

Research Article

Accrual Accounting, Performance Budgeting, and Financial Reporting Quality as Determinants of Government Performance Accountability

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Received: 24-11-2025; Accepted: 30-11-2025

Abstract

Performance accountability of government agencies is essential because it reflects the obligation to report the success or failure of organizational missions in achieving established targets through periodic accountability mechanisms. This study examines the influence of the accrual basis, performance-based budgeting, and financial report quality monitoring on government agencies' performance accountability. The research uses a correlational design and relies on primary data collected from respondents in the East Jakarta administrative city government. Data was obtained through questionnaires distributed to fifteen finance department personnel. Multiple linear regression was employed to analyze the relationships between variables. The results show that the accrual basis has a positive and significant effect on performance accountability, indicating that accurate recognition and recording of financial transactions strengthen institutional responsibility. Performance-based budgeting also has a positive and significant effect, demonstrating that linking budget allocation to outputs and outcomes improves accountability. Additionally, financial report quality monitoring enhances accountability, underscoring the importance of strong internal controls and reliable reporting processes. Managerially, the findings imply that improving staff competence in accrual accounting, ensuring consistent application of performance-based budgeting, and reinforcing monitoring mechanisms are essential strategies for enhancing the performance accountability of government agencies.

Keywords: Accrual Basis, Performance-Based Budgeting, Monitoring the Quality of Financial Reports and Accountability for Government Agency Performance

JEL Classification: H83, H11, M41

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How to cite: Habil, M., Madjid, S., (2025). Accrual Accounting, Performance Budgeting, and Financial Reporting Quality as Determinants of Government Performance Accountability, *Financial Sustainability and Risk (FSR)* 1(1), 1-10



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1. Introduction

Public sector accountability continues to receive global attention as governments are increasingly required to demonstrate the effectiveness, transparency, and integrity of public financial management systems. Over the past decade, reforms in public financial management have intensified in response to governance issues, budget inefficiencies, and rising expectations for high-quality public services (Mahmudi, 2019). Many countries, including Indonesia, have adopted modern governance frameworks such as accrual-based accounting and performance-based budgeting to strengthen accountability and improve decision-making in the public sector (OECD, 2020). These reforms aim to produce more accurate financial information, enhance fiscal discipline, and improve measurable performance outcomes aligned with public service delivery objectives (Almqvist et al., 2018).

Indonesia's transition from cash accounting to accrual accounting marked a significant milestone for improving government transparency and the reliability of financial reporting. The implementation of accrual-based accounting under Government Regulation No. 71/2010 requires government entities to recognize economic transactions more comprehensively, enabling stakeholders to assess the real financial position and performance of government agencies (Haryanto & Utama, 2019). Previous studies have shown that accrual accounting adoption contributes to better accountability and managerial performance by providing more relevant information for resource allocation and performance evaluation (Ahyaruddin & Akbar, 2018). However, empirical findings remain inconsistent, especially in regional government contexts, where capacity limitations, data quality issues, and weak internal controls hinder optimal implementation (Indriasari & Nahartyo, 2018).

Alongside accounting reforms, Indonesia also implements performance-based budgeting (PBB), which links budget allocations to measurable outputs and outcomes. PBB encourages government agencies to prioritize efficiency, effectiveness, and measurable performance indicators in allocating public funds (Sari & Endiana, 2020). Despite its potential to improve accountability, several studies have reported that performance-based budgeting is often constrained by limited data quality, inadequate performance indicators, and bureaucratic resistance (Rahman, 2021). This highlights a persistent gap between the expected and actual impact of PBB on public accountability, particularly at the regional government level, where administrative capacity varies widely.

Another critical component of improving public sector accountability is the quality of supervision of financial reports. Strong internal and external supervisory mechanisms ensure that financial reporting adheres to established standards and reflects accurate and verified information (Setyaningrum, 2017). Adequate supervision enhances the reliability of financial reports by detecting errors, preventing fraud, and ensuring compliance with accounting regulations (Widiyanto & Bawono, 2020). Nonetheless, empirical studies suggest that supervision quality across regional governments remains inconsistent, with some agencies lacking systematic monitoring procedures and adequate human resource competencies, resulting in weakened accountability outcomes (Rifai & Wicaksono, 2021).

Despite extensive reforms in accounting standards, budgeting systems, and financial supervision mechanisms, accountability performance among Indonesian government institutions remains varied and, in many regions, suboptimal. Reports from the Ministry of Administrative and Bureaucratic Reform (KemenPAN-RB) show fluctuations and

inconsistencies in the annual Accountability Performance Index (AKIP) across regional governments, indicating a persistent gap between regulatory expectations and the quality of actual implementation (KemenPAN-RB, 2023). This situation underscores an important research gap: how the combined implementation of accrual accounting, performance-based budgeting, and financial report supervision influences the accountability performance of government institutions, particularly in regional contexts.

Previous research tends to analyze these variables individually rather than as an integrated system that shapes accountability performance. Limited studies have examined how these three governance elements interact simultaneously within a single analytical framework (Putra et al., 2022). Moreover, empirical findings across studies remain mixed, suggesting the need to re-examine these relationships using updated data and more comprehensive analytical approaches. This study aims to fill this research gap by providing empirical evidence on the collective influence of accrual basis implementation, performance-based budgeting, and the quality of financial report supervision on government agency performance accountability.

The objective of this study is to empirically examine (1) the effect of accrual basis implementation on accountability performance, (2) the effect of performance-based budgeting on accountability performance, (3) the effect of financial report supervision on accountability performance, and (4) the simultaneous influence of these three variables on overall accountability performance of government agencies. The findings are expected to provide both theoretical and practical contributions. Theoretically, this research strengthens public sector accounting literature by integrating three governance variables that have been widely studied separately. In practice, the study offers policymakers and regional governments evidence-based insights to enhance financial management reforms, internal oversight systems, and accountability mechanisms.

The novelty of this study lies in its comprehensive analytical model, which combines accrual accounting implementation, performance-based budgeting, and financial report supervision as simultaneous predictors of accountability performance within a regional government context, using updated post-reform data. This integrated approach provides fresh empirical insights that enrich the public sector governance literature and support evidence-based policymaking to improve accountability practices in Indonesia.

2. Literature Review and Hypothesis

Literature Review

Accrual Basis Accounting

Accrual basis accounting is a financial reporting approach that recognizes economic transactions when they occur, regardless of cash movements. This method provides a more comprehensive representation of an entity's financial position by recognizing revenues when earned and expenses when incurred (IFAC, 2021). In the public sector, accrual accounting supports transparency, enhances fiscal discipline, and enables better assessment of government performance by regularly recording assets, liabilities, and changes in net worth (OECD, 2020). Accuracy-based information also helps decision makers evaluate the long-term sustainability of government programs and identify the actual cost of services delivered to the public (Hepworth, 2017). Therefore, accrual basis accounting is considered a cornerstone of modern public financial management reforms.

Performance-Based Budgeting (PBB)

Performance-based budgeting is a budgeting approach that links resource allocation to measurable performance indicators, outputs, and outcomes. It focuses on improving efficiency and effectiveness by ensuring that budget decisions are informed by performance results rather than traditional incremental or line-item budgeting practices (Shah, 2019). PBB requires governments to establish clear objectives, define targets, and measure performance regularly to improve accountability and optimize the use of public resources (Robinson, 2020). This system encourages managers to achieve quantifiable results and justifies budget allocations based on performance achievements rather than historical expenditures. As such, PBB strengthens performance management and reinforces organizational responsibility within public agencies.

Quality Supervision of Financial Reports

Quality supervision refers to control mechanisms designed to ensure that financial statements are reliable, accurate, and compliant with applicable standards. In the public sector, effective supervision involves both internal control systems and external audit procedures that validate whether financial reporting processes comply with established regulations (INTOSAI, 2021). High-quality supervision promotes transparency, reduces the risk of fraud or misstatements, and increases the credibility of financial information used in decision-making (Diamond, 2019). It also strengthens governance structures by ensuring that financial data presented by government agencies is trustworthy and independently verifiable. Intense supervision is therefore essential for achieving high-quality financial reporting and improving overall public accountability.

Performance Accountability of Government Agencies

Performance accountability refers to the obligation of government institutions to justify the results of their actions and the use of public resources. It includes demonstrating the achievement of planned outputs, outcomes, and policy objectives through measurable performance indicators (Bovens, 2019). Effective accountability systems require transparent reporting, clear performance targets, reliable data, and consistent monitoring mechanisms to assess government performance objectively (Koppell, 2018). Performance accountability also ensures that public agencies can be evaluated regarding efficiency, effectiveness, and alignment with public service goals. Thus, it functions as a key element of good governance and public trust.

Hypothesis**The Influence of Accrual Basis Accounting on Performance Accountability**

Accrual accounting is expected to enhance performance accountability by providing more comprehensive information on government financial activities, enabling stakeholders to assess government achievements with reliable financial data. This method captures economic events more accurately, which facilitates improved planning, monitoring, and evaluation of government programs. When governments successfully adopt accrual accounting, financial information becomes more transparent, thereby strengthening accountability mechanisms. Several empirical studies support this relationship. Ahyaruddin and Akbar (2018) found that accrual-based reporting improves accountability by providing higher-quality financial information. Indriasari and Nahartyo (2018) reported that accrual implementation enhances decision-making and strengthens institutional accountability. Haryanto and Utama (2019) demonstrated that adopting accrual-basis accounting significantly enhances accountability and financial performance. Putra et al. (2022) also confirmed that accrual accounting reforms positively

influence performance accountability in regional governments.

H1: Accrual basis accounting has a positive effect on the performance accountability of government agencies.

The Influence of Performance-Based Budgeting on Performance Accountability

Performance-based budgeting (PBB) is designed to improve the efficiency and effectiveness of public spending by linking resources to performance outputs and outcomes. This alignment ensures that budget allocations are based on measurable performance results, thereby strengthening accountability. When government agencies implement PBB, they must set clear targets, measure achievements, and publicly disclose performance, thereby improving transparency and public accountability. Empirical evidence supports the positive relationship between PBB and accountability. Sari and Endiana (2020) found that performance-based budgeting significantly improves accountability in local government. Rahman (2021) reported that PBB enhances transparency and strengthens performance evaluation mechanisms. Haspiarti (2012) proved that PBB components planning, implementation, reporting, and evaluation positively influence government accountability. Endrayani et al. (2014) also demonstrated that PBB increases accountability performance in government agencies.

H2: Performance-based budgeting has a positive effect on government agencies' performance accountability.

The Influence of Quality Supervision of Financial Reports on Performance Accountability

Quality supervision ensures that financial reporting processes are accurate, reliable, and compliant with regulations. Strong supervisory mechanisms strengthen accountability by reducing the risk of fraud, errors, or mistakes in financial reports. Improved financial supervision also enhances transparency, enabling stakeholders to assess government performance more confidently. Several previous studies provide empirical support for this relationship. Setyaningrum (2017) showed that audit quality positively influences the reliability and accountability of public sector reporting. Widiyanto and Bawono (2020) found that internal quality control improves accountability in local governments. Rifai and Wicaksono (2021) demonstrated that supervision mechanisms significantly enhance the credibility of financial statements and accountability performance. Pamungkas (2012) also demonstrated that financial supervision strengthens accountability by improving reporting quality.

H3: Quality supervision of financial reports has a positive effect on the performance accountability of government agencies.

3. Data and Method

Research Type

The research design in this study is correlational, which is a study to determine the relationship and level of relationship between two or more variables without any attempt to influence the variables, thus eliminating variable manipulation (Frankel & Wallen, 2008).

Data Collection

The data used in this study are primary. According to Narimawati (2008), primary data is obtained directly from sources. It is not available in compiled form or files. Therefore, it must be collected through informants or respondents who provide the required information. In this study, data were collected via a research questionnaire using a Likert scale to assess respondents' perceptions of the variables under study.

Research Object and Respondents

According to Sugiyono (2009), the definition of a research object is "an attribute, characteristic, or value of a person, object, or activity that has certain variations determined by the researcher to be studied and then conclusions drawn." In this study, the research object is the East Jakarta city government. Respondents in the Indonesian dictionary are those who are required or responsible persons. Therefore, a research respondent can be defined as someone who is asked to respond (answer) to questions posed by the researcher. In research, a respondent is asked to provide information about a fact or opinion. This information can be provided in written form, for example, when filling out a questionnaire, or orally, for example, during an interview. In this study, there were 16 respondents, namely all employees in the finance department, consisting of the head of finance, the head of the program and budget subsection, the head of the financial administration subsection, the head of the treasury subsection, and staff.

4. Results

Normality Test

The normality test assesses whether each variable is normally distributed. The normality test is necessary because it assumes that the residual values follow a normal distribution when testing other variables. This result can be obtained by examining the histogram of the residuals. The results of this research's normality test can be seen in Figure 1 below:

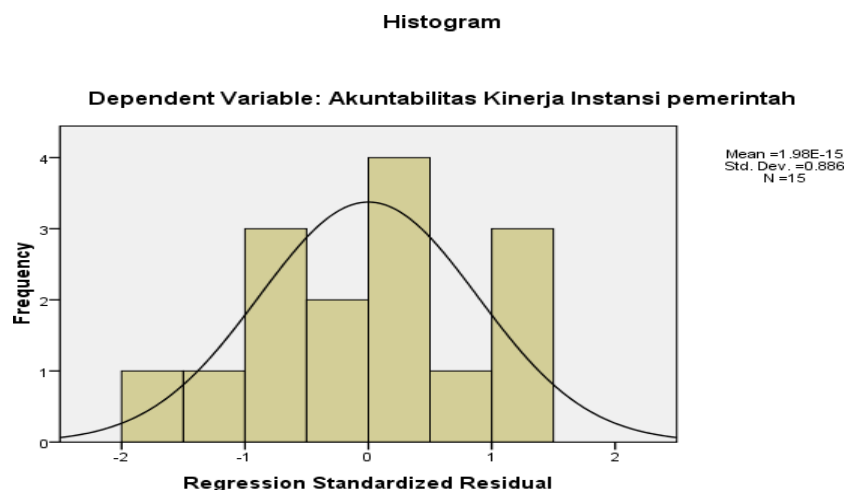


Figure 1. Histogram Graph

The image above is a normality test based on a graph. When plotted, the residual values form a graph like the one shown above. The curved shape above represents the standard normal distribution. Visually, the residual data appear to be normally distributed.

Heteroscedasticity Test

Heteroscedasticity is detected by observing the presence or absence of a specific pattern in the graph above, where the X-axis represents the predicted Y and the Y-axis represents the residual (predicted Y – actual Y).

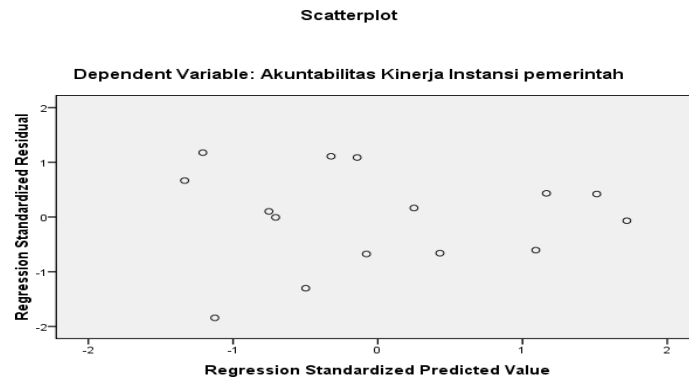


Figure 2. Heteroscedasticity Test – Scatterplot Image

Based on the figure above, it can be seen whether the points are scattered or do not form a specific pattern. Therefore, the data in this study are not affected by heteroscedasticity.

Multicollinearity Test

The multicollinearity test aims to determine whether there is a correlation in the regression model between the independent variables, namely, accrual basis, performance-based budgeting, and financial reporting quality monitoring. A good regression model should not correlate with the independent variables. One way to detect multicollinearity in a regression model is to examine tolerance and variance inflation factor (VIF) values. The results of the multicollinearity test in this study can be seen in Table 1:

Table 1. Multicollinearity Test Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	,798	,419		1,906	,083		
Accrual Basis	,226	,093	,337	2,431	,033	,586	1,706
Performance-Based Budgeting	,406	,094	,523	4,320	,001	,770	1,299
Financial Report Quality Monitoring	,251	,112	,298	2,237	,047	,638	1,568

Source: Data Processing Results, 2017

The Table above shows no multicollinearity in the regression model used to test the hypotheses. The independent variable, accrual basis, has a tolerance value greater than 0.10 (0.586) and a VIF value less than 10 (1.706). Meanwhile, the performance-based budgeting variable has a tolerance value greater than 0.10 (0.770) and a VIF value less than 10 (1.299). Financial report quality oversight has a tolerance value greater than 0.10 (0.638) and a VIF value less than 10 (1.568). Therefore, the regression model does not exhibit multicollinearity, and this study is considered ideal.

T-Test

This t-test examines the effects of accrual-basis accounting, performance-based budgeting, and oversight of financial report quality on government agency performance accountability. The significance of this regression model was tested by examining the sign of the regression

coefficient. The results of this partial test, or t-test, are shown in Table 2.

Table 2. T-Test Results.

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.798	.419		1.906	.083
Accrual Basis	.226	.093	.337	2.431	.033
Financial Report Quality Monitoring	.406	.094	.523	4.320	.001
Performance-Based Budgeting	.251	.112	.298	2.237	.047

Source: Data Processing Results, 2017

Partial test results indicate that all independent variables significantly influence government agencies' performance accountability. The implementation of the accrual basis had a positive effect, as the t-value exceeded the t-table value and the significance value was below 0.05; thus, the hypothesis was accepted. Performance-based budgeting also had a significant effect, with a t-value exceeding the t-table value and a significance value less than 0.05; thus, the hypothesis was accepted. Furthermore, financial reporting quality oversight also demonstrated a significant effect on performance accountability, as indicated by a t-value exceeding the t-table and a significance value below 0.05; thus, this hypothesis was also accepted.

5. Discussion

The Effect of Accrual Basis Implementation on Government Agency Performance Accountability

The results of this study indicate that implementing the accrual basis positively affects the performance accountability of government agencies. This finding indicates that the better the quality of accrual basis implementation, the greater the ability of government agencies to present transparent, comprehensive, and relevant information to account for their performance. The accrual basis enables the government to comprehensively record all economic transactions, providing a more complete picture of the financial position and program performance. This strengthens oversight mechanisms and increases the reliability of information as a basis for public evaluation. These results align with research by Ahyaruddin and Akbar (2018), which shows that the accrual basis improves the quality of financial information, thereby enhancing public accountability. Indriasari and Nahartyo (2018) also found that adopting the accrual basis helps the government produce more transparent financial reports and provides a basis for credible performance evaluations. Furthermore, Haryanto and Utama (2019) confirmed that adopting the accrual basis significantly increases accountability in government financial reporting and management. The consistency of these findings strengthens the argument that the accrual basis is a crucial foundation for achieving public performance accountability.

The Effect of Performance-Based Budgeting on Government Agency Performance Accountability

The research results show that performance-based budgeting positively influences performance accountability. This means that the use of output- and outcome-oriented budgets encourages government agencies to be more transparent in planning, implementing, and evaluating programs based on results. By requiring agencies to establish indicators, targets, and systematically evaluate performance, performance-

based budgeting strengthens the link between the use of public resources and the resulting benefits to the public. This finding aligns with research by Sari and Endiana (2020), which shows that implementing performance budgeting improves target clarity and accountability in budget management. Rahman (2021) also found that performance-based budgeting can promote transparency and improve the quality of performance evaluations in government agencies. Furthermore, research by Haspiarti (2012) concluded that planning, measurement, and evaluation within a performance-based budgeting framework significantly strengthen government agency accountability. The consistency of these findings indicates that performance-based budgeting is an effective instrument for improving governance and public accountability.

The Effect of Financial Report Quality Oversight on Government Agency Performance Accountability

Oversight of financial report quality has been found to impact government agency performance accountability positively. When oversight is conducted rigorously and systematically by both internal and external supervisors the potential for errors, irregularities, and discrepancies in financial report preparation can be minimized. Reliable financial reports provide a strong basis for objective, transparent, and accountable performance evaluations in accordance with public financial management standards. These findings align with Setyaningrum's (2017) research, which shows that audit quality plays a crucial role in enhancing the credibility of financial reports and public accountability. Widiyanto and Bawono (2020) also found that effective internal oversight and control improve accountability in local government reporting. Furthermore, Rifai and Wicaksono (2021) demonstrated that effective oversight directly contributes to the reliability of financial reporting and performance accountability. These findings support the idea that the quality of supervision is a key factor in ensuring that government financial reports serve as a valid basis for accountability.

6. Conclusion

The research results show that implementing the accrual basis, performance-based budgeting, and monitoring the quality of financial reports consistently improve the performance accountability of government agencies. These findings demonstrate that the quality of financial information, the budget's orientation toward achieving results, and the effectiveness of supervisory mechanisms are essential foundations for strengthening transparency and the government's ability to account for performance credibly. These three variables complement each other in creating a public financial management system capable of producing reliable information as a basis for performance evaluation, while also aligning with the research objective of assessing the determinants of accountability in the public sector.

From a managerial perspective, this research has important implications for government agencies, particularly in strengthening performance management and accountability systems. The government needs to increase the capacity of its apparatus to implement the accrual basis, improve the quality of planning and indicator-setting in performance-based budgeting, and strengthen internal and external oversight functions so that the resulting financial reports can serve as more effective evaluation instruments. Furthermore, strengthening regulations, optimizing financial information systems, and improving audit quality are necessary to ensure that budget management and performance reporting processes are carried out in accordance with the principles of transparency and accountability.

Recommendation

The government needs to improve civil servants' competency in implementing the accrual basis through ongoing technical training, strengthen the quality of planning and performance indicators in performance-based budgeting, and optimize internal oversight functions using audit technology and data analytics. Agencies are also advised to improve their financial reporting information systems to make them more integrated and real-time. Furthermore, oversight bodies need to expand the scope of evaluations to ensure alignment between program implementation, budget utilization, and performance achievements, thereby enhancing public accountability.

Limitations and avenues for future research

This study is limited by its reliance on self-reported questionnaire data, which may introduce response bias and restrict objective measurement. The cross-sectional design also limits the ability to observe changes in accountability over time. The research focuses on specific variables, excluding other potential determinants such as organizational culture or digital governance. Future studies should use mixed-method or longitudinal approaches, include broader variables, and expand the sample scope to strengthen generalizability and provide deeper insights into factors influencing public sector accountability.

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