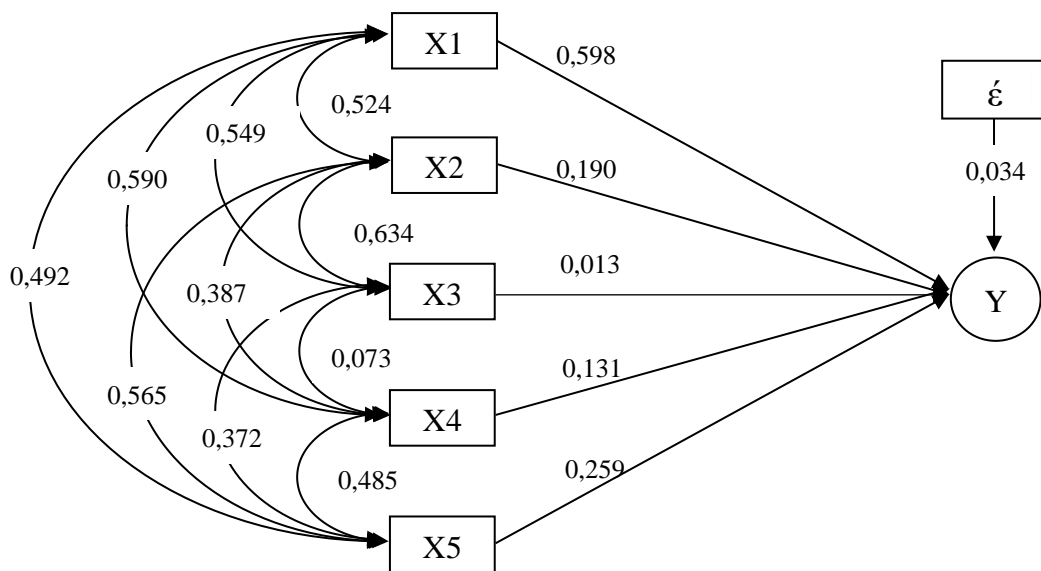


Figure 1. Path Analysis Structure

From the results of the path analysis model, the following structural equation can be made:

$$Y = 0,598X_1 + 0,190X_2 + 0,013X_3 + 0,131X_4 + 0,259X_5 + 0,034\varepsilon$$

The magnitude of the performance measurement effect is 0.598, Rewards and Punishment is 0.190, Performance Contracts are 0.013, External and Internal Controls are 0.131, and Accountability is 0.259. The details are shown in table 2 below:

Table 2. Path Coefficient, Direct Effect, Total Effect and Contribution of Simulant

Variable	Path Coefficient	Total Influence	Simultaneous Influence
X1	0,598	59,80%	-
X2	0,190	19,00%	-
X3	0,013	1,30%	-
X4	0,131	13,10%	-
X5	0,259	25,90%	-
X1,X2,X3,X4,X5	-	-	96,60%

Simultaneous testing is done by comparing F's significant value with the substantial value used, namely at the level  $\alpha = 0.05$  (5%). The sig value is 0.000, which means that simultaneously all independent variables: Implementation of Performance-Based Budgeting Consisting of Performance Measurement, Rewards, and Punishment, Performance Contracts, External and Internal Control, Management Accountability has a significant effect on the Performance Accountability of Government Agencies. Thus, the model used in this study can explain the impact of the Implementation of Performance-Based Budgeting on the Performance Accountability of Government Agencies at the DPRD Secretariat Office of the Boalemo Regency.

Table 3. Hypothesis testing results

Influence between variables	Total influence	Sig	Alpha	Decision	Hypothesis
X1,X2,X3,X4,X5 - Y	0,966	0,000	0,05	Significant *	Accepted
X1 - Y	0,598	0,000	0,05	Significant *	Accepted
X2 - Y	0,190	0,004	0,05	Significant *	Accepted
X3 - Y	0,013	0,830	0,05	Not Significant	rejected
X4 - Y	0,131	0,031	0,05	Significant *	Accepted
X5 - Y	0,259	0,000	0,05	Significant *	Accepted

## Discussion

The implementation of the Performance-Based Orchid is a structure that is integrated into an entity, which uses physical resources and other components. This result is included in a potent category. It shows that the Implementation of Performance-Based Budgeting at the Secretariat Office of the DPRD Regency of Boalemo has been implemented optimally to increase the Performance of Government Agencies' Accountability. The need to increase the Implementation of Performance-Based Budgeting at the DPRD Secretariat of Boalemo Regency to create efficiency and utilize public expenditure budgets. With outputs and outcomes clearing according to national priorities, funds issued can be accounted for transparently to the broader community. The stipulated store is a guideline in implementing government activities to achieve the budget means achieving local government targets. Therefore, the account must be of high quality, realistic, reasonable control, and increase the Performance Accountability of Government Agencies.

The Boalemo Regency DPRD Secretariat pays close attention to the aspects of reward and Punishment in increasing the accountability of government agencies' performance in the office. For more details, it is explained based on each indicator. Based on the results of the descriptive analysis test, the responses from the respondents

showed that on average they gave the appropriate rewards and punishments carried out by the Boalemo Regency DPRD Secretariat Office which was included in the high category except for the statement item No. 1 on average gave moderate answers. These results can be seen from the responses of respondents regarding the provision of incentives for the performance achieved by employees in implementing performance-based budgets that have been carried out properly. Respondents gave high responses or they agreed that the incentives were going well. Apart from that, another aspect that has been implemented properly is the Punishment for negligence of duty, where the respondent answers in the high category, meaning that it has gone well. Budgeting has also been carried out by considering the level of efficiency associated with programs for public service activities. Respondents' responses to this indicator are also in the high category, meaning that it has been implemented well. Rewards and Punishment are useful for knowing the extent to which employees are working; besides, it will also have a good effect on employees to improve their work quality further. However, suppose they experience failure in achieving performance. According to Mahmudi (2005), awards are rewards in the form of money given to those who can work beyond predetermined standards. Punishment is an action issued by an educator to a student who has made a mistake, with the aim is that the student will not repeat it and correct the errors created. This is the same as with employees if the employee has a good performance at work or has good quality work. This study's results are in line with the research conducted by Haspiarti (2012) with the title *The Effect of Performance-Based Budget Implementation on the Performance Accountability of Government Agencies at the Secretariat of South Jakarta City*. The results of his research show that the implementation of performance-based budgets positively affects the performance accountability of government agencies.

The DPRD Secretariat needs to improve performance contracts both individually and with agencies related to respondents who give moderate or doubtful statements. Another aspect that also needs to be considered is the need for a clear definition of the service contracted. The conclusion is that good management of performance contracts will affect the performance accountability of the agency. The results of the descriptive statistical test of respondents' responses show that the Contract on Performance assessment carried out by the Secretariat of the DPRD of Boalemo Regency is moderate. Performance-based budgets need to be implemented by individual performance contracts and contracts with other related agencies. Besides, there is also a need for a clear definition of services contracted out in budgeting. According to the Ministry of Public Works (2006) in Febrianti (2016), a performance contract is a determination and promise of a performance plan that accepts the party's mandate/responsibility who gives the mandate/responsibility. Implementing the performance contract aims to intensify the focus on the achievement of goals and objectives, prevent corruption, improve the quality of public services, and accelerate the realization of effective governance management, transparency, and accountability. This study's results are not in line with the research conducted by Haspiarti (2012) entitled *The Effect of Performance-Based Budget Implementation on the Performance Accountability of Government Agencies at the Secretariat of South Jakarta City*. The results of his research indicate that the implementation of performance-based budgets has a positive and significant effect on government agencies' performance accountability.

Facts in the field show that external and internal controls receive attention from the DPRD Secretariat. This agency has separated the control institutions and budget user institutions, controls the inputs, outputs, and outcomes, and controls them before and after the budget is used to increase accountability for the performance of these agencies. Based on the results of the descriptive analysis test, the respondents' responses show high criteria. External and internal controls are essential to do in the office because, based on the field's reality, there is a separation between the control agency and the budget user agency. It is better if control is exercised on input and output and is carried out before and after the budget is used. This study's results are in line with the research conducted by Haspiarti (2012) with the title *The Effect of Performance-Based Budget Implementation on the Performance Accountability of Government Agencies at the Secretariat of South Jakarta City*. The results of his research show that the implementation of performance-based budgets positively affects the performance accountability of government agencies.

Facts in the field where agencies have carried out management accountability properly, such as accountability for authority in planning and managing budgets, budget users are responsible for output, time, and quality. The implementation of the responsibility that has been carried out ultimately affects the

performance accountability of the agency. Based on the results of the descriptive analysis test, the respondents' responses showed that the value of management accountability carried out was in the high category. This is because it is based on the reality that the leadership's responsibility includes planning budgets, and managing the account has been carried out correctly. Besides, budget users are responsible for the output in terms of volume, processing time, and quality. Budget users in these offices provide the freedom to perform and express professionalism optimally. This study's results are in line with the research conducted by Haspiarti (2012) with the title *The Effect of Performance-Based Budget Implementation on the Performance Accountability of Government Agencies at the Secretariat of South Jakarta City*. The results of his research show that the implementation of performance-based budgets positively affects the performance accountability of government agencies.

#### 4 Conclusions

To improve performance accountability, it is necessary to measure sound performance because performance measurement is an objective and systematic process of collecting, analyzing, and using the information to determine how effective and efficient the services carried out by the government are in achieving the stated goals and objectives. To attain good accountability, it is necessary to clearly define programs and activities because determining programs and activities will also clearly illustrate each activity program's financing so that the costs incurred are not biased anywhere or are not misused. Besides, an adequate information system is needed to assess each activity program's performance achievement so that the completion of the program is controlled. To achieve a fair assessment, external parties' role is needed in measuring performance to be more independent. The implementation of performance-based budgeting in the form of performance measurement at the Secretariat Office of the DPRD Regency of Boalemo has been implemented well. This can be seen in the respondents' responses in the high category or the average respondent who answered the statements submitted. They stated that the implementation of performance-based budgeting at the DPRD Secretariat of Boalemo Regency had presented a clear picture of each activity program's financing and output. They have also used an adequate information system to assess each unit's performance achievement, using external parties' role in measuring performance to be more independent, measuring strategic performance instead of emphasizing a comprehensive and free level. Agency leaders realize that a performance measurement is a handy tool for improving overall institutional performance. With the right performance measurement, it is hoped that there will be an increase in the desire and need to improve institutional performance, more than just formal measurement and performance reporting. Measuring performance on an ongoing basis will provide feedback so that continuous improvement efforts will achieve success in the future.

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