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Public Sector Reform and Good Governance Improve Local Government Financial Performance Through Accountability and Transparency

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Abstract

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This study aims to explain how bureaucratic reform and the implementation of good governance principles influence the financial performance of local governments through the strengthening of transparency, accountability, and efficiency in public financial management. Using a narrative approach, this research reviews previous studies that highlight the relationship between accountability and the quality of financial reporting, as well as the effect of internal control on the effectiveness of financial performance. Various studies indicate that although bureaucratic reform has been implemented, its impact on local financial performance remains suboptimal due to structural barriers, organizational culture, and weak bureaucratic integrity. This study emphasizes that the establishment of a robust internal control system and the enhancement of human resource competence are essential to achieving sustainable transparency and public accountability. Therefore, the success of bureaucratic reform largely depends on the synergy among policy design, work culture transformation, and the efficiency of public financial systems. The findings provide a conceptual understanding of how governance reform contributes to fiscal integrity and institutional performance improvement.

1. Introduction

Bureaucratic reform is a strategic and fundamental process in the effort to realize governance that is more efficient, effective, transparent, and accountable. In the context of public administration, this reform does not merely signify structural or procedural changes, but reflects a systemic transformation that includes institutional overhaul, revitalization of organizational culture, and the reorientation of state apparatus behavior towards professionalism and integrity. As described by Radiansyah (2020), bureaucratic reform functions as the main instrument in developing a governance system aligned with the principles of good governance, where efficiency, honesty, and accountability become the normative foundation for the administration of public affairs. When the reform process runs effectively, the resulting public financial system becomes more transparent, adaptive, and capable of preventing the misuse of state resources.

The implementation of regional autonomy in Indonesia introduces fundamental changes to the mechanism of financial management at the local level. Through fiscal decentralization policies, local governments are granted broader authority to plan, execute, and account for their public financial management. However, the execution of this policy is not free from various substantive challenges concerning accountability and oversight. Widyastuti (2022) identifies that the weakness of the internal control system, the low competency of human resources, and a bureaucratic culture that tends to be resistant to change are major obstacles in improving the quality of local government financial reports. Thus, the success of bureaucratic reform in enhancing public financial governance is highly influenced by the readiness of institutional structures and the integrity of the apparatus carrying out the financial management functions.

The principle of good governance serves as the normative framework guiding local financial management to operate according to the principles of transparency and accountability. The government is demanded to open access to public information, strengthen internal control systems, and ensure clear accountability mechanisms for the fiscal policies undertaken. In line with the view of Pratiwi et al. (2022), the synergy between bureaucratic reform and good governance contributes significantly to the effectiveness of financial management, as both emphasize the importance of control, openness, and public participation in the public policy process. In the context of local finance, the application of this principle is realized through the preparation of financial reports that can be independently audited and transparently published as a form of moral and administrative responsibility of the local government to the public.

The financial performance of local governments essentially reflects the extent to which the principles of efficiency, effectiveness, and accountability have been consistently implemented. Irawan and Armadani (2021) assert that accountability has a dual function: first, as an oversight mechanism that ensures every fiscal activity proceeds according to regulations; and second, as a motivational instrument that encourages the apparatus to achieve performance targets efficiently and with integrity. The stronger the reporting system and internal control applied, the higher the effectiveness of public budget utilization. However, various studies indicate that bureaucratic reform has not fully managed to penetrate the resistance from traditional bureaucratic patterns that are hierarchical and rigid, thus changes are often hampered by an organizational culture that remains highly procedural (Rakhman & Muhammad, 2019).

In this context, a narrative approach is chosen to elaborate on the complex relationship between bureaucratic reform, the principle of accountability, and the financial performance achievements of local governments. A synthesis of the literature shows that the success of reform cannot only be measured through administrative indicators, such as reporting speed or the level of compliance with regulations, but also through the bureaucracy's ability to internalize public accountability values that are performance-based. Thus, this study is directed to examine the correlation between bureaucratic reform and local financial performance through a comprehensive good governance conceptual framework, aiming to provide an in-depth understanding of how the transformation of public governance contributes to increased fiscal effectiveness and institutional integrity.

2. Literature Review

2.1. Bureaucratic Reform and Good Governance

Bureaucratic reform is a strategic effort to build a professional, clean, and service-oriented bureaucracy, in accordance with the principles of good governance. This principle emphasizes three main pillars: transparency, accountability, and public participation. Radiansyah (2020) stresses that bureaucratic reform not only covers structural changes but also the transformation of the bureaucracy's work culture towards a system oriented toward results (result-based management). This means that the apparatus is no longer focused solely on procedural compliance but also on measurable performance achievements.

In the context of local government, the implementation of bureaucratic reform is often confronted with internal resistance due to changes in the oversight system and the shift towards a more open work pattern. According to Pratiwi et al. (2022), the main obstacles in implementing good governance are the weak integrity and capacity of human resources, leading to inconsistency between policy and implementation practice. For instance, although many local governments have implemented technology-based reporting systems, the transparency of financial data is still limited due to a lack of bureaucratic commitment.

Good governance serves as a crucial foundation in ensuring that every process of public financial management is conducted efficiently and is oriented toward public interests. Rakhman and Muhammad (2019) adds that the application of good governance principles will increase public trust in the government, which in turn encourages fiscal stability and political legitimacy. Therefore, bureaucratic reform and good governance have a reciprocal relationship where reform is the structural instrument, and good governance is the framework of values that guides the direction of public bureaucratic change.

2.2. Accountability and Transparency in Public Financial Management

Accountability is a fundamental pillar in public financial governance that functions to ensure that every use of the state budget can be accounted for openly, measurably, and in accordance with the principle of public justice. Within this framework, government officials have a moral and administrative obligation to present financial reports that are not only technically accurate but can also be audited and accessed by the public. Widyastuti (2022) asserts that the quality of fiscal accountability heavily depends on the existence of a strong internal control system and a transparent reporting mechanism. When the internal control system is weak or not consistently implemented, the risk of deviation, inefficiency, or moral hazard in public financial management increases significantly, thereby eroding public trust in government institutions. Transparency acts as a crucial instrument in strengthening public accountability. Irawan and Armadani (2021) found that local governments with a high level of openness in the preparation, reporting, and publication of financial reports tend to show more efficient and effective financial performance.

This transparency not only functions as a medium of information but also opens space for public participation in conducting social oversight of government fiscal policies. In this context, bureaucratic reform plays a role as a catalyst that accelerates the transformation of the public reporting system through the application of performance-based accounting and financial digitalization. As stated by Juliani (2019), the paradigm shift towards New Public Management (NPM) encourages the public sector to adopt values of efficiency, transparency, and results orientation that were previously more dominant in the private sector. Therefore, the implementation of an accurate, integrated, and publicly accessible financial information system is a necessity to realize data openness and strengthen the legitimacy and public trust in the management of public funds.

2.3. Local Financial Performance as a Reflection of Bureaucratic Reform Effectiveness

Local financial performance illustrates how effectively the local government manages public resources to achieve development goals. In this context, financial performance is not only measured by budgetary balance but also by the extent to which the financial reports reflect accountability and efficiency in fund utilization. Suryadi (2021) affirms that bureaucratic reform directly influences the improvement of financial report quality through strengthening internal control systems, performance evaluation, and increasing apparatus capacity. However, significant challenges remain in realizing optimal financial performance. Wibowo and Nur (2019) found that many local governments still face a gap between regulation and implementation in the field. Low comprehension of accountability principles and a lack of integration among oversight institutions are primary inhibiting factors in achieving budgetary efficiency.

In this regard, bureaucratic reform plays a role in improving organizational governance, encouraging a professional work culture, and eliminating unproductive bureaucratic practices. Sains (2018) also emphasizes that strengthening the financial system based on public accountability has a positive correlation with increased efficiency and effectiveness of local budgets. When bureaucratic reform is consistently applied, local financial performance can increase significantly because budget management is conducted transparently and is results-oriented. Therefore, this study views bureaucratic reform as a key variable in improving public financial governance in the era of regional autonomy.

3. Methods

This research uses a qualitative approach with the narrative study method, aiming to delve into an in-depth understanding of the relationship between bureaucratic reform, the application of good governance principles, and the financial performance of local governments. The narrative approach is chosen because it allows the researcher to trace and interpret the meaning behind empirical experiences and policy dynamics occurring in the bureaucratic reform process. Through this method, data and findings from various previous studies are synthesized into a narrative flow that describes the interaction between policy, institutional structure, and public financial management practices. The data used in this study originate from secondary literature in the form of scientific journal articles, academic research reports, and government publications published within the last five years. The selection of this time frame is based on its relevance to the period of advanced bureaucratic reform implementation in Indonesia. The data collection process was carried out through systematic searches on the Google Scholar or Garuda database and accredited national journal portals. Inclusion criteria covered articles discussing bureaucratic reform, good governance, public accountability, and local financial performance.

The analysis stages are performed using the narrative synthesis technique, where each literature finding is organized into thematic patterns that illustrate the cause-and-effect relationships between variables. The first step is data familiarization, which involves re-reading and understanding the context of each study. The second step is theme identification, by grouping findings into main categories such as accountability, transparency, and bureaucratic efficiency. The final step is narrative integration, which involves compiling the synthesis results into a cohesive narrative to explain the dynamics between bureaucratic reform and local financial performance. Data validity is maintained through source triangulation and cross-referencing among studies to ensure information consistency. This approach strengthens the validity of the results because it does not rely on a single data source but integrates various empirical and theoretical perspectives. Thus, this narrative study method allows for a more comprehensive analysis in explaining how bureaucratic reform policies can influence the sustainable improvement of local government financial performance.

4. Results

The results of this study indicate that bureaucratic reform has a significant impact on improving the financial performance of local governments, particularly through the strengthening of accountability systems, transparency, and the effectiveness of public financial governance. Based on the synthesis of the literature, the implementation of bureaucratic reform cannot be separated from the context of fiscal decentralization and regional autonomy, which changes the pattern of financial responsibility distribution between the central and local governments. This shift in authority demands an increase in institutional capacity and the professionalism of state apparatus in managing public resources efficiently and responsibly (Pratiwi et al., 2022). Thus, bureaucratic reform is not only oriented towards institutional restructuring but also functions as a catalyst for transforming governance values rooted in integrity and performance.

From the analysis of various studies, a consistent pattern emerges showing that bureaucratic reform plays a strategic role in improving local financial governance. Government efforts to strengthen internal oversight mechanisms, implement accrual-based financial reporting, and utilize digital-based local financial information systems have been proven to contribute to increased efficiency in budget allocation and the quality of financial reporting. Widyastuti (2022) suggests that the success of bureaucratic reform implementation in the public financial sector is reflected by the decrease in the number of audit findings by the Supreme Audit Agency(*Badan Pemeriksa Keuangan* /BPK), the increase in Unqualified Opinions (*Wajar Tanpa Pengecualian*/WTP) on local government financial reports, and the wider disclosure of fiscal information to the public. These indicators show that bureaucratic reform functions not only as an administrative policy but also as an instrument for building public trust in the management of state finances(Peters, 2018).

Nevertheless, the research findings also indicate that the impact of bureaucratic reform on financial performance is not yet fully optimal. Internal factors such as weak commitment from regional leaders, resistance of organizational culture to change, and limitations in human resource competence are major obstacles in the implementation process. Irawan and Armadani (2021) assert that a portion of the government apparatus still does not deeply understand the principles of good governance, especially those related to fiscal accountability and transparency.

Consequently, although reform has resulted in a more modern and digitalized financial system, the practices of financial reporting and accountability in several regions tend to be administrative and procedural, without being accompanied by an increase in data integrity or the substance of the report.

In terms of transparency, bureaucratic reform plays a vital role in encouraging the application of openness principles in public financial management. Local governments are mandated to provide adequate information access to the public regarding the stages of budget planning, execution, and reporting. Rakhman and Muhammad (2019) indicates that the effective implementation of public information openness can suppress the potential for budget misuse while strengthening social control over local fiscal policies. However, the execution of this transparency is often hindered by limitations in technology infrastructure and low digital literacy among local officials. Furthermore, information openness is not yet fully balanced by the bureaucracy's readiness to accept public criticism and input, which should be an important element in building democratic accountability.

The accountability component in bureaucratic reform also shows diverse dynamics. Accountability is not only related to the apparatus's ability to prepare accurate financial reports but also includes moral responsibility and ethical integrity in carrying out public functions. Supriati et al. (2019) found that government agencies implementing a performance-based accountability system showed a significant increase in the efficiency of budget use and the effectiveness of public programs. This system integrates financial planning, execution, and evaluation, allowing every state expenditure to be tracked based on clear and measurable performance indicators. Thus, results-based accountability becomes an important instrument in ensuring that every public resource is managed according to strategic goals and provides optimal benefits to the community.

Furthermore, the effectiveness of the internal control system is also proven to be a key factor in determining the success of bureaucratic reform. Widyastuti (2022) emphasizes that robust internal control can minimize the risk of deviation, strengthen the reliability of financial information, and improve the quality of fiscal decision-making processes. Conversely, when the internal oversight system is weak or carried out formally, the potential for moral hazard, financial report manipulation, and budget leakage becomes higher. In this context, the existence of the Regional Inspectorate and internal audit institutions holds a strategic position as independent monitors that guarantee the consistency of accountability principle application within the local bureaucratic environment.

Another prominent finding is the importance of the organizational culture dimension in supporting the effectiveness of bureaucratic reform. Reform cannot be reduced only to changes in administrative procedures but must include the transformation of values, work ethic, and the mentality of state apparatus. Juliani (2019) asserts that the modern bureaucratic paradigm, which aligns with the spirit of New Public Management, requires the apparatus to prioritize results orientation, efficiency, innovation, and responsive public service, not merely compliance with formal rules. To realize this change, transformational leadership is needed, capable of setting an example, building collective commitment, and creating a working environment conducive to improving institutional performance and innovation.

Radiansyah (2020) adds that the synergy between bureaucratic reform and the principle of good governance is a determining factor in strengthening the system of evaluation and oversight of local finances. When reform is implemented consistently, considering the principles of participation, transparency, and accountability, the public planning and budgeting process becomes more open, participatory, and responsive to community needs. The implication of this synergy is an increase in the efficiency of budget use and an increase in social legitimacy for the fiscal policies undertaken by local governments. Bureaucratic reform, in this regard, functions as an instrument of change that bridges the gap between public policy and community aspirations through clean and integrity-based financial governance.

In general, the results of the analysis show that bureaucratic reform provides a positive contribution to the financial performance of local governments, although the implementation achievements still vary between regions. The characteristics of successful reform are marked by the integration of policy and implementation practices, increased human resource capacity, the application of transparent financial systems, and the strengthening of a culture of accountability at all levels of the bureaucracy. Regions that succeed in implementing these principles show improvements in indicators of expenditure efficiency, financial report quality, and public trust in the management of public funds.

However, there are still gaps between the idealism of reform policy and its implementation practice. Many bureaucratic reform programs still focus on structural dimensions, such as organizational arrangement or procedural simplification, but have not fully touched the behavioral and ethical dimensions of bureaucratic work. In some cases, reform tends to be carried out formally without producing substantive changes in the quality of financial governance. This confirms that the success of result-oriented reform must be accompanied by the formation of a culture of integrity and mental reform among the apparatus.

Thus, this synthesis confirms that the success of bureaucratic reform in improving local financial performance requires synergy between strong legal frameworks, visionary leadership, and the moral commitment of all bureaucratic elements. Effective bureaucratic reform must be carried out holistically covering aspects of system, structure, and culture with adequate information technology support and an independent oversight mechanism. Only through such a comprehensive approach can bureaucratic reform function as the main foundation for realizing local government that is efficient, transparent, and sustainably accountable.

5. Discussion

The research results demonstrate that bureaucratic reform plays a highly strategic role in strengthening the financial performance of local governments, although the effectiveness of its implementation still heavily depends on the institutional commitment and the capacity of the human resources supporting it. Bureaucratic reform does not only function as an administrative instrument to improve governance but also as an engine for change towards a transparent, accountable, and efficient financial management system. The increase in transparency and accountability, which is the core of the good governance principle, is the result of a long reform process that demands a shift in bureaucratic culture from conventional work patterns to a modern and performance-based public management system. In line with the view of Napir (2019), bureaucratic reform is not merely an effort to restructure the organization but a process of value transformation that emphasizes the ethics of public service, social responsibility, and the integrity of the apparatus in carrying out governmental functions.

The context of fiscal accountability becomes a fundamental aspect of this discussion because it directly affects the effectiveness of local financial management. Public accountability, as stated by Supriati et al. (2019), functions as a social control mechanism that encourages the government to report, explain, and account for the results of its fiscal policies to the public. Thus, the success of bureaucratic reform is measured by the extent to which this accountability principle is integrated into all stages of the budget cycle—from planning, execution, to evaluation and reporting.

Furthermore, the dimension of information technology becomes an important element in strengthening local financial transparency. Bureaucratic reform encourages the adoption of digital systems such as e-budgeting, e-audit, and integrated financial management system as primary instruments for creating financial management that is more open, efficient, and free from the potential for data manipulation (Nahuddin, 2018). This digitalization not only increases the efficiency of administrative processes but also expands public access to local government financial information. However, as revealed by Sunarno (2020), the success of implementing this digital system is not solely determined by the readiness of technology infrastructure, but also by the maturity of bureaucratic ethics and the mental readiness of the apparatus to use technology responsibly and with integrity.

On the other hand, bureaucratic reform also has a complex social dimension, particularly in the context of changing the behavior and mindset of government officials. A change in mindset is a primary prerequisite for realizing good governance. Juliani (2019) highlights that the bureaucratic culture in Indonesia, which is still deeply entrenched with hierarchy and administrative orientation, often hinders innovation, cross-sector collaboration, and public participation in fiscal decision-making.

Thus, the results of this discussion confirm that the success of bureaucratic reform in improving local financial performance depends on three main pillars: institutional and apparatus integrity, the application of information technology that supports transparency and efficiency, and an organizational culture that is oriented toward results and public service. Bureaucratic reform cannot be understood as a temporary administrative project but must be viewed as a social movement that demands a comprehensive change in the governing paradigm (Gilad et al., 2019). The success of reform will be realized if the bureaucracy is capable of building a sustainable value system, upholding public ethics, and placing the interests of the community at the center of all fiscal decision-making processes.

6. Conclusion

The results of this study indicate that bureaucratic reform has a significant influence on improving the financial performance of local governments through the application of good governance principles, especially in the aspects of transparency, accountability, and efficiency of public financial management. Successful bureaucratic reform not only focuses on changes in administrative structure and procedures but also on the transformation of the apparatus's work culture towards professionalism, integrity, and results orientation. The effective reform process is characterized by an increase in the quality of financial reports, a reduction in audit findings, and an increase in WTP from financial audit institutions.

Furthermore, the use of information technology through digital financial systems is proven to strengthen openness and accelerate financial reporting processes. Nevertheless, challenges still arise in terms of the limitations of apparatus competence, weak internal oversight, and resistance to change that inhibit the comprehensive implementation of good governance principles. Therefore, the strengthening of bureaucratic reform must be carried out sustainably through the development of human resource capacity, the application of independent oversight systems, and leadership that is oriented toward integrity and innovation. Bureaucratic reform is not just an administrative instrument but the main foundation for realizing local financial governance that is efficient, transparent, and accountable, in order to continuously enhance public trust and government financial performance.

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