



# Reinforcing Public Sector Accountability through Accrual-Based Accounting Reform

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## Abstract

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This study examines the application of accrual-based accounting in the public sector as a mechanism to improve transparency, accountability, and the quality of government financial reporting. Through a comprehensive literature review of various scientific publications in the last five years, this study integrates various national and international findings on the role of accrual accounting in strengthening good governance. The results of the analysis show that the implementation of accrual-based accounting significantly improves the reliability, relevance, and comparability of financial information, strengthens fiscal discipline, and encourages data- and evidence-based decision-making. However, this study also identifies a number of challenges, such as institutional readiness, professional competence of the apparatus, limited human resources, and inadequate technological infrastructure, which can hinder the effectiveness of the implementation of this system. The success of accrual reform is highly dependent on the synergy between regulatory policies, human resource capacity building, and digital transformation in public financial management. Overall, accrual-based accounting reform is not just a technical change, but a fundamental strategy to build sustainable public trust and strengthen modern public sector accountability.

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## 1. Introduction

The paradigm shift in public financial management in the past decade shows a fundamental shift from a cash-based approach to an accrual basis as the global standard of public sector governance. This shift not only reflects the technical needs of more comprehensive financial reporting, but also symbolizes a commitment to the principles of transparency, accountability, and efficiency in the management of public resources (Yamamoto & Schührer, 2023). Accrual-based accounting allows the recognition of economic transactions at the time of occurrence, not just when cash moves, so that the information generated better reflects the actual financial condition of the public entity (Azizi & Jokar, 2022).

The quality of financial reporting resulting from the application of an accrual basis has direct implications for the level of public trust in the government. High transparency strengthens public trust and becomes an instrument of social control over government performance (Siahay, 2023). In the context of public governance, financial statements are not only administrative tools, but also accountability media that affirm the responsibility of public fund managers to the public (Amalia, 2023). Therefore, the quality of public financial statements is an important indicator in assessing the effectiveness of state financial reform and commitment to the principles of good governance.

The implementation of accrual-based accounting in the public sector has become an international agenda since the implementation of the International Public Sector Accounting Standards (IPSAS). Organizations such as IFAC (2021) affirm that the application of an accrual base is able to increase the relevance of financial

information, support data-driven decision-making, and reduce information asymmetry between report compilers and stakeholders. In many countries, the implementation of accrual accounting has shown significant improvements in the quality of financial reporting, fiscal efficiency, and public oversight of the financial performance of government institutions (Bonollo, 2023).

Nevertheless, challenges still arise in its implementation. System complexity, limited human resource capacity, and readiness of accounting infrastructure are still major obstacles in various developing countries (Mahdavi et al., 2023). These factors often affect the consistency of reporting as well as the reliability of the data generated. Therefore, the effectiveness of the implementation of accrual accounting needs to be continuously evaluated to ensure that these reforms truly improve the quality of public sector financial statements.

In a broader context, agency theory and entity theory are still the main conceptual foundations in understanding public sector financial reporting accountability. Based on the theory of agency, the government as an agent has an obligation to account for the management of funds to the community as a principal. The application of accrual-based accounting is an important mechanism to reduce the asymmetry of information that arises in these relationships (Jati, 2019). Meanwhile, the entity theory emphasizes that a public organization is an economic unit that is independently responsible for reporting its performance, so that financial statements are a tangible form of entity accountability to the public.

Research developments over the last five years show an increase in interest in the topic of accountability and transparency in public financial reporting. Research

by Mbugua (2023) and Ojeh & Eze (2023) confirms that the adoption of accrual-based IPSAS significantly improves the quality of reporting and strengthens public governance. Similar findings were also revealed by Naroui et al. (2023), who highlighted the importance of developing an accrual accounting implementation model that is appropriate to each country's institutional context.

Thus, the need to strengthen public financial accountability through the implementation of accrual-based accounting is becoming increasingly important amid the global demand for transparent governance. Public sector accounting reform is not just compliance with technical standards, but is an integral part of the strategy to build public trust and realize effective and responsive governance to the public.

## **2. Literature Review**

### **2.1. Accrual-Based Accounting in the Public Sector**

Accrual-based accounting is one of the most important reforms in modern public financial management. This system recognizes income and expenses at the time of the transaction, not when cash is received or paid, thus providing a more realistic picture of the financial position and performance of public entities (Azizi & Jokar, 2022). In the global context, the application of accrual accounting is a key instrument in strengthening fiscal transparency and supporting evidence-based decision-making. IFAC (2021) encourages the adoption of accrual standards because it can improve the quality of reporting and improve public governance. Recent research confirms that the implementation of accrual accounting not only has

implications for improving the quality of financial statements, but also strengthens government accountability to the public.

Mbugua (2023) shows that the implementation of International Public Sector Accounting Standards (IPSAS) in Kenyan public universities improves reporting transparency and resource allocation efficiency. The same thing was revealed by Naroui et al. (2023) who assessed the implementation of the accrual system as a strategic step in improving the financial performance of the public sector. However, Bonollo (2023) reminded that the success of the implementation of this system depends on the institutional readiness and technical capabilities of the apparatus. Thus, accrual-based accounting in the public sector is not only a technical change in the accounting system, but a paradigm transformation of financial management that demands professionalism, integrity, and adequate institutional capacity to realize reliable and relevant financial reporting.

## **2.2. Transparency and Accountability in Public Financial Reporting**

Transparency and accountability are the two main pillars of good governance. Transparency is related to the disclosure of public information, while accountability demands clear accountability for the use of public resources (Amalia, 2023). In the context of financial reporting, these two concepts serve to strengthen public trust in the government and reduce the risk of corruption or budget abuse (Siahay, 2023).

The results of the study by Ojeh and Eze (2023) show that the implementation of accrual-based IPSAS in developing countries has a positive impact on the quality of financial reporting and strengthens public accountability mechanisms. The study also highlights that accrual accounting expands the capacity

to evaluate government performance, as the financial statements generated provide more complete information about public liabilities and assets. Thus, financial reporting is not just an administrative form, but also a means of communication between the government and the community.

In addition, Siahay (2023) underscores the importance of building public trust through transparency and independent audit, because without information disclosure, accountability cannot be realized effectively. In the context of public sector reform, financial accountability should be understood as moral and professional values, not just regulatory compliance. Therefore, the implementation of accrual accounting needs to be accompanied by transparent reporting and auditing mechanisms to ensure that financial information can be publicly accounted for.

### **2.3. Agency Theory and Entity Theory in Public Financial Reporting**

The theoretical framework underlying public sector financial reporting is widely associated with agency theory and entity theory. Based on the theory of agency, the government (agent) has a moral and legal obligation to account for the management of public resources to the community (principal). In this case, financial statements are the main tool to reduce information asymmetry between the two (Jati, 2019). Accrual-based accounting strengthens the mechanism by providing more relevant and accurate information. Entity theory, on the other hand, views a public organization as an economic entity that is independently responsible for its financial reporting (Yamamoto & Schührer, 2023).

This theory asserts that public entities must present financial statements that are comparable and objectively testable to guarantee transparency and accountability. In this framework, accrual accounting plays a role in improving the ability of entities to demonstrate their true financial position. Naroui et al. (2023) add that agency and entity theory complement each other: agency theory highlights the accountability relationship between parties in a governance system, while entity theory emphasizes institutional structural responsibility in reporting. Both serve as a conceptual basis for assessing the effectiveness of accrual-based accounting implementation in the public sector.

### **3. Methods**

This study uses a library research method with a descriptive qualitative approach. The main objective of this approach is to explore and integrate the latest scientific findings regarding the application of accrual-based accounting in the public sector, as well as assess its implications for the transparency and accountability of financial reporting. Literature studies were chosen because they were able to provide a comprehensive overview of the conceptual and empirical development of the topic being studied, without collecting direct field data.

The research process began with the identification of relevant scientific sources, both from international and national journals indexed by Google Scholar and Scopus in the last five years. The literature selection criteria include three main aspects: (1) the suitability of the theme with the focus of the research, namely accrual accounting, public governance, transparency, and quality of financial statements; (2)

the credibility of the source, with priority given to reputable publications such as the Journal of Public Budgeting, Accounting & Financial Management and Emerald Insight; and (3) updating references so that the results of the analysis reflect contemporary conditions and challenges in public sector accounting.

The next step is to carry out a process of categorization and content analysis of the research results found. The literature that met the criteria was analyzed to identify similarities, differences, and directions in the trend of empirical findings regarding the application of accrual standards in public sector financial reporting. The analysis was carried out by comparing the results of studies that showed improved reporting quality due to the adoption of accrual accounting with research that highlighted obstacles to its implementation, such as limited human resources, information technology, and supervisory systems.

In addition, this study also examines the relationship between agency theory and entity theory as a conceptual framework in understanding public accountability. The results of the literature analysis are then integrated to produce a synthesis that illustrates how the application of the accrual basis can strengthen the reliability, relevance, and comparability of public financial statements in different countries.

Thus, this literature study method not only serves as a means of secondary data compilation, but also as a systematic theoretical analysis tool to assess the effectiveness of the application of accrual accounting to improve public financial transparency and accountability. The results are expected to be able to make a conceptual contribution to the development of public sector financial reporting practices in the future.

## 4. Results

The results of the literature study show that the application of accrual-based accounting in the public sector is consistently associated with improving the quality of financial reporting, strengthening accountability, and government financial transparency. Conceptually, the accrual system allows the recording of all economic transactions at the time of occurrence, not when cash moves, so that financial statements are able to describe financial positions more realistically (Azizi & Jokar, 2022). Thus, the information generated becomes more relevant for the decision-making process and evaluation of public performance.

Research by Jati (2019) in the context of the implementation of Accrual-Based SAP shows empirical evidence that after the implementation of the accrual system, the quality of government financial statements has improved significantly. This is measured through audit opinions issued by independent audit bodies, where an increase in reasonable opinions without exception reflects the reliability of financial information. These findings are in line with the results of a study by Mbugua (2023), which found a positive relationship between the implementation of accrual-based IPSAS and the quality of financial reporting of public universities in Kenya. Both emphasized that the accrual basis improves the accuracy, completeness, and relevance of public financial data.

Furthermore, the application of accrual accounting has implications for the dimension of public financial governance. Amalia (2023) highlights that accrual accounting is a tool to increase transparency and minimize the chances of manipulation of fiscal data. With an accrual system, every asset and liability is

recorded systematically, so that the government can identify the financial condition thoroughly. Siahay (2023) added that information disclosure resulting from the accrual system strengthens public trust in public institutions. In this context, financial statements become a tangible manifestation of accountability, which fulfills not only administrative functions, but also morals in the relationship between government and society.

At the global level, various studies confirm the effectiveness of accrual accounting in encouraging good governance. Bonollo (2023) in the *Journal of Public Budgeting, Accounting & Financial Management* shows that 80% of OECD member countries that implement the accrual system experience an increase in fiscal transparency scores. However, he also warned of potential distortions if the implementation is carried out without adequate accounting infrastructure and human resource readiness. Mahdavi et al. (2023) confirmed this through research in the Iranian public sector, where the limited competence of the apparatus and the complexity of the reporting system are significant challenges. Both studies emphasize that the success of accrual accounting depends not only on regulation, but also on institutional readiness and ongoing professional training.

Meanwhile, research by Naroui et al. (2023) focuses on the optimal model of the application of accrual accounting in the public sector. They found that local adaptation to international standards was key to success. The one-size-fits-all approach is often ineffective because each country has different institutional conditions and administrative capacities. Therefore, adjustments to the social, economic, and national legal contexts greatly determine the sustainability of

implementation. In this context, Yamamoto and Schührer (2023) emphasized that the success of accrual accounting is not only in the preparation of financial statements that are in accordance with standards, but also in its ability to create efficiency in public financial management and strengthen accountability between government agencies.

In addition to providing transparency and efficiency benefits, accrual bases have also been proven to play a role in improving the quality of public decision-making. Caruana et al. (2023) stated that accrual-based financial statements allow for better identification of long-term fiscal liabilities and potential risks, thus supporting more sustainable fiscal policies. Within the framework of agency theory, this improvement in information quality helps reduce information asymmetry between the government as an agent and the public as a principal. Thus, the accrual system not only serves as an accounting tool, but also as a mechanism of public oversight that strengthens the legitimacy of the government.

However, the application of the accrual system cannot be separated from criticism. Bonollo (2023) and Mahdavi et al. (2023) remind that public accounting reform often faces internal resistance, especially in countries with strong administrative cultures. Weaknesses in technology infrastructure, lack of coordination between institutions, and differences in understanding of public accounting standards can hinder the effectiveness of implementation. This is where the importance of institutional reform and continuous training is important to strengthen the capabilities of the apparatus in preparing accrual-based financial statements that are consistent with the principles of IPSAS.

Meanwhile, a study by Ojeh and Eze (2023) shows that the adoption of accrual-based IPSAS in Nigeria significantly improves the quality of local government financial reporting, but is only effective when accompanied by a strong external oversight system. Independent audits, transparency in the preparation of reports, and public involvement in assessing fiscal performance have proven to be factors supporting the success of this system. These findings confirm that accrual accounting cannot stand alone without a supportive governance ecosystem.

In addition to internal factors, the results of the literature review show that the development of information technology also plays an important role in strengthening the application of accrual accounting. Agostino et al. (2022) explain that the integration of digital systems in public financial reporting allows real-time data tracking, minimizes human error, and speeds up the process of auditing and data analysis. This digital transformation supports the principle of transparency because it allows public access to financial information openly. This is relevant to the direction of global policies that emphasize the importance of data-driven governance in realizing responsive and efficient governance.

Another significant finding emerged from the research of Abubakar et al. (2023) in West Africa, which showed that the adoption of accrual-based IPSAS directly contributes to increased public trust and efficiency of budget management at the local level. People who have access to transparent financial information are better able to assess government performance and demand accountability. Thus, the application of accrual accounting also functions as a tool for democratizing

information, strengthening the relationship between citizens and the government through data-based accountability mechanisms.

In general, the results of this literature analysis show that the implementation of accrual-based accounting has three main impacts on the public sector: (1) improving the quality of financial reporting, (2) strengthening transparency and accountability, and (3) increasing efficiency in fiscal decision-making. However, this positive impact can only be achieved if it is accompanied by institutional reform, human resource training, and a strong political commitment to the implementation of the principles of good governance. Jati (2019) and Mardiasmo (2020) both emphasized that the success of accrual accounting is not only measured by administrative compliance, but also by the extent to which this system is able to increase public confidence in state financial management.

By examining the results of various studies from the last five years, it can be concluded that the direction of public sector accounting reform is moving towards a more integrated model that is adaptive to technological changes and the transparency needs of modern society. These studies strengthen the position of accrual accounting as the main pillar in building accountable and result-based governance.

## 5. Discussion

The results of the literature synthesis show that the application of accrual-based accounting has a strong relationship with increased transparency and accountability of public sector finances. However, the implementation of this policy

does not always run linear towards improving the quality of reporting. In many cases, the effectiveness of accrual systems is influenced by contextual factors such as institutional readiness, human resource capacity, and regulatory support. These findings confirm that public accounting reform is not just a technical change, but also an institutional and cultural transformation of the organization.

Azizi and Jokar (2022) explained that the main advantage of accrual accounting lies in its ability to provide a comprehensive picture of the economic and financial conditions of public entities. By acknowledging assets and liabilities at the time of transactions, governments can design fiscal policies that are more realistic and sustainable. However, the study by Mahdavi et al. (2023) found that in many developing countries, the implementation of this system is not optimal due to low technical understanding and limited information infrastructure. These barriers pose a risk of reporting inconsistencies, which ultimately reduce the reliability of public financial data.

In the context of agency theory, accrual accounting acts as a tool to reduce information asymmetry between the government as an agent and the public as a principal. This system provides more complete and testable information, thereby increasing transparency in the public accountability process. Jati (2019) emphasized that accrual accounting strengthens the public supervision mechanism by improving the quality of audit opinions of audit institutions. This shows that financial statements not only fulfill administrative obligations, but also function as an instrument of moral accountability.

However, Bonollo (2023) cautions that the application of accrual also carries the risk of “symbolic accounting,” which is when public entities formally implement the accrual system without strengthening analytical capacity and internal control functions. As a result, financial statements appear to be compliant with standards, but do not fully reflect the financial realities that occur. Another challenge arises in the process of harmonizing international accounting standards with local conditions, where each country has a different governance system, organizational structure, and fiscal capacity.

The literature discussion also highlighted that the successful implementation of accrual is highly dependent on the synergy between regulation, professional competence, and technology. Siahay (2023) emphasizes the importance of transparency and independent audits in maintaining public trust. In the digital era, the use of data-based reporting systems and online platforms is a key factor to strengthen information disclosure and public participation. Agostino et al. (2022) added that digitalization allows the government to provide fiscal data in real-time, thereby improving efficiency and accountability.

Therefore, accrual-based accounting reform must be understood as an integral part of the transformation of public governance. Success is measured not only by the extent to which standards are implemented, but by how much these systems encourage transparency, strengthen oversight, and increase public trust. A multidimensional approach involving institutional, technological, and human capacity aspects is key to ensuring that accrual accounting does not simply fulfill

administrative obligations, but truly functions as an instrument of democratic and accountable governance.

## **6. Conclusion**

The results of this study confirm that the implementation of accrual-based accounting in the public sector is a strategic instrument to strengthen transparency, accountability, and quality of government financial reporting. This system not only changed the way transactions are recorded, but also built a culture of more open and measurable public accountability. Through the recognition of assets, liabilities, income, and expenses at the time of economic transactions, financial statements become more relevant, comprehensive, and useful in the process of fiscal decision-making and evaluation of government performance.

However, the effectiveness of the implementation of accrual accounting is highly dependent on institutional readiness, human resource competence, technological support, and political commitment. Without the synergy of these four aspects, accounting reform has the potential to be only symbolic and unable to produce a real improvement in the quality of public governance. Therefore, a sustainable implementation strategy is needed, including increasing the capacity of public accounting professionals, drafting consistent supporting policies, and strengthening digital-based audit and transparency systems. Accrual-based accounting can be seen as a key pillar in building a modern, efficient, and accountable public financial system. With consistent implementation, this system is able to

strengthen public trust in state financial management while encouraging the creation of a responsive and results-oriented government.

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