



Remuneration and Disclosure of State Ministry/Agencies Financial Statements: Performance Role as Intervening Variable

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ABSTRACT

The purpose of this research is to provide empirical evidence regarding the impacts of remuneration toward financial disclosures of Ministries/Agencies in Indonesia, performance as an intervening variable. This research is a quantitative research utilizing secondary data from 104 Ministries/Agencies' financial reports in 2012 and 2013 fiscal years. The results indicate that remunerations are significantly associated with Local Government performance, the performance significantly associated with the financial disclosures, performance being able to mediate influence between remuneration against financial disclosures.

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INTRODUCTION

The preamble of the 1945 Constitution states that the purpose of the state establishment is to realize the general welfare and social justice for all Indonesians. Until recently, the government endeavors to realize community welfare, but the results have not been maximized. Community welfare is an ongoing issue due to existing poor citizen, unemployed, abandoned children, and people who are unable to seek treatment at the hospital. The problem is indicated in poverty level, unemployment rate, and Human Development Index (HDI) exhibiting community's prosperity which has not been realized (Aziz, 2015).

Based on March 2014 data taken from Central Bureau of Statistics, the number of poor citizens reached 28.28 million people. September 2013 data revealed a total number of the poor citizen at 28.60 million people. It exhibits a decrease in the percentage from 11.46% to 11.25%. The World Bank notes that the poverty rate in Indonesia is only 0.7% during 2012 - 2013. This decline exhibits the smallest decline in the last decade. BPS predicts the number of the poor citizen in 2015 exhibits 30.25 million people or about 12.25% of the Indonesia total population. The rise in fuel prices, inflation, and the weakening of the dollar is a factor triggering rising

number of the poor citizen in Indonesia. Throughout February to August 2014, the number of unemployed in Indonesia increased by 0.09 million from 7.15 to 7.24 million (Republika, 2015). The Human Development Index (HDI) in 2013 is still in the "moderate" category at position 108 out of 187 countries. Indonesian HDI value in 2013 was 0.684, while in 2012 it was 0.681. Trankmann explains that this is a positive development, viewed from health perspective through the Social Security Administering Agency (BPJS) from the Government, as well as other improvements in terms of income and education (Gengaje and Ramadhani, 2015).

The government is currently facing the public demand for transparency and accountability of state financial management. One of the efforts made by the government is through the state financial reform agenda. Thought Framework for Planning and Budgeting Reform reveals that the State Finance Reform is marked by the establishment of Law no. 17 of 2003 on state finance, Law no. 1 of 2004 on the state treasury, and Law no. 15 of 2004 on the audit, management, and financial responsibility of the state with an emphasis on the importance of good governance, which, among others, based on the principles of transparency and accountability, and follow international practices tailored to condi-

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tions in Indonesia (Ministry Finance, 2014). The state financial reforms are characterized by an obligation to prepare a report consisting of the Budget Realization Report (LRA), Balance Sheet, Cash Flow Report, and Notes to the Financial Statement (CaLK).

In relation to the process of achieving the goals and objectives of government agencies, Lakip is expected to communicate the performance of government agencies within a budget year. In addition to encouraging the process of performance measurement and reporting performance in a more systematic manner, Accountability Report of Government Agency Performance (LAKIP) was established.

Nordiawan and Hertianti (2014) stated that the purpose of performance assessment in public sector is to determine the organizational goals' level of achievement, to provide learning tools for employees, to improve performance in the next period, to give systematic consideration in making reward and punishment decisions, motivate employees, and create public accountability.

In terms of disclosure and performance, Sudiartana (2011) states that detailed disclosure will provide a true picture of performance. The value of relevant and reliable information reflected in the disclosure of financial information becomes an important factor. The general purpose of the disclosure is to present information deemed necessary to achieve the objectives of financial reporting and to serve the interests of different parties with each other.

In order to motivate state organizers require incentive. The financial incentive system as a reward is used to improve the organizational performance index (Silva *et al.*, 2013). Research on remuneration in the public sector still refers to implementation in the private sector. Vidyatmoko *et al.* (2009) conduct research on the factors that influence the remuneration of corporate executives and their relationship to company performance. Research results proved that the company's ability to pay significant positive executive compensation to financial performance, customer performance, and internal business process performance. The results of this study are in line with Wayan and Utami research (2013) stating that the remuneration received by the Board of Directors has a positive effect on the company's market performance but does not affect the internal performance of the company.

Hofmann and McSwain (2013) state that managers in non-profit organizations possess a

diversity of incentives to manage reported amounts. They could alter spending decisions, accounting methods, and the design of cost allocations to achieve a certain level of performance. State organizers seek to maintain their position or reputation to increase compensation. Puspitasari (2013) conducted research related to directors' remuneration and facilitation. Research result indicated that available remuneration and facilities have a positive effect on the financial performance of BUMNs.

Lee and Fisher (2004) found that infrastructure assets disclosure in Australia public sector annual report in a voluntary manner is low. In relation to New Zealand local government voluntary disclosure of the Internet Financial Reporting (IFR), leverage, local wealth, press transparency positively affects IFR in New Zealand while council types have a negative effect (Laswad *et al.*, 2005). Suhardjanto (2011) exhibits that the average value of mandatory disclosure in local government averaged at 10.49 or 30.85%. Based on Setyaningrum and Syafitri research result (2012), the average rate of disclosure of LKPD Regency / Cities in Indonesia during 2008 - 2009 period was 52.09% (2008 = 51.24%; 2009 = 52.91%). This increase indicates that Regional government is working to improve the quality of their financial statements. These results indicate that the level of mandatory disclosure of local governments in Indonesia is still very low, the implication is that local governments are not yet compliant with Government Accounting Standards (SAP).

In line with local government, Hilmi and Martani research (2011) proves that the level of disclosure conducted by the provincial government is still low. However, the trend of disclosure level conducted by the provincial government continued to increase from 2006 to 2009. Sari research, *et al.* (2015) in the State Ministry / Institution (hereinafter referred to as K / L) proves that the average disclosure of financial statements from 2010-2014 is 45.39%. Puspita dan Martani (2012) stated that the information disclosure level on the local government website is 44.84%.

Based on previous research, this research will try to prove the effect of remuneration on disclosure through performance. Previously, Sancoko (2010) has conducted research on the effect of remuneration on public services quality utilizing survey method. It indicated that remuneration provides motivation for officers to

improve performance. Achievement is characterized by good performance service (excellent services). So this study uses performance variables as intervening variables to mediate the indirect influence between remuneration and disclosure. This study uses the data in 2012 and 2013 to determine the difference in K / L performance before and after receiving remuneration.

The concept of remuneration is only implemented in K /L, while local government or provincial government do not use remuneration system. However, some local governments or provincial governments still get District Performance Benefit facilities that vary in value according to the ability of each region in achieving the Regional Revenue (PAD) therefore it is not involved in the research.

The concept of remuneration is a welfare benefit given in return for performance, achievement, and high productivity. At the beginning of its implementation, remuneration is tested in the Ministry of Finance. After determining its benefits, the remuneration begins to be implemented in other ministries with conditions that must be met.

LITERATURE REVIEW AND HYPOTHESIS FORMULATION

Agency Theory

There are two possible problems with agency theory: (a) the occurrence of information asymmetry, agency theory generally has more information about real financial position and operating position of an entity, and (b) the occurrence of a conflict of interest due to inequality of purpose, where agents do not always act in line with principal interest. Zimmerman (1977) in Hilmi (2011) states that the government as an agent possessing mandate of the people as a principal is obliged to account it. The government's accountability to the people in the use of state finances is to make a financial statement. In order for the financial statements to be easily understood by the people then the government must provide reasonable disclosure related to the state finances. To reduce the conflict of interest required monitoring by the principal on agent activities.

The government continues to work to improve state organizers welfare. In addition to the salary adjusted to the inflation rate, improvement of payroll structure, and the provision of

performance-based allowances (remuneration). Executive remuneration on the scope of BUMNs is one important part of running the company. BUMN executives are States agent and the owner of the company. By providing balanced remuneration, the company owner can attract the best talents to lead the company. In addition, a balanced remuneration will also minimize agency costs (Prasidhanto, 2011). Reflecting on the implementation of the BUMN executive remuneration and the concept of New Public Management (NPM), the State Ministry / Institution began to implement the Employee Performance System as part of Bureaucracy Reform in the field of Human Resources by providing a reward in the form of remuneration. With this concept of remuneration is expected to reduce agency conflict.

Signalling Theory

Evans and Patton (1987) stated that in the context of signaling theory, the government is trying to provide a good signal to the people. Therefore the community can continue to support the current government activities. One of the good signals given by the government is by issuing financial statements as a form of accountability and political promotion that the government has done its job well. Therefore it would improve government reputation. In order for the financial statements to be understood, everything related to the state's finances must have clear disclosure. Disclosure of the financial statements is described in CaLK which is one component of the financial statements.

Politic imaging has been gaining popularity among state officials. They always want to look proper in the public eye. Every good news always gets the media spotlight both print and electronic especially bad news. Disclosure of financial statements is one of K / L method in expressing performance achievement. This disclosure certainly paves the way for the public to see the transparency efforts undertaken by the Government.

Performance

Bastian (2015) defines performance as result obtained by a good organization both profit and nonprofit oriented generated during a period of time. PP no. 8/2006 on Financial and Performance Reporting Government agencies state that performance is the output/outcome of activities/ programs to be or has been achieved in relation to

the use of budgets with quantifiable quantities and quality. Regulation of the State Minister on State Apparatus Empowerment Number: PER/09/M.PAN/5/2007 concerning General Guidelines for Main Performance Indicators Stipulation in Government Institutions' Environment defines the performance of government agencies as achievement level based on government agencies targets/objectives as the elaboration of vision, mission, and strategy of government agencies that indicate activity implementation success and failure rate in accordance with established programs and policies.

At the end of each government agency period, it measures the achievement of the performance targets set in the performance determination document. Measuring achievement of target performance was conducted by comparing performance targets and performance realizations. The data required for performance measurement are performance determination documents, the realization of output/outcome outcomes, budget, and budget realization for the year. The outputs generated in this performance measurement stage are performance measurement forms. The performance measurement results contained in this performance measurement form are subsequently reported in the Accountability Report of Government Agency Performance (LAKIP).

Remuneration

Basic performance assessment of employees in the PP. 46/2011 is based on employment objectives (SKP) which became the basis of providing remuneration for employees. In assessment implementation, each employee must prepare SKP based on the annual work plan. The SKP is established and approved by the assessment officer, containing job activities and targets to be achieved within a certain time, therefore, it is determined as real and measurable.

Remuneration is a long process as a series of bureaucratic reforms. Started by the Ministry of Finance and the Supreme Court then began to be implemented in other ministries for bringing many benefits. The concept of New Public Management is one of the basic in applying of remuneration in public sector. New Public Management is not mandatory but must be understood its impact on public policy making. (Wahab, 2014). New Public Management model is not entirely bad because this model educates public sector agents to compete healthily. With existing competition, the

agents will compete to provide the best service to the consumer or society although the concept is different from the private sector. It is expected that the remuneration can improve government performance, therefore, the level of disclosure will become more transparent.

Disclosure of Financial Statements

Financial reports within the public sector have an important role in creating accountability. Mardiasmo (2014) mentions the purpose and function of financial statements as a form of compliance and management, accountability and retrospective reporting, authoritative planning and information, organizational sustainability, public relations, facts, and illustrations.

Remuneration Influence towards Performance

Conceptually, the remuneration should consider 3P, Pay for Position, Pay for Person, and Pay for Performance. This concept refers to the balance between remuneration and job responsibilities, individual abilities, and individual performance. Pay for Position indicates that remuneration must be balanced with the responsibilities mandated by position. Pay for person indicates that remuneration must be balanced with attributes brought by the stakeholders. These attributes may consist of the level of education, skills and other attributes required to assume a position. Pay for Performance focuses on the balance between remuneration and achievement of individual performance targets (Prasidhanto, 2011).

Silva *et al.* (2013) state that the financial intensive system as a reward can improve the performance index of the organization. In managing public sector, there is no room to adopt a reward system except by simply performing activities or being responsible for the position. The development of the strategic remuneration concept is expected to be more dynamic and flexible in line with the overall organizational goals. Effective and efficient systems in an organizational context may turn out to be ineffective or counterproductive in the case of different implementation contexts in the organization. The difficulty of measuring this remuneration has caused some organizational programs to be achieved.

Remuneration can provide motivation for officers to improve their performance. This

achievement is characterized by good performance service (excellent service). Remuneration programs run by the Ministry of Finance can be directly implemented in other institutions (Sancoko, 2010).

Gustika (2013) conducted a survey on the effect of remuneration on the performance of Pasaman Police members. Research result indicated that the remuneration has a positive effect on the performance of the Police Force of Pasaman. Based on the above explanation then the following hypothesis was constructed:

H₁: Remuneration has a positive effect on Performance.

Performance Influence towards Disclosure of Financial Statements

Performance Indicator is a quantitative and qualitative measure that describes the level of achievement of output/outcome of a program/activity that has been determined. Performance Report is an overview which explains briefly and comprehensively about performance achievement prepared according to work plan specified in the framework of APBN / APBD implementation. The Performance Report presents budget comparison and realization, as well as plan and outputs of an activity/program. The financial performance of the reporting entity in the Budget Realization Report should summarize the indicator and achievement of operational activities of a financially dimensional nature within a reporting period. LAKIP K / L represents the realization of Ministry duties and functions accountability as a manifestation of good governance, transparency, and accountable policies.

In addition, LAKIP K / L is a manifestation of performance in the achievement of vision and mission, as described in the strategic objectives/targets, referring to the 2010-2014 National Medium Term Development Plan (RPJMN) and Government Work Plan (RKP) 2013. High performance is a signal of good public management. State Ministries / Institutions possessing poor performance will avoid disclosure of financial statements based on established SAP and will further restrict access to information to the public. State ministries/institutions that perform well will confidently disclose financial statement information and use better disclosure techniques according to signaling theory. The better the performance of K / L, the greater the effort to

provide information through the disclosure on the financial statements.

Puspita dan Martani (2012) conducted research on the effect of performance and characteristics of local government on the level of disclosure and quality of information on the local government website. Research result indicated that the level of information disclosure of Regional Government on the website is 44,84% covering 47% content disclosure and 42,61% presentation disclosure. DAU, size, and administrative complexity are significantly positive for disclosure. While performance with proxy PAD ratio and regional expenditure is not significant. This research differs from Laswad *et al.* research (2005), which states that the performance has a significant positive effect on internet financing reporting. The researchers revealed that the difference in the results of the study was due to a larger index of the disclosure.

Craven and Marston (1999) argue that poorly performing Regional government will avoid voluntary disclosure (as in the form of voluntary Internet-based disclosure) and would prefer to limit access to information to the public. From the above research gives different results regarding the effect of performance on the disclosure of financial statements, the hypothesis of this study did not give the direction of the relationship. The second hypothesis of this research is:

H₂: Performance affects the disclosure level of financial statements.

Remunerations Influence towards Disclosure of Financial Statements through Performance

Remuneration implemented by the government is expected to improve the performance of the state organizers and have an indirect impact on the disclosure. Research on the effect of remuneration on performance or performance on disclosure has been done in public sector, hence this research will test its influence through performance variable according to research which has been done previously separately. This study also did not determine the direction of the relationship. The third hypothesis is constructed as follows:

H₃: Remuneration affects the disclosure of financial statements through performance.

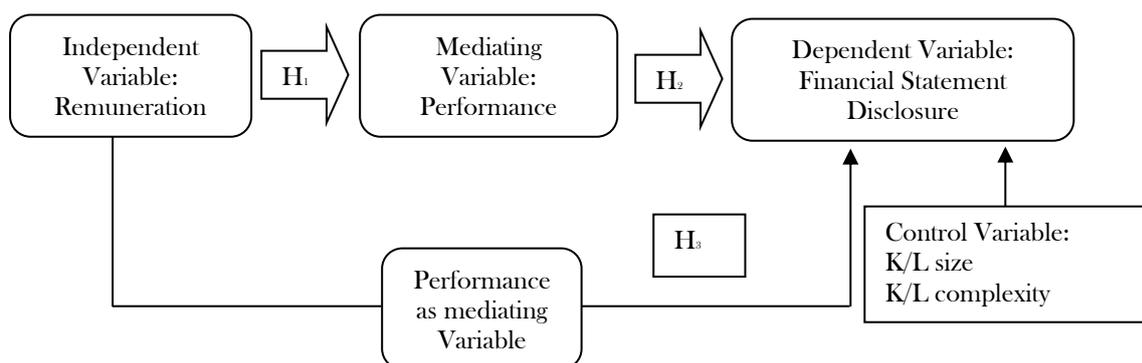


Figure 1. Research Framework

Based on both theory and research objectives, researcher defines research frame as described in Figure 1.

Research Method

This study uses the entire population of K / L in the fiscal year 2012 and 2013 while the sample is selected by purposive sampling method with the following criteria:

- (1) K / L financial statements for the fiscal year 2012 and 2013 that have been audited by BPK.
- (2) Having complete data for the measurement of dependent and independent variables, namely LAKIP index, SK satker receiver of remuneration, total assets, and the number of satker.

The following is a breakdown of the sample selection process used in the study presented in Table 1.

Table 1. Sample Selection

No.	Criteria	Sample
1.	Audited Ministry/Agencies by BPK during 2012-2013 period	172
2.	BPK has not provided opinion	1
3.	Incomplete Data	67
Total Sample		104

This research uses secondary data collection method that comes from the publication of audit report of Audit Board of the Republic of Indonesia (BPK). The required data are Lakip K / L for the fiscal year 2012 and 2013, SAI K / L Financial Statements for the fiscal year 2012 and

2013, SK Menpan and SK Ministry itself related to the determination of remuneration, related laws and regulations. The data collection was conducted by downloading the annual report and lakip on the official website of BPK or each K / L.

The dependent variable in this research is disclosure level of SAI K / L financial report. The level of disclosure in question is the disclosure made in the SAI Report and then compared with the disclosure in accordance with Government Regulation (PP) no. 71/2010 on SAP as a substitute for PP no. 24/2005. The level of disclosure can be calculated by the following formula:

$$DISC = \frac{\text{Total disclosure item}}{\text{Total disclosureable item}}$$

This study is similar to the research conducted by Liestiani (2008), Hilmi and Martani (2011), Arifin and Fitriasari (2014), Sari *et al.* (2015) by utilizing a scoring system by making a list of disclosure checklists required under SAP. The questionnaire contains 29 items, referring to research by Sari *et al.* (2015). Measurement mechanism of disclosure level of financial statements are described as follows:

- (1) Create disclosure lists based on SAP
- (2) Provide value for each conformity based on SAP. The scoring uses three categories: "YES", "NO", or "NOT APPLICABLE (NA)".
- (3) Sums up the values in each category
- (4) Compare the value in the "YES" category with the maximum amount that should be disclosed in the financial statements.

Independent Variable

The independent variables in this research are remuneration and performance. To reduce the model bias, this study uses control variables based on Suhardjanto and Yulianingtyas (2011), Arifin and Fitriasaki (2014) research, Sari *et al.* (2015) ie organizational size (SIZE), government complexity (SATKER). The four variables are described in Table 2.

Performance (KIN)

LAKIP is a manifestation of responsibility for the implementation of tasks and mandate given, as well as performance reports on the achievement of K / L vision and mission towards good governance with reference to the 2010-2014 Strategic Plan. The preparation of LAKIP of the Ministry of Finance refers to Presidential Instruction No. 7/1999 on Accountability of Government Institution Performance (AKIP), Presidential Instruction No. 5/2004 on Acceleration of Corruption Eradication, and Government Regulation No. 8/2006 on Financial Reporting and Performance of Government Agencies. In each LAKIP report, each Satker usually includes information on fiscal/financial policies, key performance indicators, strategic achievements in the field of the Satker, and will be given the final index as a conclusion of the performance of the satker in the reporting year. Ministry of Empowerment of State Apparatus and Beaurocracy Reform (PANRB) provide an assessment on the performance achievement of each Ministry / Institution category A, B +, B, CC, C, or D. In this study, researchers gave 6 score for category A , 5 for category B +, 4 for category B, 3 for category CC, 2 for category C, and 1 for category D.

$$KIN = LAKIP \text{ Index}$$

Remuneration (REMUN)

Remuneration in the public sector is more defined as a payroll system associated with a performance assessment system that aims to spur the achievement and motivation of civil servants. The target of remuneration encourages the improvement of professionalism and performance of civil servants and the drive to avoid corruption. In this study, the authors used dummy variable 1 if the state ministry/institution has obtained SK determination of performance remuneration in the year concerned and 0 if not received SK or is still in the submission process.

$$REMUN = \text{Dummy Variable of K/L Remuneration}$$

Organization Size (SIZE)

Syafitri (2012) uses the total assets of the Regional Government as a proxy for the Regional Government size variable as asset exhibit economic resources that are controlled and/or owned by the government as a result of past events and from which future economic benefits are expected to be obtained. While Arifin and Fitriasaki (2014) use the total assets of K / L as a proxy for organizational size variables. In line with Patrick's study (2007) that the size of government has a positive influence on determination adopting GASB 34. Government organizations will pay more attention to the disclosure of assets according to accounting standards. Total assets are data with a high level of variability because each Satker possesses different asset value, therefore, it needs to be transformed or eliminated in running the research model. Thus, the study of total assets is transformed into the total natural asset logarithm.

$$SIZE = \ln \text{Total Asset}$$

Table 2. Operational of Variables

Variable	Indicator	Mark
Disclosure Level (<i>DISC</i>)	The level of disclosure of financial statements is measured by weighing disclosure index based on PP. 71 of 2010	+
Remuneration (<i>REMUN</i>)	Measured with dummy variables, 1 if already approved for remuneration, 0 if not.	+
Performance (<i>KIN</i>)	Measured with an ordinal scale of 7 points for AA, 6 for A, 5 for BB, 4 for B, 3 for CC, 2 for C, 1 for D	+
Total Asset (<i>LnSIZE</i>)	Measured by the natural logarithm of total assets of each K / L	+
Total Satker (<i>LnSATKER</i>)	Measured by the natural logarithm of the total work unit (satker) owned by each K / L	+

Government Complexity (SATKER)

The number of Satkers in a government entity exhibits the workload to which it is responsible. Hilmi and Martani (2011) use the proxy number of SKPD to measure government complexity. The number of SKPD is analogous to the business unit in the private sector. Arifin and Fitriasari (2014) proxies the complexity of government (SATKER) with the number of work units in each State Ministry / Agency. The number of satker is data with a high level of variability because each State Ministry / Institution possessing different number of Satker, therefore, it needs to be transformed or eliminated in running research model. Thus, the study of the number of satker was changed into the natural form of the number of Satkers logarithm.

$$\text{SATKER} = \text{LnTotal Satker}$$

Research Model for Hypothesis Examination

The research model refers to Imam Arifin and Debby Fitriasari journal (2014), featuring modified addition of remuneration and performance variables as the dependent variable. This research uses 2 models. Model 1 is used to answer hypothesis 1 while model 2 is used to answer hypotheses 2 and 3:

$$KIN_i = \beta_0 + \beta_1 \text{REMUN}_i + \beta_2 \text{LnSIZE}_i + \beta_3 \text{LnSATKER}_i + \varepsilon_i$$

$$DISC_i = \beta_0 + \beta_1 \text{KIN}_i + \beta_2 \text{LnSIZE}_i + \beta_3 \text{LnSATKER}_i + \varepsilon_i$$

Data Analysis Method

The independent variable in this study is the disclosure of financial statements. This variable is an index of disclosure by the scoring method, therefore first tested the validity of scoring the disclosure. The validity test was conducted by

determining the R-count value of each disclosure item. R-count value is compared with the R-table value at the 5% significance level and the degree of freedom (df) of 102 (104-2). It was determined that value of R-arithmetic > R-table value. It can be concluded that the disclosure variable in this study is valid. The whole item exhibits result at 0.1622 which indicated disclosure variable in this research is valid.

In accordance with the objective of the study is to provide empirical evidence regarding the effect of performance and remuneration on the level of disclosure of K / L financial statements in the fiscal year 2012 and 2013, the researchers used panel data. The following is the result of data utilizing Eviews 6.0 software presented in Table 3. Classic Assumption Test

A good study should meet BLUE (Best Linear Unbiased Estimator) assumptions, therefore, multicolenarity testing is required. By utilizing panel data, this research does not conduct autocorrelation and heteroskedasticity test because it is considering error between individual sample and time. The results of multicollinearity testing are presented in the Table 4. As correlation value is less than 0.8 then it is concluded that there is no multicollinearity.

RESULT AND DISCUSSION

Disclosure of Financial Statements Validity Test

The validity test was conducted by determining the R-count value of each disclosure item. Research result exhibit the value of R-arithmetic > R-table value. Out of 67 disclosure items referred to in Sari research (2015), only 29 items passed the validity test. The result of validity test exhibits that 29 items of financial statement disclosure have an R-count value greater than R-table (R-count > 0,1622).

Table 3. Descreiptive statistic

Variable	Mean	Median	Maximum	Minimum	Std. Dev
DISC	0,613064	0,689655	0,965517	0,206897	0,179722
REMUN	0,615385	1	1	0	0,488860
KIN	3,663462	4	6	2	0,877005
SIZE	37.260.190 million	4.051.500 million	729.777.000 million	11.619 million	113.723,3
SATKER	287,8077	45,50	1028	1	383,1091

Table 4. Multicollinearity Testing Result

Variable	DISC	KIN	REMUN	LNSIZE	LNSATKER
DISC	1				
KIN	0,412615	1			
REMUN	0,762682	0,351872	1		
LNSIZE	0,193853	0,325155	0,009193	1	
LNSATKER	0.157428	0,323189	(0,008466)	0,746438	1

Multicollinearity Test

Based on the results of multicollinearity testing, all variables worth less than 0.8. Therefore it could be concluded that all independent variables in this research model is free from multicollinearity or possess no strong relationship between independent variables. The residual graph also proves that error does not form a pattern, therefore, it can be concluded that variables are free from heteroskedasticity.

Descriptive Statistics Analysis

Based on Table 3 it was determined that the highest disclosure is 0.97% while the lowest disclosure rate is 0.21%. The average disclosure is 0.62% while the mean value is 0.69% indicates the tight gap between the two. Based on data above, it can be concluded that the disclosure of financial statements in 2012 and 2013 increased. Some reached up to 0.97%. On the other hand, there are also K / L whose level of disclosure is still low. The auditor should provide additional information for K / L with low disclosure level in order to be more competent in preparing K / L financial statements.

Remuneration is a dummy variable, therefore, it can not be interpreted separately. It can be seen that it was determined that the highest performance is in the Ministry of Finance with A value at 6 whereas the lowest performance occurs in the National Defense Council with C value at 2. Average performance at 3.67 compared to middle value 4 indicates that most data is within the range.

According to Table 3 it was determined that the highest total asset value is at the Ministry of Public Works amounting to IDR 729,777,310,353,208, - while the lowest total asset value is in the National Defense Council which is IDR 10.618.588.175, -. The ministry with the largest satker is the Ministry of Religious Affairs, 6954 in 2012 and 6931 in 2013.

Remuneration Influence towards Performance

After determining descriptive statistics of the research data, the researcher analyzed the results. In order to test the effect of remuneration on performance, researchers used the formula in equation 1.

$$KIN_i = \beta_0 + \beta_1.REMUN_i + \beta_2.LnSIZE_i + \beta_3.LnSATKER_i + \epsilon_i$$

Based on regression test, the variable probability of remun is 0,0015 <0,05 which means significant (H₁ accepted). The coefficient is positive according to the initial prediction. The probability (LR-statistic) is also significant at the 5% level. Pseudo R-Squared equal to 9% indicate remun variable is able to explain its relationship with performance equal to 9%, otherwise, the rest is another variable. The assessment indicated that remuneration has a positive effect on performance. The remuneration provided by the government has a positive impact on the improvement of K / L performance. K / L implemented remuneration system has a higher performance compared to K / L that has not implemented the remuneration system. Table 5 is the result of data processing utilizing Model 1.

Table 5. Statistic Analysis Result for Model 1

Variable	Coefficient	Std. Error	z-Statistic	Prob.
REMUN	1,368787	0,431954	3,168823	0,0015
LnSize	0,428955	0,277791	1,544166	0,1225
LnSatker	0,329924	0,274090	1,203706	0,2287
Pseudo R-squared				0,091381
LR-statistic				22,07427
Prob (LR-statistic)				0,000063

Table 6. Statistic Analysis Result for Model 2

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.128262	0.267074	0.480250	0.6321
KIN	0.079225	0.020654	3.835851	0.0002
LnSize	0.016903	0.023690	0.713510	0.4772
LnSatker	-0.004084	0.023565	-0.173285	0.8628
R-squared				0,160299
Adjusted R-squared				0,135108
F-statistic				6,363342
Prob(F-statistic)				0,000543

Table 7. Statistic Analysis Result for Model 2

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1,021318	0,218856	-4,666621	0,0000
KIN [^]	0,506571	0,044648	11,34600	0,0000
LnSize	-0,018928	0,017157	-1,103265	0,2726
LnSatker	0,011765	0,016610	0,708283	0,4804
R-squared				0,578873
Adjusted R-squared				0,566239
F-statistic				45,81927
Prob(F-statistic)				0,000000

Performance Variable towards Disclosure Level

After determining the descriptive statistics of the research data, the researcher analyzed the results. To test the effect of performance on disclosure, the researcher used the formula in equation 2. Research result is described in Table 6.

$$DISC_{it} = \beta_0 + \beta_1 KIN_{it} + \beta_2 LnSIZE_{it} + \beta_3 LnSATKER_{it} + \varepsilon_{it}$$

Based on regression test, the probability of performance variable is 0.0002 < 0,01 which indicated H_2 is accepted. Probability (F-static) is significant at 1% level. The assessment result is that performance influences disclosure. Measurement of K / L performance based on LAKIP index has an effect on disclosure.

Remuneration Variable towards Disclosure Level through Performance as Mediating Variable

After determining the descriptive statistics of the research data, the researcher analyzed the results. To examine the effect of remuneration on disclosure through performance, the fitted value of the performance variable is used. The formula used is equation 2. Research result is exhibited in Table 7.

$$DISC_{it} = \beta_0 + \beta_1 KIN^{\wedge}_{it} + \beta_2 LnSIZE_{it} + \beta_3 LnSATKER_{it} + \varepsilon_{it}$$

Based on regression test, the probability of performance variable is 0,0000 < 0,01 indicate significant at level 1% (H_3 accepted). The coefficient

is positive. The assessment result is that remuneration has a positive effect on disclosure through performance. The remuneration facility has a positive impact on the improvement of K / L performance, therefore, the K / L that has received this remuneration will reveal more compared to K / L that has not implemented the remuneration system.

The control variable is insignificant in both equations. Total assets, the number of satker, did not affect the performance and level of disclosure of K / L financial statements. Through this result, people can judge that the remuneration that has been implemented by the government in some K / L does have a positive impact on performance improvement and disclosure. For policymakers to make rules capable to aid K / L who have not obtained remuneration in order to further improve their competence therefore in the future all K / L can perform well and produce higher disclosure level.

CONCLUSION

This study aims to provide empirical evidence regarding the effect of remuneration on performance, performance on disclosure, and remuneration of disclosure through performance. Based on the analysis result in chapter 4, it can be concluded that the remuneration that has been implemented by the Government is significantly positive towards the performance of K / L. The

performance has a positive effect on the level of disclosure and remuneration affect the level of disclosure through performance as the mediation variable.

State organizers should improve performance as the Government has provided remuneration facilities. Based on statistical descriptions, there are state ministries/institutions with a low level of disclosure on financial statements. Therefore the auditors are expected to provide additional information and guidance on the related Working Units. In addition, policymakers should evaluate the performance and remuneration that has been implemented therefore every facility provided to state organizers may contribute to the increased transparency of Government financial reporting. For policymakers implement laws /rules capable to aid K / L who have not obtained remuneration in order to further improve its competence therefore in the future all K / L can perform well and provide higher disclosure level. The community as principal can judge that government as an agent has made efforts to increase transparency and accountability through the disclosure of financial statements, therefore, no agency conflict occurs.

Although no autocorrelation or multicollinearity is found, the R² value of this study is relatively low, therefore it is hoped that further research can add another independent variable that can add explanatory power to the level of disclosure. Out of the 67 items referred to in the previous study, only 29 items were valid so further research needs to evaluate items disclosed. Research duration took 2 years, further research can extend the research duration up to 4 years in accordance with government RPJM.

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