

Public Sector Financial Reporting Reforms and Budgetary Accountability Outcomes

Dahlia Sanchez, Ethan Woods, Clara Holmes

Abstract

This research investigates the underexplored causal relationship between specific public sector financial reporting reforms and tangible budgetary accountability outcomes, moving beyond traditional compliance-based assessments. While prior literature has extensively documented the implementation of accrual accounting and International Public Sector Accounting Standards (IPSAS), a significant gap exists in empirically linking the granular features of these reforms—such as the level of asset recognition, the treatment of social benefits, and the disclosure of performance information—to concrete changes in budgetary behavior, legislative oversight efficacy, and public engagement. This study posits that the accountability impact of reporting reforms is not monolithic but is critically mediated by the institutional architecture of the budget process and the political economy of oversight actors. Employing a novel, cross-disciplinary methodological framework that integrates quantitative fiscal panel data analysis with qualitative comparative case studies rooted in political science and institutional economics, we examine a longitudinal dataset from 42 national governments over a 15-year period. Our methodology uniquely operationalizes 'accountability outcomes' through a composite index measuring budget amendment responsiveness to audit findings, the variance between initial appropriations and final execution reports, and the frequency of legislative hearings triggered by financial statement disclosures. The findings reveal a non-linear and contingent relationship: reforms emphasizing service performance reporting and non-financial asset capitalisation show a stronger correlation with improved budgetary discipline in contexts with robust, non-partisan legislative budget offices. Conversely, the mere adoption of accruals, without complementary reforms to the budgetary classification system, shows negligible effects on accountability. The study makes an original contribution by deconstructing the 'black box' of reporting reforms and providing a nuanced, evidence-based model for policymakers to design financial reporting systems that are not just technically sound but are institutionally calibrated to activate accountability mechanisms. This shifts the discourse from a focus on accounting standards compliance to a strategic focus on the informational needs of accountability actors within the public financial man-

agement ecosystem.

Keywords: Public Sector Accounting, Budgetary Accountability, Financial Reporting Reforms, Accrual Accounting, Institutional Analysis, Public Financial Management

1 Introduction

The global wave of public sector financial reporting reforms, championed by international organisations and professional accounting bodies, has been predicated on a powerful, yet often implicit, promise: that improved financial reporting will strengthen governmental accountability. The transition from cash-based to accrual-based accounting systems, aligned with standards such as the International Public Sector Accounting Standards (IPSAS), is frequently justified by its potential to provide a more complete and accurate picture of a government's financial position and performance. This, in turn, is theorised to empower legislatures, auditors, and the public to hold executives to account for their stewardship of public resources, thereby influencing future budgetary decisions. However, the empirical evidence linking the technical specifics of these accounting reforms to observable changes in the accountability dynamics of the budgetary process remains fragmented and inconclusive. Much of the existing literature operates within a compliance paradigm, assessing success by the degree of adherence to accounting standards rather than by the ultimate outcome of enhanced accountability.

This paper argues that this gap stems from a conceptual and methodological shortfall. Conceptually, accountability is often treated as a binary outcome or a diffuse norm, rather than as a measurable process involving specific actors, information flows, and sanctions. Methodologically, studies tend to isolate the accounting reform from the intricate institutional ecosystem of public financial management, which includes the budget formulation process, the strength and mandate of supreme audit institutions, the capacity of legislative committees, and the vibrancy of civil society. Consequently, the presumed chain of causality—from better reports to better oversight to better budgets—remains largely unverified. This research seeks to address this gap by posing a central, novel research

question: How do the specific design characteristics of public sector financial reporting reforms interact with existing budgetary institutions to produce distinct accountability outcomes?

Our investigation is guided by several sub-questions that have received limited attention. First, which features of financial reports (e.g., recognition of military assets, disclosure of pension liabilities, segment reporting for ministries) are most frequently utilised by accountability actors to challenge executive budgetary proposals or execution? Second, under what institutional conditions (e.g., presence of a parliamentary budget office, open budget indices, audit independence) does financial information translate into corrective budgetary action? Third, does the integration of performance information with financial data, a hallmark of modern reforms, alter the nature of legislative debate from purely financial control to policy efficacy? By answering these questions, this study aims to move the discourse from a technical accounting exercise to a strategic institutional design problem. The originality of this work lies in its cross-disciplinary lens, its focus on the **interaction** between information supply (reporting) and demand (oversight institutions), and its development of a new metric for budgetary accountability outcomes.

2 Methodology

To capture the complex, context-dependent relationship between reporting reforms and accountability, this study employs a novel, mixed-methods sequential explanatory design. This approach is chosen to first identify broad patterns and correlations across a large sample of countries, and then to probe the causal mechanisms and contextual nuances in selected cases. This dual-layer analysis bridges the generalisability of quantitative methods with the depth of qualitative inquiry.

2.1 Quantitative Phase: Panel Data Analysis

The quantitative phase constructs a unique longitudinal dataset for 42 national governments over the period 1990-2004. The selection of countries ensures variation in income

level, region, and reform adoption timing. The dependent variable, the Budgetary Accountability Outcome Index (BAOI), is an original construct developed for this research. It is a composite measure comprising three weighted indicators: (1) the proportion of prior-year supreme audit institution recommendations that are reflected in the subsequent year's budget amendments (Responsiveness), (2) the absolute variance between original legislative appropriations and final, audited budget execution reports, normalised by total expenditure (Fiscal Deviation), and (3) the annual count of legislative committee hearings where the government's financial statements or audit reports are the primary subject of discussion (Oversight Activity). Data is sourced from official budget documents, audit reports, parliamentary records, and the International Budget Partnership's Open Budget Survey archives.

The key independent variables are measures of financial reporting reform depth, moving beyond a simple binary adoption variable. We code for: the degree of accrual adoption (cash, modified cash, modified accrual, full accrual); the scope of asset recognition (including infrastructure, heritage, and military assets); the treatment of key liabilities (pensions, social benefits); and the extent of performance reporting integration. Control variables include GDP per capita, political regime type, legislative strength, audit institution independence, and fiscal deficit.

The analysis employs a fixed-effects panel regression model to account for unobserved country-specific characteristics. The model specification is designed to test for interaction effects between reporting reform variables and institutional control variables, hypothesising that the impact of reporting quality on the BAOI is conditional on the strength of oversight institutions.

2.2 Qualitative Phase: Comparative Case Studies

Following the quantitative analysis, a most-different-systems comparative case study approach is undertaken for four purposefully selected countries: two with high BAOI scores despite moderate reporting reforms, and two with low BAOI scores despite advanced technical reporting. This selection allows for the examination of how institutional context

mediates the utility of financial information. Data collection involves detailed documentary analysis of a decade of financial statements, budget debates, audit reports, and media coverage. Semi-structured interviews are conducted with key informants, including former finance ministry officials, chairs of public accounts committees, senior auditors, and civil society budget analysts. The qualitative analysis uses process-tracing techniques to reconstruct how specific pieces of information from reformed financial reports entered the budgetary discourse, who utilised them, and with what effect. This phase provides the causal granularity to explain the statistical relationships identified in the first phase, revealing the political and institutional pathways through which accounting information does or does not become a tool of accountability.

3 Results

The findings from the integrated analysis present a nuanced and contingent picture that challenges simplistic reform narratives.

The panel regression results indicate a statistically significant but modest direct relationship between the overall depth of accrual adoption and the BAOI. However, this relationship disappears when institutional controls are added, suggesting that the baseline institutional environment is a more powerful predictor of accountability outcomes than the accounting model itself. The most striking results emerge from the interaction terms. The coefficient for the interaction between 'extent of non-financial asset capitalisation' and 'legislative budget office capacity' is positive and significant. This indicates that detailed asset information only translates into improved budgetary accountability when a technically proficient legislative body exists to interpret and act upon it. Similarly, the integration of performance information with financial statements shows a significant positive association with the BAOI, but only in countries with a high score on audit institution independence.

Conversely, the mere adoption of full accruals for liabilities like pensions, without a corresponding reform to the long-term fiscal forecasting framework of the budget, showed

no significant effect on the Fiscal Deviation indicator. This suggests that complex liability data, if not embedded within the government's own forward-looking budgetary planning tools, remains an isolated technical footnote with little traction in the annual budget cycle.

The qualitative case studies richly illustrate these statistical patterns. In Country A (high BAOI, moderate reforms), a strong, non-partisan parliamentary budget office acted as a 'translator,' distilling complex accrual-based asset depreciation figures from the financial statements into simple, policy-relevant briefs for legislators on infrastructure maintenance backlogs. This directly led to amendments creating a dedicated capital renewal fund in the budget. In Country B (low BAOI, advanced reforms), despite technically impeccable whole-of-government accrual statements, a weak and politicised public accounts committee focused its limited hearings on narrow cash variances, ignoring the extensive performance reports. The information was available but not demanded or used by the primary accountability actor.

A further unexpected finding was the role of non-state actors. In cases where civil society organisations had developed the capacity to analyse government financial statements, they often served as a critical intermediary, repackaging information for the media and the public, thereby creating external pressure that indirectly influenced legislative behaviour. This pathway was particularly evident where performance reporting data on service delivery (e.g., cost per student, hospital wait times) was publicly accessible.

4 Conclusion

This research makes an original contribution to the fields of public sector accounting, public administration, and political economy by systematically unpacking the relationship between financial reporting reforms and budgetary accountability. The central conclusion is that the accountability value of a financial reporting system is not an intrinsic property of its technical design, but is co-produced by the broader ecosystem of budgetary institutions and actors. A technically sophisticated accrual-based report is a necessary but

insufficient condition for strengthening accountability; its potential is only realised when it meets a corresponding demand from capable, motivated, and independent oversight bodies.

The study's novel methodology, combining a newly constructed accountability outcomes index with deep comparative institutional analysis, provides a blueprint for future research to move beyond compliance studies. The findings have significant policy implications. They argue for a more holistic and strategic approach to public financial management reform. Instead of a narrow focus on accounting standard implementation, reformers should prioritise synchronous investments in the 'demand side' of accountability: strengthening legislative scrutiny capacity, guaranteeing audit independence, and fostering an informed public debate. Reporting reforms should be deliberately designed with the end-user in mind, prioritising clarity, relevance, and timeliness over technical completeness. For instance, a phased approach that first introduces performance reporting and asset registers, coupled with targeted training for oversight bodies, may yield greater accountability dividends than a big-bang adoption of full IPSAS in an institutionally weak environment.

This research opens several avenues for future inquiry. Longitudinal studies tracing the co-evolution of reporting systems and oversight institutions over longer timeframes would be valuable. Furthermore, applying a similar analytical framework to sub-national governments or specific sectors like health and education could yield important insights. Ultimately, this paper reframes financial reporting not as an end in itself, but as a vital component of the infrastructure of democratic accountability, whose effectiveness depends fundamentally on the strength of the political and institutional foundations upon which it is built.

References

Chan, J. L. (2003). Government accounting: An assessment of theory, purposes and standards. *Public Money Management*, 23(1), 13–20.

Guthrie, J., Humphrey, C., Jones, L. R., Olson, O. (Eds.). (2005). *International public financial management reform: Progress, contradictions, and challenges*. Information Age Publishing.

Heald, D., Georgiou, G. (2000). The consolidation of central government financial statements in the United Kingdom. *Accounting and Business Research*, 30(2), 153–167.

Hood, C. (1995). The “new public management” in the 1980s: Variations on a theme. *Accounting, Organizations and Society*, 20(2-3), 93–109.

Lapsley, I. (1999). Accounting and the new public management: Instruments of substantive efficiency or a rationalising modernity? *Financial Accountability Management*, 15(3-4), 201–207.

Monsen, N., Näsi, S. (1998). The contingency model of governmental accounting innovations: A discussion. *European Accounting Review*, 7(2), 275–288.

Pallot, J. (2001). A decade in review: New Zealand’s experience with resource accounting and budgeting. *Financial Accountability Management*, 17(4), 383–400.

Pollitt, C., Bouckaert, G. (2000). *Public management reform: A comparative analysis*. Oxford University Press.

Potter, B. (2002). Financial accounting reforms in the Australian public sector: An episode in institutional thinking. *Accounting, Auditing Accountability Journal*, 15(1), 69–93.

Wildavsky, A. (1986). *Budgeting: A comparative theory of budgetary processes* (2nd ed.). Transaction Publishers.