

THE QUALITY OF FINANCIAL REPORTING ON THE ACCOUNTABILITY OF PUBLIC ORGANIZATIONS: A LITERATURE REVIEW

Ramita Kholifaturrohmah^{1*}, Cut Misni Mulasiwi², Dwita Aprillia Floresti³

^{1*} Universitas Jenderal Soedirman, ramita.rohmah@unsoed.ac.id, Indonesia

² Universitas Jenderal Soedirman, cutmisnimulasiwi@unsoed.ac.id, Indonesia

³ Universitas Jenderal Soedirman, dwitafloresti@unsoed.ac.id, Indonesia

*corresponding author

ABSTRACT

This research was conducted to examine the Quality of financial reporting on the accountability of public organizations, both conducted in Indonesia and around the world. Data collection methods are carried out: (1) identifying research questions; (2) identifying relevant studies; (3) choosing a study; (4) grouping data; and (5) compiling, summarizing, and reporting the results. Relevant journals come from Scopus-indexed journals and are accredited by Sinta. The approach used in this research is qualitative. Based on the results of a literature review regarding the Quality of financial reporting on accountability in public organizations, several research results indicate an influence between the Quality of financial reporting and accountability. This is a significant concern for the government to improve further supervision (controlling) of the financial reporting of public organizations. In addition, it is also necessary to study the factors that influence the Quality of financial reporting, which in turn has implications for increasing the accountability of public organizations. This is important, considering that accountability is also an indicator of the performance of public organizations.

Keywords: Quality of financial reporting; accountability; public organization.

1. Introduction

Government Regulation of the Republic of Indonesia Number 71 of 2010 concerning Government Accounting Standards explains that financial statements are needed to determine the value of economic resources used in government operational activities, assess financial condition, evaluate effectiveness and efficiency, and help determine compliance with laws and regulations. This reporting is closely related to the importance of accountability, which is a form of accountability for resource management and policy implementation in achieving predetermined goals.

Financial statements of public sector organizations aim to provide information on economic, social, and political decision-making as evidence of accountability and stewardship and provide information in evaluating managerial and organizational performance (Mardiasmo, 2018). Financial reporting in the public sector provides information for users in decision-making and accountability (Cohen & Karatzimas, 2017). Financial reporting is a form of information transparency to support accountability requirements for public resource management activities for the government and is an output of the accounting system, and helps provide information to user groups in financial decision-making (Steccolini, 2004; Tran et al., 2021b). The better the

presentation of local government financial statements, the more it will encourage the realization of accountability for regional financial management.

Therefore, the financial reporting of public entities must meet quality requirements (Cohen & Karatzimas, 2017). As explained in Government Regulation of the Republic of Indonesia Number 71 of 2010 that the qualitative characteristics of financial statements that are normative prerequisites for government financial statements to meet Quality include: (a) Relevant, that the information contained therein can influence users' decisions to help evaluate past or present events, and predict the future, as well as correct the results of their evaluations in the past; (b) Reliable, that is, the information in the financial statements is free from misleading and material errors, presents every fact truthfully, and can be verified; (c) Comparable, i.e. that the information contained in the financial statements will be more valuable if it can be compared with the financial statements of the previous period or the financial statements of other reporting entities in general; and (d) Comprehensible, that is, the information presented in the financial statements can be understood by users and expressed in forms and terms that are adjusted to the limits of understanding of users. The presentation of financial statements as stated in the Regulation of the Minister of Home Affairs of the Republic of Indonesia Number 64 of 2013 concerning the Application of Accrual-Based Government Accounting Standards in Regional Governments consists of (1) budget realization reports; (2) reports of changes in excess budget balances; (3) balance sheet; (4) operational reports; (5) cash flow statement; (6) reports of changes in equity; and (7) notes to financial statements.

Accountability is essential for the government, as a well-thought-out accountability system encourages taxpayers and develops trust (Nalukenge et al., 2022). The implementation of good accountability can improve the Quality of the company and make the company's reputation and credibility better. Accountability implies administrators who should ultimately be responsible for the services they provide to society. Accountability and transparency of financial information are expected to remain significant in achieving the reforms needed by society as directed by organizational or company leaders and civil servants.

The activities of public organizations are funded through the state budget in order to be able to account for their accountability activities to the public. In developing countries, individual characteristics and differentiators can influence the control and evaluation of public accountability in the public sector, particularly in low institutional capacity, limited stakeholder involvement, and high levels of corruption (Kim, 2009). There needs to be public sector reform in developing countries if good governance is to be achieved (Rajib et al., 2019). This can be done by the presence of policymakers and public regulators who give responsibility for the organization's activities and ensure that the organization acts following its responsibilities.

However, recent empirical evidence shows that implementing accountability in many developing countries has yet to reach expected standards and mainly focuses on compliance with applicable regulations. Several problems are shared by developing countries, such as low institutional capacity, lack of public transparency, and high levels of corruption (Nguyen et al., 2015; Pham et al., 2015; Tran, 2014).

If you look at the theory of stewardship proposed by Davis S. and Donaldson (1997) shows that managers have motivations that are in line with the goals of their organization. The executive department, commonly referred to as stewards, desires to act honestly and responsibly to gain public stakeholders' trust so that organizational goals will be achieved. This theory can be applied

to realize quality financial statements, good reports, sound internal control systems, and can disclose or present in total. The Quality of financial reporting requirement is essential for public organization decision-making and accountability, so this can force its managers to operate public organizations efficiently (Krambia-Kapardis et al., 2016). Thus, the question in this study is: "Does the quality of financial reporting affect government accountability?"

2. Research Methodology

The study used data collection methods through systematic reviews to identify relevant literature in studies on the Quality of financial reporting and accountability of public organizations. The steps taken referred to by Arksey & O'Malley (2005) are as follows: (1) identify research questions; (2) identify relevant studies; (3) choose a study; (4) group data; and (5) compile, summarize, and report the results. The following are the criteria for research articles taken in this study.

Table 1. Inclusion Criteria

Publication Type	Information
Journal Articles	√
Book	√
Theme	
Quality of Financial Reporting	√
Accountability	√
Research Methods	
Quantitative	√
Qualitative	√
Research	
Empirical Study	√
Theoretical Study	-
Year of Publication	
2012-2022	√

3. Result and Discussion

The discussion of research on performance accountability in Indonesia focuses on the Quality of financial reporting on the accountability of public organizations in Indonesia and the world. Research is conducted at national and international levels.

3.1 Quality of Financial Reporting

Financial reporting is vital for conveying financial information to all interested users. High-quality financial statements can positively and significantly affect an organization's stakeholders. Public sector entities provide management of public funds and other assets entrusted to assist public money providers such as taxes and local and foreign investors in making important decisions and other intended purposes (Muraina & Dandago, 2020). Some user groups of government financial

statements, according to Government Regulation Number 71 of 2010, include (1) the public; (b) people's representatives, supervisory agencies, and examining agencies; (c) parties who give or play a role in the donation, investment and loan process; and (d) government. In more detail explained (Steccolini, 2004) that users of local government financial statements are divided into:

- a) a) Internal users: (1) board members and executive members; (2) public managers; (3) government employees; and (4) public sector trade unions.
- b) External users: (1) citizens (and their representative organizations) as consumers of public services, taxpayers, and taxpayers; (2) companies that use public services; (3) top-level government; (4) supervisory agencies; (5) auditors; (6) other local governments; (7) banks and lenders; (8) foreign investors, analysts, rating agencies; and (9) researchers.

3.2 Accountability

Accountability is a complex issue to analyze and understand in government (Mizrahi & Minchuk, 2019). Accountability in the public sector involves political, administrative, democratic, and, most importantly, financial accountability, which impacts increasing responsibility, performance, and higher progress in a country. Lack of transparency in showing the budget implementation results leads to a lack of accountability in the public sector. The high level of corruption is caused by the low level of accountability in reporting and managing public sector finances (Muraina & Dandago, 2020). According to experts cited by (Steccolini, 2004), some types of accountability can be seen in Table 2.

Table 2. Types of accountability

Writer	Types of Accountability
Stewart (1984)	<ul style="list-style-type: none"> a) Accountability for honesty and legality b) Process accountability c) Performance accountability d) Program accountability e) Policy accountability
Gray and Jenkins (1985; 1993)	<ul style="list-style-type: none"> a) Financial accountability b) Managerial accountability c) Professional accountability
Sinclair (1995)	<ul style="list-style-type: none"> a) Public accountability b) Political accountability c) Managerial accountability d) Administrative accountability e) Professional accountability f) Personal accountability
Rubin (1996)	<ul style="list-style-type: none"> a) Responding to bureaucratic or hierarchical authority (demonstrating compliance with the law) b) Report to the public (how their money was spent) c) Hold elected officials responsible for budget results and quality of financial management d) Direct citizen control over budget formation, allocation processes, and priorities in the budget

Johnston and Romzek (1999)	a) Hierarchical accountability b) Legal accountability c) Professional accountability d) Political accountability
Guarini (2000)	a) managerial accountability b) partnership accountability c) public accountability d) governance accountability
Taylor & Rosair (2000)	a) Fiduciary Accountability b) Managerial accountability

3.3 The Effect of Financial Reporting Quality on Financial Accountability

Several relevant international studies on the Quality of financial reporting and accountability have been conducted, the results of which can be seen in Table 3. Furthermore, relevant national research has also been conducted in Table 4.

Table 3. Internationally Relevant Research Results

Author	Topic	Result
(Cohen & Karatzimas, 2017)	Quality of Accounting Information, Usefulness of Government Financial Reporting Decisions	Accounting changes do not cause financial statements to achieve the high level of quality of accounting information expected by government officials.
(Tran, Nguyen & Hoang, 2021a)	Quality of Financial Reporting and Accountability	The quality of financial reporting positively affects the accountability of public organizations in Vietnam
(Tran, Nguyen & Hoang, 2021b)	Quality of Financial Reporting and Accountability	The quality of financial reporting positively affects accountability in the public sector in Vietnam

Table 4. National Relevant Research Results

Author	Topic	Result
Fuad & Winarsih (2021)	Accountability, Financial Management and Public Trust	The presentation of financial statements affects the accountability of regional financial management of OPD Semarang
Dewi & Susilowati (2022)	Quality of Financial Statements, Internal Control System, and Financial Accountability	The quality of financial statements has a significant effect on the financial accountability of Device Organizations Area (OPD) in Jember Regency Government
Ramadhan & Arza (2021)	Competence, Internal Control System, Device Role Village, Quality of Financial Report Presentation and Village Government Accountability	The quality of financial statement presentation has a positive & significant influence on accountability of village government of Solok Regency

Ridzal, (2020)	Quality of Financial Statements, Performance Accountability	The quality of financial statements has a positive effect and significant to the accountability of the performance of the Buton Regency Regional Financial and Asset Management Agency.
Purba, Agusti & Rofika, (2021)	Presentation of Financial Statements, Internal Control System, Financial Statement Accessibility, Accountability Regional Financial Management	The presentation of financial statements affects the accountability of financial management Regional Apparatus Organization of Pematang Siantar City Government
Sari (2022)	Quality of Financial Statements, Performance Accountability	The quality of Financial Statements has a significant effect on the accountability of the performance of the North Sumatra Provincial Language Center (BBPSU)

4. Conclusion

Based on the results of a literature review on the quality of financial reporting on accountability in public organizations, it can be concluded that several research results show an influence on the Quality of financial reporting on accountability. This is a significant concern for the government to improve the control of financial reporting of public organizations. In addition, it is also necessary to study the factors that affect the quality of financial reporting so that they can be improved through these factors, which ultimately have implications for increasing the accountability of public organizations. This is important because accountability is also an indicator of the performance of public organizations.

DAFTAR PUSTAKA

- Arksey, H., & O'Malley, L. (2005). Scoping Studies: Towards a Methodological Framework. *International Journal of Social Research Methodology: Theory and Practice*, 8(1), 19–32. <https://doi.org/10.1080/1364557032000119616>
- Cohen, S., & Karatzimas, S. (2017). Accounting Information Quality and Decision-Usefulness of Governmental Financial Reporting: Moving from Cash to Modified Cash. *Meditari Accountancy Research*, 25(1). <https://doi.org/http://dx.doi.org/10.1108/MEDAR-10-2015-0070>
- Dewi, D. S., & Susilowati, E. (2022). Kualitas Laporan Keuangan Memediasi Sistem pengendalian Internal Terhadap Akuntabilitas Keuangan. *Journal of Management and Bussines (JOMB)*, 4(2), 1049–1064. <https://doi.org/10.31539/jomb.v4i2.4507>
- Fuad, K., & Winarsih. (2021). Direct and Indirect Testing for Accountability of Regional Financial Management and Trust Level of Public-Stakeholders in Local Government. *Jurnal ASET (Akuntansi Riset)*, 13(1), 1–11.

- Krambia-Kapardis, M., Clark, C., Zopiatis, A. (2016). Satisfaction Gap in Public Sector Financial Reporting. *J. Account. Emerg. Econ*, 6(3), 232–253
- Mardiasmo. (2018). *Akuntansi Sektor Publik(Ed.1)* (1st ed.). Andi.
- Mizrahi, S., & Minchuk, Y. (2019). Accountability and performance management: citizens' willingness to monitor public officials. *Public Management Review*, 21(3), 334–353. <https://doi.org/10.1080/14719037.2018.1473478>
- Muraina, S. A., & Dandago, K. I. (2020). Effects of implementation of International Public Sector Accounting Standards on Nigeria's financial reporting quality. *International Journal of Public Sector Management*, 33(2–3), 323–338. <https://doi.org/10.1108/IJPSM-12-2018-0277>
- Nalukenge, I., Kaawaase, T. K., Bananuka, J., & Ogwal, P. F. (2022). Internal audit quality, punitive measures and accountability in Ugandan statutory corporations. *Journal of Economic and Administrative Sciences*, 38(3), 417–443. <https://doi.org/10.1108/jeas-05-2020-0084>
- Purba, M., Agusti, R., & Rofika, R. (2021). Penyajian Laporan Keuangan, Sistem Pengendalian Internal Dan Aksesibilitas Laporan Keuangan Pada Akuntabilitas Pengelolaan Keuangan Daerah. *CURRENT: Jurnal Kajian Akuntansi Dan Bisnis Terkini*, 2(3), 418–434. <https://doi.org/10.31258/jc.2.3.418-434>
- Ramadhan, W., & Arza, F. I. (2021). Pengaruh Kompetensi, Sistem Pengendalian Internal, Peran Perangkat Desa, dan Kualitas Penyajian Laporan Keuangan terhadap Akuntabilitas Pemerintah Desa dalam Mengelola Alokasi Dana Desa. *Jurnal Eksplorasi Akuntansi*, 3(4), 822–835. <https://doi.org/10.24036/jea.v3i4.415>
- Ridzal, N. A. (2020). Pengaruh Kualitas Laporan Keuangan Terhadap Akuntabilitas Kinerja Pada Badan Pengelolaan Keuangan Dan Aset Daerah (Bpkad) Kabupaten Buton. *Financial: Jurnal Akuntansi*, 6(1), 87–97. <https://doi.org/10.37403/financial.v6i1.135>
- Sari, A. P. (2022). Pengaruh Kualitas laporan Keuangan terhadap Akuntabilitas Kinerja Instansi Pemerintah (Studi Kasus pada Balai Bahasa Provinsi Sumatera Utara). *JAE: Jurnal Akuntansi Dan Ekonomi*, 7(2), 172–181. <https://doi.org/10.29407/jae.v7i2.17714>
- Steccolini, I. (2004). Is the Annual Report an Accountability. *Financial Accountability & Management*, 20(August), 327–350.
- Tran, Y. T., Nguyen, N. P., & Hoang, T. C. (2021a). Effects of leadership and accounting capacity on accountability through the quality of financial reporting by public organisations in Vietnam. *Journal of Asia Business Studies*, 15(3), 484–502. <https://doi.org/10.1108/JABS-02-2020-0077>
- Tran, Y. T., Nguyen, N. P., & Hoang, T. C. (2021b). The role of accountability in determining the relationship between financial reporting quality and the performance of public organizations: Evidence from Vietnam. *Journal of Accounting and Public Policy*, 40(1), 106801. <https://doi.org/10.1016/j.jaccpubpol.2020.106801>