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Public Sector Accounting and Government Performance Accountability

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Abstract

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This study aims to analyze the effect of public sector accounting implementation and financial reporting quality on the performance accountability of government agencies. A descriptive qualitative approach was used by reviewing various scientific literature published in the last five years, as well as the results of relevant previous studies. The results indicate that consistent public accounting implementation significantly contributes to increasing fiscal transparency, resource management efficiency, and governance effectiveness. The implementation of accrual-based accounting enables government agencies to present more accurate and relevant financial information to stakeholders. Furthermore, the quality of financial reporting has proven to be a crucial factor in realizing public accountability and strengthening public trust in government institutions. Independent public audits, strong internal control systems, and human resource capacity building are key elements in maintaining the integrity and confidentiality of the financial reporting system. In conclusion, the synergy between public sector accounting, financial reporting quality, and accountability systems is the main foundation for transparent, efficient, and sustainable governance in supporting modern public governance reforms.

1. Introduction

Public sector accounting plays an important role in realizing transparent, accountable, and results-oriented governance. Through a standardized financial recording, measurement, and reporting process, public accounting functions as a control tool to ensure the use of public resources in accordance with the principles of good governance. According to Cuadrado-Ballesteros and Bisogno (2021), public sector accounting reform has been proven to improve the quality of governance because it is able to strengthen the public financial supervision and transparency system. This condition confirms that good public accounting practices are the main foundation for achieving accountability for the performance of government agencies.

The performance accountability of government agencies reflects the level of accountability of public institutions in achieving the strategic goals and objectives that have been set. In the context of good governance, accountability is not only about administrative compliance, but also includes the government's ability to provide relevant, reliable, and trustworthy performance information (Safkaur et al., 2019). The quality of good financial statements reflects the extent to which public organizations carry out the principles of transparency and public responsibility for the use of state funds. Therefore, improving the quality of financial statements is one of the important indicators to assess the success of public sector financial reform (Alzeban, 2019).

However, various studies show that the main challenge in the implementation of public sector accounting is the consistency of the implementation of accounting standards and the capacity of human resources in the preparation of financial statements. Dewi et al. (2019) revealed that the quality of government financial statement information is often hampered by the lack of understanding of the apparatus on accrual-based accounting principles, weak internal control systems, and limited information technology infrastructure. As a result, the financial statements produced do not fully reflect the actual financial condition and have an impact on the low level of public trust in government performance.

In addition, the relationship between the implementation of public sector accounting and performance accountability also depends on the effectiveness of internal audit and oversight mechanisms. According to Ebimobowei et al. (2020), transparent public audit practices play a role in ensuring the integrity of financial statements and increasing the credibility of government institutions. In the same context, a study by Rezaei et al. (2021) shows that public accountability has a mediating effect in the relationship between the quality of financial reporting and the performance of public sector organizations. This means that the better the public accountability that is carried out, the stronger the positive influence of quality financial statements on the performance results of the institution.

The results of previous research published in SINTAMA: Journal of Information Systems, Accounting and Management (2021) also strengthen these findings. The study shows that the application of public sector accounting and the quality of financial statements have a significant positive effect on the performance accountability of government agencies. Thus, the implementation of good public accounting can strengthen public trust, minimize the risk of corruption, and create a more open system of government. Improvements in the presentation of transparent financial statements also have implications for the effectiveness of government program implementation and increase the legitimacy of public institutions in the eyes of the public.

This phenomenon shows the urgency to re-examine the relationship between the application of public sector accounting, the quality of financial statements, and the performance accountability conceptually and empirically in a general context. This study is important because most of the previous research focused more on sectoral or regional analysis. In fact, to realize good governance, a comprehensive and cross-institutional understanding of how public accounting practices can strengthen performance accountability nationally is needed (Afandi & Afandi, 2018). Therefore, this study aims to analyze in depth the relationship between the application of public sector accounting, the quality of financial statements, and the accountability of the performance of government agencies in general. It is hoped that the results of this research can contribute to the development of more effective and sustainable public financial reform policies.

2. Literature Review

2.1. Public Sector Accounting and Performance Accountability

Public sector accounting is a financial management and reporting system designed to ensure transparency and accountability in the use of public funds. This system functions not only as an instrument for recording transactions, but also as a mechanism for control and accountability to the community. Public accounting reform in various countries, including Indonesia, is directed to strengthen the implementation of good governance through the preparation of accrual-based financial statements that are more informative and relevant for decision-making (Cuadrado-Ballesteros & Bisogno, 2021). Thus, public accounting is the foundation for an accountability system that connects financial inputs and performance outputs of government institutions.

The link between public sector accounting and performance accountability is also explained by Ebimobowei et al. (2020), who assert that effective public financial management requires credible audit mechanisms and open reporting processes. Without an adequate accounting system, performance accountability cannot be objectively measured because the financial data on which the evaluation is based cannot be verified. Meanwhile, research by Gea (2021) shows that the implementation of good public sector accounting has a significant influence on the performance accountability of government agencies. In other words, the stronger the public accounting system is implemented, the greater the capacity of government institutions to account for the results of their performance to the public. This shows that public accounting practices play a strategic role in creating fiscal transparency and strengthening public trust in state institutions.

2.2. Quality of Financial Statements and Good Governance

The quality of public financial statements is the main indicator of the success of governance. Quality financial statements reflect the presentation of information that is relevant, reliable, comparable, and easy for stakeholders to understand. In the context of government, financial statements are the main instrument to assess the extent to which public policies are implemented efficiently and accountably (Safkaur et al., 2019). Therefore, improving the quality of financial reporting is a strategic step in realizing an open and responsible government to the public.

Alzeban (2019) emphasized that the quality of good financial reporting is greatly influenced by compliance with government accounting standards, apparatus competence, and the effectiveness of internal supervision. When all four qualitative characteristics, relevant, reliable, comparable, and understandable, can be met, financial statements can be a solid foundation for public accountability. Furthermore, Rezaei et al. (2021) found that public accountability acts as a mediator between the quality of financial statements and the improvement of the performance of public sector organizations. In other words, quality financial statements not only function as administrative documents, but also as a means of strengthening good governance values such as transparency, fairness, and participation. The high quality of financial reporting is a reflection of the government's integrity in managing public funds and reporting them to the public.

3. Methods

This research uses a descriptive qualitative approach that aims to describe and understand in depth the relationship between the application of public sector accounting, the quality of financial statements, and the accountability of the performance of government agencies in the general context. The qualitative approach was chosen because it is able to provide a more comprehensive understanding of social and administrative phenomena that are complex and cannot be fully explained through a quantitative approach. This research focuses on conceptual and interpretive analysis by utilizing scientific sources in the form of academic journals, books, and research reports published in the period 2017 to 2021.

The object of this research study includes the main concepts in public sector governance, namely public sector accounting, the quality of financial statements, and the accountability of the performance of government agencies. The data used in this study are secondary data sourced from academic literature, audit reports of public financial institutions, and the results of previous research relevant to the research topic. All data is obtained from scientific databases such as Google Scholar and reputable international journal portals. The data is then classified based on relevant themes and indicators, such as the principles of transparency, reporting efficiency, internal control, and public performance achievements.

The analysis process is carried out through three main stages, namely data reduction, data presentation, and the conclusion drawn. At the data reduction stage, the researcher selects and screens literature that is relevant to the focus of the research. The data presentation stage is carried out by organizing the results of the literature findings into main themes, for example, the relationship between the application of public accounting and improving performance accountability. The final stage is the drawing of conclusions, where the results of the analysis are interpreted to find patterns of relationships and contributions between conceptual variables.

The validity of the data was strengthened through the process of triangulation of sources and cross-literature cross-examination. This step is done to ensure that each argument developed in the research has a strong empirical and theoretical basis. This approach also allows researchers to identify gaps in the literature that could be the basis for further research. The results of this research are expected to be able to make a theoretical contribution to the development of public accounting science and provide practical input for government institutions in improving the accountability system and the quality of financial reporting. Thus, this research is not only descriptive, but also reflective of good governance practices in the future.

4. Results

The results of this study illustrate the strong relationship between the application of public sector accounting, the quality of financial statements, and the accountability of the performance of government agencies in the context of modern governance. From the results of the analysis of various recent literature, it was found that consistently applied public accounting practices contribute directly to the improvement of fiscal transparency and the effectiveness of the accountability of government institutions. The accrual-based accounting reforms that have been implemented in many countries, including Indonesia, have brought significant changes in the preparation of government financial statements that are more comprehensive, reliable, and relevant for the public interest (Cuadrado-Ballesteros & Bisogno, 2021). This system strengthens public trust in government agencies and ensures that public funds are managed efficiently and responsibly.

In the context of performance accountability, Gea's (2021) research in SINTAMA: Journal of Information Systems, Accounting and Management found that the simultaneous application of public sector accounting and the quality of financial statements has a significant positive influence on the level of accountability of government agencies. The findings show that agencies that implement public accounting standards well tend to have a more transparent and accountable reporting system. This has direct implications for improving the quality of public services and administrative performance. Thus, public sector accounting functions not only as a reporting tool but also as an internal control system that is able to ensure the integrity of public policy implementation.

In addition, the quality of financial statements has proven to be a key factor in realizing good governance. Financial statements that meet qualitatively relevant, reliable, comparable, and understandable characteristics can be the main instrument for decision-making and public supervision (Alzeban, 2019). Transparent reporting allows the public and oversight agencies to assess the extent to which the government is effectively implementing its programs. This is in line with research by Safkaur et al. (2019), which states that the high quality of financial reporting is closely related to increased transparency and public trust in government institutions. Thus, it can be concluded that improving the quality of financial reporting is an important strategy in strengthening the foundation of performance accountability.

Other research also highlights that the main challenge in the implementation of public sector accounting lies in the capacity of human resources and internal control systems that are not yet optimal. According to Dewi et al. (2019), there are still many government officials who do not have adequate technical competence in understanding and implementing accrual-based accounting standards. As a result, there are inconsistencies in the preparation of financial statements between agencies, which has the potential to reduce the quality of the information presented. In addition, the weak internal audit function also increases the risk of non-compliance with reporting standards. To overcome this problem, it is necessary to improve employee competence through continuous training, strengthening the internal supervision system, and implement integrated accounting information technology.

The aspect of supervision is also an important factor that contributes to increasing public accountability. Ebimobowei et al. (2020) found that transparent and independent public sector auditing practices are able to strengthen the integrity of financial statements and increase the credibility of government institutions. Public audits not only function as a mechanism for correction of administrative errors, but also as a tool to prevent misappropriation of public funds. Within this framework, Rezaei et al. (2021) added that public accountability plays a role as a mediating variable in the relationship between the quality of financial statements and the performance of public sector organizations. This shows that good financial statements will not have a significant impact on improving performance without a strong accountability system within the institution.

Furthermore, public sector accounting reform also plays a role in strengthening the governance infrastructure at the institutional level. Afandi and Afandi (2018) emphasized that consistent public accounting practices can be the basis for building an efficient, measurable, and open financial management system. The application of the principle of transparency in the preparation of financial statements allows stakeholders, both internal and external, to evaluate the effectiveness of public programs and policies. This finding is consistent with the study by Sains (2018), which states that public sector accounting acts as a bridge between financial performance and government performance, because both influence each other in the process of assessing national development results. Thus, public accounting reform has far-reaching implications for decision-making efficiency and strengthening the state accountability system.

From a governance perspective, the implementation of good public accounting cannot be separated from the government's efforts in implementing clean governance principles. A study by Keping (2018) emphasizes that public accountability is a form of moral and legal accountability of the government to the community for the management of state resources. Financial statements compiled with integrity reflect the extent to which the values of transparency and accountability have been internalized within the organization. A similar thing is expressed by Reddick et al. (2020), who stated that good public sector governance can only be achieved if the financial reporting system supports vertical and horizontal accountability processes between government and public institutions.

The results of the study also revealed that the quality of good financial statements is not only influenced by compliance with accounting standards, but also by the effectiveness of the financial information systems used. According to Zulfah et al. (2017), the use of technology-based accounting information systems speeds up the reporting process and minimizes the potential for data errors. Accurate management of financial information contributes to the timely presentation of reports, which in turn strengthens the reliability of public information. Meanwhile, Rusdiana and Nasihudin (2019) emphasized that the success of performance accountability depends on the extent to which the government is able to relate financial indicators to real development results. Thus, the integration between public accounting systems, financial reports, and performance evaluation is key in realizing effective governance.

Furthermore, the relationship between the quality of financial reports and the level of public trust can also be seen from national audit reports. Based on the World Bank's analysis (2020), fiscal transparency and financial reporting disclosure have significantly contributed to the increase in the Worldwide Governance Indicators (WGI) scores in many developing countries. Institutions that can present financial statements openly and consistently show a higher level of public trust and better public policy effectiveness. These findings confirm that improving the quality of financial reporting is not only administratively beneficial but also has an impact on the political and social legitimacy of a government.

Research by Zulfah et al. (2017) and Gea (2021) shows a consistent pattern that agencies with good financial report quality tend to obtain more positive audit opinions, such as Reasonable Without Exception (WTP). This opinion is an indicator of success in the implementation of the public accounting system and reflects a high level of performance accountability. However, field findings also show that some institutions still face obstacles in maintaining the consistency of the quality of financial statements every year. The causative factors include employee rotation, changes in accounting policies, and weak coordination between reporting units.

Overall, the results of the analysis show that increasing the accountability of the performance of government agencies cannot be separated from three main pillars, namely the implementation of public sector accounting, the quality of financial reports, and an effective supervisory system. These three aspects interact with each other and strengthen each other in realizing a transparent and accountable government. The application of good accounting standards creates quality financial reports, while quality financial reports are the basis for a credible measurement of performance accountability. Thus, good governance is not only the result of administrative policies but also a reflection of an integrated and transparent public accounting system.

5. Discussion

The results of the study show a close relationship between the implementation of public sector accounting, the quality of financial statements, and the level of accountability of the performance of government agencies. In general, these findings reaffirm the theory that a well-implemented public accounting system is able to strengthen the accountability mechanisms of government institutions to the public. According to Cuadrado-Ballesteros and Bisogno (2021), accrual-based public sector accounting reform is an important form of evolution that emphasizes fiscal transparency and efficiency in the management of state resources. The system encourages the realization of a more realistic budgeting and reporting process, so that it can be used as an effective control and policy planning tool. When the public accounting system is implemented properly, the financial data produced becomes more reliable and able to describe the government's performance objectively.

The relationship between the quality of financial reports and public accountability is also one of the important points of the results of this study. Quality financial statements not only reflect the financial condition of an institution but also illustrate a commitment to the principles of good governance. Safkaur et al. (2019) explained that financial reporting that meets the principles of relevance, reliability, and comparability is able to strengthen public trust in government institutions. This is because the public can directly assess the extent to which the government manages public funds responsibly. Thus, the quality of financial reporting is a moral and administrative measure for public institutions.

In addition, this study confirms that the success of performance accountability does not depend only on the reporting aspect, but also on the organizational culture and internal oversight. Gea (2021) stated that the implementation of good public sector accounting is able to encourage the creation of clean governance by minimizing the chance of administrative irregularities. In this context, the public audit system has an important role as a guardian of transparency. Ebimobowei et al. (2020) emphasized that audits conducted independently and professionally are a guarantee for the validity of financial statements and the reliability of the public information produced. Without a robust audit function, financial reporting tends to lose credibility and is unable to support performance accountability effectively.

Interestingly, the relationship between the quality of financial statements and accountability is also strengthened by the mediating role of public accountability itself. Rezaei et al. (2021) found that accountability acts as a link between the quality of reporting and the performance of public sector organizations. This means that good financial statements will have an effect on improving performance only if the institution has a strong and transparent accountability system. Therefore, strengthening the capacity of human resources and increasing the effectiveness of the internal supervision system an important steps that cannot be ignored in the public accounting reform process.

Overall, the results of this study are in line with previous theories and findings that affirm that public sector accounting practices are an integral part of good governance. The consistent application of accounting standards, improving the competence of the apparatus, and a commitment to fiscal transparency have proven to be able to strengthen the legitimacy of government institutions in the eyes of the public. Public accounting reform is not just a technical change in the reporting system, but a managerial transformation that places the value of accountability and integrity at the core of public administration. Therefore, government policies in the future need to be directed at increasing synergy between the public accounting system, the quality of financial statements, and performance evaluation mechanisms in order to create effective, transparent, and sustainable governance.

6. Conclusion

This study concludes that the implementation of public sector accounting and the improvement of the quality of financial statements have a significant influence on the performance accountability of government agencies. The consistent implementation of public accounting not only functions as a system for recording financial transactions, but also as a mechanism for controlling and evaluating organizational performance. Accrual-based accounting reforms have been proven to strengthen fiscal transparency, promote budget management efficiency, and increase public trust in government agencies. The quality of financial statements is the main determining factor in realizing good governance. Reports prepared with the principles of relevance, reliability, and comparability allow the public to assess the extent to which the government is carrying out its public responsibilities in a transparent manner.

In addition, performance accountability is inseparable from the effectiveness of public audits and the capacity of professional human resources. Independent and competent audits play an important role in maintaining the integrity of financial reporting and ensuring compliance with applicable accounting regulations and standards. This research confirms that the integration between public sector accounting, financial report quality, and performance accountability is the main foundation in building a transparent, efficient, and sustainable government. These findings are expected to serve as a reference for policymakers in designing strategies to improve accountability and reform the public sector financial reporting system in the future.

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