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Public Sector Accounting as an Enabler of Good Governance: A Synthesis of Recent Literature

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Abstract

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This study aims to synthesize literature published over the past five years that examines the role of public sector accounting in strengthening the implementation of good governance. The review focuses on accrual-based reporting reforms, the adoption of IPSAS, and the integration of financial information into budgeting and performance evaluation processes as mechanisms to enhance accountability and fiscal transparency. A structured literature review method was employed by analyzing scholarly articles, institutional reports, and relevant documents that discuss the relationship between accounting practices, public financial management, and governance quality. The synthesis reveals that accounting reforms improve disclosure quality and broaden fiscal visibility, yet the utilization of information remains limited by insufficient analytical capacity, constrained accessibility, and the technical complexity of financial reports. The effectiveness of public sector accounting is strongly shaped by institutional preparedness, internal control systems, information technology capacity, and the extent to which financial reporting is linked with performance reporting. This study concludes that accounting functions as a critical enabler of transparency, efficiency, and accountability, but its success requires supportive policies, capacity investments, and sustainable information-use mechanisms.

1. Introduction

Good governance has become a key concept in the management of modern public sector organizations, especially as demands for accountability, transparency, effectiveness, and efficiency in the management of public resources increase. The public is now increasingly demanding the government to provide open, responsive, and accountable governance for every decision that affects public life. Various international institutions affirm that the quality of governance is directly influenced by the government's ability to provide relevant, reliable, testable, and easily accessible financial information as a basis for public decision-making (IPSASB, 2020). In this context, public sector accounting plays a strategic role as an instrument that not only records transactions, but also produces information that strengthens fiscal transparency and increases public trust in the government (ACCA, 2017).

Over the past five years, public sector accounting reform has increasingly focused on the use of an accrual basis and compliance with the International Public Sector Accounting Standards (IPSAS). The reform is considered to be able to expand the scope of financial reporting through the presentation of information that was previously not seen in cash-based accounting, such as fixed assets, long-term liabilities, and depreciation expenses (IPSASB, 2021). Various studies have shown that the implementation of the accrual basis contributes positively to the increase in transparency, disclosure quality, and accuracy of the assessment of government fiscal conditions (Jegede, 2017). However, the effectiveness of accrual reform is highly dependent on institutional readiness, the quality of human resources, and the ability of information systems to support the financial recording and reporting process

(Kaawaase et al., 2021). Without adequate capacity, accounting reform risks becoming a mere administrative change without providing substantive benefits to governance.

From a public economic perspective, public sector accounting also affects the efficiency of budget allocation. Complete and reliable financial information serves to reduce information asymmetry between bureaucrats and stakeholders, thereby reducing supervisory costs and allowing for more accurate value for money analysis (Manita et al., 2020). When accounting data is used in the performance-based budgeting process, the government can assess the amount of costs incurred compared to the results achieved, making it easier to make more efficient and targeted decisions. Thus, accounting not only has an administrative impact but also an economic impact.

However, some studies confirm that the quality of financial statements is not always directly proportional to their utilization. This phenomenon, called the usage gap shows that there is a gap between the availability of good financial statements and the optimal use of this information by decision-makers, auditors, and the public (van Helden & Reichard, 2019). Obstacles such as low literacy of report users, limited public access to financial data, and reporting formats that are too technical and difficult to understand by non-technical stakeholders often hinder the use of information (Gamayuni et al., 2021). This condition indicates that the success of governance depends not only on accounting standards but also on institutional reform efforts that ensure that information is actually used in the supervision and evaluation of performance.

In line with these findings, the reference documents analyzed in this study show that accounting can make a real contribution to the realization of good governance, especially accountability, transparency, efficiency, and accountability when integrated with an adequate performance reporting system and internal control mechanism (Haryadi & Handayani, 2021). The study also emphasized that technological factors, human resource readiness, and information system quality determine the success of implementation, especially in the context of public organizations that face limited capacity.

The literature of the last five years shows that public sector accounting has great potential to drive improvement in the quality of governance. However, this potential is not automatic. The results of the reforms are highly dependent on the integration of reporting standards, institutional readiness, human resource capacity, the use of data by stakeholders, and the effectiveness of monitoring mechanisms. Based on these considerations, this study compiles a comprehensive synthesis of the contribution of public sector accounting to good governance, as well as identifying the factors that determine its effectiveness.

2. Literature Review

2.1. Public Sector Accounting and Reporting Reform

The last five-year period has been marked by a strong push towards harmonization of public sector reporting through the adoption of accrual and convergence principles towards IPSAS. The main objective of the reform is to increase the relevance and completeness of information so that public financial statements show the position of assets, liabilities, and long-term expenses that are not captured in the cash base (IPSASB, 2020). Practical guidance and institutional studies also emphasize the need for a clear implementation road-map, inter-unit coordination, and technical support to ensure reforms do not stop at format changes alone but result in better quality disclosures (ACCA, 2017). Empirical evidence over this time frame shows a positive effect on the quality of reports in contexts that have institutional commitments and administrative capacity: entities that allocate resources to IT infrastructure and training tend to report more reliable and auditable data (Jegede, 2017). However, the literature also highlights that technical improvements need to be accompanied by adaptation of business processes such as reconciliation of source data, asset inventory, and fair value measurement procedures so that accrual reporting does not become a mere administrative burden. Thus, accounting reform should be seen as a policy package that includes standards, technology, and human resource development so that the goals of transparency and accountability are truly achieved.

2.2. Accountability, Transparency, and Economic Impact of Public Accounting

The literature of the last five years affirms the role of public accounting as a key mechanism for realizing fiscal accountability and transparency, which in turn impacts the efficiency of resource allocation. Complete accounting information reduces information asymmetry between public managers and stakeholders, thereby lowering oversight costs and allowing for better value-for-money analysis (Manita et al., 2020). However, many studies have found a usage gap: although the quality of disclosure is improving, the use of information by legislators, auditors, and the public is often limited due to limitations in analytical capacity, data accessibility, or overly technical presentation formats (van Helden & Reichard, 2019). Case studies and synthetic studies also show that the economic impact of accounting, such as increased spending efficiency or improved budget prioritization, is more likely to arise when accounting is combined with performance-based budgeting mechanisms and strengthening independent oversight. The national case examples analyzed highlight that improvements in transparency and accountability occur when financial reporting is integrated with adequate performance reporting and internal control systems, as well as when technical barriers (such as human resources and infrastructure) are overcome through training and system investment (Haryadi & Handayani, 2021). Therefore, public accounting has real economic potential, but its utilization depends on institutional readiness and decision-making processes that convert information into fiscal action.

3. Methods

This study uses a literature review method that is systematically compiled to identify, evaluate, and synthesize empirical and conceptual findings related to the role of public sector accounting in supporting good governance. The focus of the study is directed to the literature published in the last five years, according to the needs of the research that emphasizes the relevance of policies and recent developments in government financial reporting practices. This literature study approach was chosen because it is able to produce a comprehensive understanding of the patterns, gaps, and conditions that affect the effectiveness of public accounting in various contexts, without collecting field data.

The literature collection process began with a systematic search through the Google Scholar search engine using a combination of keywords such as public sector accounting, accrual accounting, IPSAS adoption, good governance, fiscal transparency, and public financial management. This search strategy is aimed at identifying journal articles, scientific proceedings, reports of official institutions, as well as research documents relevant to the topic. Inclusion criteria include: (1) publication in the 2017–2021 range, (2) focus on public sector accounting or governance, (3) access available in full text form, and (4) having strong relevance to aspects of accountability, transparency, efficiency, or responsiveness. Articles that do not meet these criteria are eliminated at the initial screening stage.

The eligible literature was then analyzed using thematic synthesis techniques. Each document is read in depth to extract key variables such as the type of accounting standards used, institutional readiness, the role of information systems, the quality of disclosure, and their impact on public governance and economic performance. The findings were then grouped based on the major themes of accounting reform, information utilization, economic aspects of accounting, as well as supporting and inhibiting factors for implementation. This approach allows researchers to identify consistent patterns and differences between studies, while also understanding how accounting affects governance in different contexts.

As one of the important sources, the research also examines the reference document that you uploaded earlier, namely the work of Haryadi & Handayani

(2021), which provides an empirical illustration of how accounting supports the principles of good governance through increasing accountability, transparency, and integrity of public sector financial reporting. The document is used as a comparative reference in assessing the alignment of cross-literature findings and confirms the relevance of findings in diverse institutional contexts. To ensure the quality of the synthesis, each literature is evaluated based on the clarity of the methodology, the strength of the analysis, and its contribution to the development of accounting and governance concepts. The limitations of this approach include the reliance on documents available online, the potential for publication bias, and the heterogeneity of the inter-study method. However, the literature review approach is still considered appropriate because it provides a strong theoretical and empirical foundation to comprehensively examine the relationship between accounting and good governance.

4. Results

The synthesis of the literature over the past five years has yielded findings that can be grouped into several main themes related to the role of public sector accounting in realizing the principles of good governance. The findings are interrelated and form a pattern that explains how accounting practices can improve transparency, accountability, efficiency, and quality of public decision-making. In general, seven major findings emerged from the literature review, namely: (1) improvement in reporting quality through the adoption of accrual basis and IPSAS; (2) the usage gap between the quality of the report and its utilization; (3) the role of information systems and internal control; (4) economic impact in terms of allocation efficiency and value for money; (5) implementation cost trade-off and institutional readiness; (6) contextual factors that moderate implementation results; and (7) empirical findings from case studies that confirm the relationship between accounting and governance.

The first findings confirm that the adoption of accrual-based accounting and convergence of IPSAS has consistently been reported to improve the quality of public sector reporting. Compared to the cash base, the accrual basis provides a more complete fiscal picture by disclosing fixed assets, contingent liabilities, as well as depreciation expenses that are relevant for long-term fiscal analysis (IPSASB, 2020). This kind of information helps governments understand their actual financial position, allows for assessments of the government's ability to provide public services in the future, and supports oversight by audit and legislative bodies. Accrual reporting also facilitates analysis of fiscal sustainability, especially in the context of increasing long-term spending burdens, social obligations, and public investment needs. In various countries, the adoption of IPSAS also increases the credibility of public reporting because the standard is used internationally to facilitate comparisons between entities and provide methodological clarity in asset measurement (IPSASB, 2021). In addition, empirical evidence shows that public entities that have adopted IPSAS show improved disclosure quality, a better understanding of resource flows, and ease for auditors to verify the reliability of financial statements (Jegede, 2017).

The second finding highlights the phenomenon of usage gap, which is the gap between the availability of quality financial statements and their utilization by stakeholders. Some studies have found that even though reports are accurate and comprehensive, users such as legislators, internal auditors, and the public often do not have enough capacity or understanding to use them effectively (van Helden & Reichard, 2019). Common barriers include low accounting literacy, limited analytical skills, and a lack of training on fiscal data interpretation. In addition, the report format is too technical and does not come with user-friendly executive summaries, making the information difficult for non-accountant decision-makers to interpret (Gamayuni et al., 2021). Another challenge is the low culture of data use in the budgeting and evaluation process of programs. As a result, financial information is not optimally used to assess policy effectiveness and efficiency of public spending. Low user literacy often causes the legislature and the public to focus only on the compliance aspect and not on the analysis of financial substance. Therefore, the literature suggests the development of performance dashboards, managerial summaries, and more communicative reporting formats to improve usability (ACCA, 2017).

The third finding shows that information technology infrastructure and internal controls are fundamental components that determine the successful implementation of accrual accounting. Accounting reform requires not only changes in standards, but also basic administrative readiness such as asset registries, consistent transaction recording systems, and effective reconciliation mechanisms. Many studies reveal that failure to implement accrual accounting is more common due to weak information systems and internal controls than a weak understanding of standards (Bergmann et al., 2019). An integrated financial information system is essential to ensure data consistency and prevent overlap of records between government units. When the information system is not integrated, the data included in the financial statements becomes inaccurate, incomplete, and difficult to verify. In addition, internal controls such as internal audits, routine reconciliation, transaction documentation, and separation of duties play an important role in ensuring that financial reporting reflects the actual conditions and not just an administrative formality (Bimo et al., 2019). Strengthening information systems also allows for the presentation of data in a faster, timely, and relevant form for decision-makers.

The fourth finding discusses the economic aspects of public accounting, especially its contribution to the efficiency of resource allocation and the achievement of value for money. In the public economic literature, accounting information plays a role in reducing information asymmetry between the government and stakeholders and supporting evidence-based decision-making. Recent studies confirm that when accounting information is used in performance-based budgeting, governments can identify ineffective programs and shift budgets to sectors that have a greater impact (Manita et al., 2020). Thus, accounting provides a quantitative basis for evaluating the benefits obtained against the costs incurred. However, the efficiency effect depends on the integration of accounting information in the planning and supervision process. Without such integration, financial data only functions as a reporting tool, not as a policy instrument. Literature also highlighted that the ability to generate value for money depends on the quality of source data, the sophistication of reporting systems, and managerial commitment to use information in the program evaluation process (Bracci et al., 2019; Mauro et al., 2021).

The fifth finding highlights the short-term trade-offs in the implementation of accruals. Many countries report that the switch to an accrual basis requires significant costs, including software procurement, HR training, and asset data rehabilitation. This transition also increases the administrative burden as staff have to work in both cash and accrual systems during the adaptation period (ACCA, 2017; IPSASB, 2020). In addition, some public entities have difficulty in adequately identifying and valuing fixed assets, especially older assets that do not have historical documentation. However, the literature suggests that the long-term benefits of accrual reporting outweigh the costs of transition, especially in terms of fiscal visibility and quality of decision-making. Therefore, a phased implementation plan and capacity assistance are essential to ensure the sustainability of the reforms.

The sixth finding confirms that the institutional context plays an important role in determining the effectiveness of public accounting. Factors such as the quality of the bureaucracy, the culture of transparency, the level of community participation, and the effectiveness of oversight institutions affect whether accounting information can be translated into real improvements in governance. In an environment with strong oversight mechanisms and a political commitment to accountability, good financial reporting encourages more transparent and accountable decision-making (Jegede, 2017). However, in environments with weak law enforcement, good financial statements can function only as formal legitimacy without substantive changes (Kaawaase et al., 2021). Thus, the quality of governance is influenced by a combination of technical standards and the institutional climate.

The seventh finding comes from a case study, including your reference document, which shows empirical evidence that accounting can drive good governance principles at the operational level. The study confirms that accounting supports the transparency of annual reports, improves the efficiency of budget distribution, and strengthens internal accountability when obstacles such as human resource and infrastructure limitations can be overcome through training and system modernization (Haryadi & Handayani, 2021). These findings are in line with international literature that emphasizes the need for an integrated reform package including reporting standards, IT systems, human resource capacity, and oversight mechanisms. The results of this synthesis show that public sector accounting is an important enabler for good governance. But the benefits are not automatic. New accounting has a significant impact when it is integrated into the planning, budgeting, evaluation, and supervision processes so that information is not only produced, but also used to improve the performance of public organizations.

5. Discussion

The results of the literature synthesis show that public sector accounting is a key component in strengthening the principles of good governance, but its effectiveness is greatly influenced by institutional conditions, organizational capacity, and the integration of information into the decision-making process. Key findings show that accrual-based accounting reform and the adoption of IPSAS provide a more comprehensive scope of reporting, but improved reporting quality does not automatically translate into improved governance quality. Therefore, this discussion emphasizes the importance of understanding accounting not only as a technical tool, but as a governance instrument that works effectively if supported by the right system, behavior, and mechanism of use.

First, the literature confirms that the adoption of accrual accounting is a necessary first step, but not enough. Once the standards are enforced, the biggest challenge is to ensure that the source data is adequate, the information system can process transactions accurately, and employees have the competence to manage and interpret accrual information (IPSASB, 2020). Without these components, accounting reform risks becoming mere formal changes that do not improve the quality of public decisions. These findings are consistent in various contexts, both developed and developing, as highlighted in the international implementation assessment report (IPSASB, 2021).

Second, the results of the study highlight the importance of the use of accounting information (information use). The availability of quality reports is not enough if legislators, auditors, and the public do not use them as a basis for performance evaluation or budget supervision. This usage gap has been exposed by various studies, which show that the main obstacle is not in the quality of reports, but in the capacity of analysis and accessibility of data (van Helden & Reichard, 2019). Therefore, accounting reform must be accompanied by improved reporting user capabilities as well as the creation of a more communicative summary format to support public participation and accountability.

Third, the economic aspect of accounting is one of the important points in the discussion. Quality accounting information allows for more objective measurement of program costs and results, thus supporting more efficient budget allocation. However, some studies have shown that these economic benefits only emerge when accounting is integrated in performance-based budgeting mechanisms (Manita et al., 2020). That is, accounting does not work in a vacuum; It needs a managerial environment that is able to translate data into rational allocation decisions. Fourth, the discussion also emphasized that the institutional context influences the implementation results. In an environment with strong oversight, a culture of transparency, and a political commitment to accountability, accounting can catalyze change.

Conversely, in contexts with weak supervision, accounting reports have the potential to become a tool of legitimacy without substantive changes (Kaawaase et al., 2021). Therefore, accounting reform must be accompanied by strengthening supervisory institutions so that the information produced has a real impact on decision-making behavior. Finally, the case study of the reference document you uploaded corroborates that the integration of accounting with internal control systems and performance reporting is the most effective combination to improve governance (Haryadi & Handayani, 2021). The findings are in line with the results of the international synthesis and underscore that the success of reform depends on a unified policy package, not just a change in recording standards.

6. Conclusion

This study concludes that public sector accounting has a strategic role in strengthening the implementation of good governance through increasing accountability, transparency, efficiency, and accountability in government financial management. Accrual-based accounting reform and harmonization with international standards are important steps to produce more comprehensive information and reflect fiscal conditions more accurately. However, good reporting quality does not guarantee the realization of effective governance if the information is not optimally utilized by stakeholders. The effectiveness of public accounting is highly dependent on institutional readiness, human resource capacity, information system support, and the functioning of internal control mechanisms.

The use of accounting information in the budgeting and performance evaluation process is a key factor so that the data produced is not only an administrative formality, but contributes to more rational and efficient decisions. In addition, the integration of financial statements with performance reporting provides an opportunity for a comprehensive evaluation of public policy outcomes. The findings of this study confirm that accounting reform should be seen as part of a broader policy package. Its success is determined not only by reporting standards, but also by organizational culture, leadership commitment, and strong oversight. Therefore, strengthening capacity, modernizing the system, and improving accounting literacy for report users are important recommendations so that public sector governance can be realized in a sustainable manner.

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