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Budget Transparency and Internal Control Systems in Enhancing Financial Reporting Quality

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Abstract

Purpose: This study examines the effects of budget transparency and internal control systems on financial reporting quality in local government, with public accountability as a mediating variable.

Research Methodology: A quantitative explanatory approach using Partial Least Squares Structural Equation Modeling (PLS-SEM) was applied. Data were collected through questionnaires from 150 structural officials across 28 Regional Apparatus Organizations (*Organisasi Perangkat Daerah* [OPD]) in Merauke Regency, Indonesia, selected using proportional stratified random sampling.

Results: Budget transparency ($\beta = 0.298$, $p = 0.001$) and internal control systems ($\beta = 0.341$, $p < 0.001$) significantly improve public accountability, with internal control systems as the strongest predictor. Public accountability significantly enhances financial reporting quality ($\beta = 0.521$, $p < 0.001$). Mediation analysis confirms that public accountability significantly mediates the relationship between budget transparency ($\beta = 0.155$, $p = 0.021$) and internal control systems ($\beta = 0.178$, $p = 0.011$) with financial reporting quality.

Conclusions: Strengthening budget transparency, internal controls, and public accountability can improve local government financial reporting quality.

Limitations: The study focuses only on structural officials in Merauke Regency, South Papua, limiting broader generalization.

Contributions: This study highlights public accountability as an institutional mechanism linking governance practices and financial reporting quality, provides evidence from Eastern Indonesia, and offers practical insights for public sector governance reform by emphasizing the importance of internal control systems.

Keywords: *Budget Transparency, Financial Reporting Quality, Internal Control Systems, Local Government, Public Accountability*

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1. Introduction

Financial reporting is important for making the public sector more open, accountable, and well-run (Panggeso, Nirwana, & Haliah, 2024). Government financial statements are a key way to show how public resources are used and managed by the government. High-quality financial reports enable stakeholders, such as the public, lawmakers, and oversight bodies, to judge how well the government is performing and ensure that public money is being spent wisely (Fakhrurrazi, Rachman, & Digdowiseiso, 2024). Consequently, governments at both the national and regional levels are concerned about improving the quality of financial reporting.

Local governments in Indonesia must follow the Government Accounting Standards (SAP) when preparing financial statements (Irfana, 2025). They must also ensure that these reports demonstrate transparency and accountability in the public financial management. However, achieving high-quality financial reporting remains challenging. Several factors affect the reliability and transparency of financial reports, including the degree of budget transparency and the effectiveness of internal control systems (Kuntadi & Livrianti, 2023). Weaknesses in these areas may lead to incomplete disclosure, inaccurate financial information, and erosion of public trust in government institutions.

Most researchers agree that budget transparency is an important part of strengthening public financial governance (Fathirah, Nirwana, & Haliah, 2024). Transparent budgeting means that the public can access and understand how public funds are allocated and spent. The effectiveness of internal control systems is another critical factor affecting the quality of financial reporting. Internal control systems are designed to ensure regulatory compliance, protect public assets, and support accurate financial reporting in the public sector (Rexhepi, Maloku, & Lushi, 2023). When internal control systems function effectively, they establish a structured framework for financial management that is open and accountable (Kurniawan, Haliah, & Kusumawati, 2024).

These factors are strongly connected to public accountability. Public accountability means that government agencies must explain and justify their use of public resources to stakeholders (Barrett, Corbet, & Larkin, 2020). Government agencies are more likely to provide clear, accurate, and reliable financial information when strong accountability systems exist (Suhardi, Pribadi, & Losi, 2023). In this context, public accountability may be the critical link between sound governance practices and high-quality financial reporting. Several studies have examined the factors influencing the quality of financial reporting in Indonesian local governments.

Prawati and Murwaningsari (2024) found that governance factors such as internal controls and human resource competence directly affect reporting quality in regional governments; however, they did not examine accountability as a mediating mechanism. Similarly, Annisa and Fitra (2025) identified budget transparency and internal control systems as direct determinants of financial report quality in West Sumatra regional governments, reporting significantly positive effects. However, they treated these relationships as direct, without considering whether accountability processes explain these effects. Kuntadi and Livrianti (2023) demonstrated that information systems and internal controls improve government financial report quality, but they did not isolate the role of accountability as an intermediary variable. These studies produce consistent findings on the direction of effects but leave unexplained the institutional mechanism that translates good governance into better financial reports.

This gap is particularly significant in contexts where governance capacity is uneven, such as in the regional governments of Eastern Indonesia. Public accountability may be a critical intervening condition, such as governance mechanisms may only improve financial reporting if they first strengthen accountability norms and practices within the institution (Apeloko, 2020). Without establishing this mediating pathway, policymakers may invest in governance reforms without understanding the institutional conditions necessary for these reforms to translate into reporting improvements. This study addresses this gap by positioning public accountability as a mediating variable, providing empirical evidence of this mechanism in the specific context of Merauke Regency, South Papua.

2. Literature Review and Hypotheses Development

2.1 Theoretical Foundations

This study is based on a number of theoretical points of view that help explain how governance practices and the quality of financial reporting are linked in the public sector. According to Kivistö and Zalyevska (2015), agency theory explains the relationship between government institutions as agents and the people as principals. There may be an information gap between the government and the people because government officials have more access to information on how to manage public resources. Transparent budgeting, accurate financial reporting, and strong internal control systems are some ways to close this information gap and gain the public's trust (Mierlita, Tiron-Tudor, & Stanca, 2025).

Accountability Theory also states that public institutions have a duty to tell their stakeholders how they use public resources (Couto & Ferreira, 2020). The government must provide the public with clear and correct financial information to be accountable. These different theoretical perspectives work together to help us understand how budget transparency and internal control systems work together to make local governments more accountable and improve the quality of financial reporting.

2.2 Budget Transparency and Public Accountability

Budget transparency means that government agencies are open about how they plan, spend and allocate public funds. This information should be easy for the public to find and comprehend (Naik, Nagargoje, Patil, & Raikar, 2024). Budget transparency allows people to monitor how public money is spent. In public sector management, transparency and public accountability are closely linked. When budget information is publicly available, it is easier to hold government agencies accountable for their financial choices and results (Rahmat, 2020). When financial information is clear, stakeholders can check whether public resources are being used correctly and in line with the rules. Therefore, greater openness about the budget should make the public more accountable.

Empirical evidence on this relationship is generally consistent but varies in strength, depending on the context. Fathirah et al. (2024) found a significant positive effect of budget transparency on accountability in Indonesian local governments (β = 0.312), while Rahmat (2020) reported that transparency in regional budget processes contributed to public accountability, particularly when budget information was actively disseminated rather than merely published. Naik et al. (2024) similarly confirmed this relationship in a platform-based study, although they noted that access to information alone is insufficient; the public must also have the capacity to interpret budget data for accountability mechanisms to function effectively. These findings collectively suggest that the transparency-accountability relationship depends on the quality and accessibility of budget information, not merely its availability.

H_1: Budget transparency positively affects public accountability

2.3 Internal Control Systems and Public Accountability

Internal control systems refer to the policies and procedures that ensure that the government manages its finances effectively, efficiently, and in accordance with applicable regulations (Chawla, Shalini, & Singh, 2023). In the public sector, internal control systems are designed to safeguard public assets, prevent errors and fraud, and ensure accurate financial reporting. Effective internal controls provide government agencies with a structured framework for responsible financial management (Rexhepi et al., 2023). Strong internal control systems are important for reinforcing public accountability. When financial management processes are supported by robust controls, government agencies can better demonstrate that public resources are managed responsibly, regulations are adhered to, and transparency is maintained (Pratiwi, Hali, & Kusumawati, 2024). This, in turn, facilitates government institutions in explaining their financial decisions and performance to their stakeholders. Therefore, effective internal control systems should enhance public accountability.

Empirically, the internal control-accountability relationship has been confirmed in multiple contexts. Chawla et al. (2023) demonstrated a significant positive relationship between internal control quality and financial management accountability in local government settings. Pratiwi et al. (2024) reported that internal controls were among the strongest predictors of financial accountability in Indonesian public-sector entities ($\beta = 0.389$). Kuntadi and Livrianti (2023) noted that the effectiveness of internal controls in strengthening accountability depends critically on implementation fidelity; organizations with formal control systems that are weakly enforced show significantly lower accountability outcomes (Chong, Ferdiansah, Wang, & Woodliff, 2026). This suggests that the presence of internal control policies is necessary but not sufficient, as consistent enforcement and monitoring are equally important factors.

H_2: Internal control systems positively affect public accountability

2.4 Budget Transparency and Financial Reporting Quality

Budget transparency means that government agencies are clear about how they make plans, spend money, and follow their budgets (Kachi et al., 2025). When budgeting is done clearly, stakeholders can obtain important financial information and see how public resources are used. More transparency in the budgeting process makes it easier for government agencies to provide clear and consistent financial information. The quality of financial reporting is closely related to transparency in public financial management (Kraai, Ndevu, & Matsiliza, 2023). When budget information is shared with the public, it is easier to prepare financial reports that are more accurate and useful. Managing money clearly also makes it less likely that information will be changed and makes financial reports more trustworthy (Sipahutar, Fadilla, Nadapdap, Nabila, & Supraja, 2025). Thus, better budget transparency should result in better financial reporting.

H_3: Budget transparency positively affects the quality of financial reporting

2.5 Internal Control Systems and Financial Reporting Quality

Government agencies must implement an accurate and reliable internal control system over financial information (Safariah, Zatnika, Nurhasanah, & Kurniasih, 2025). A sound internal control system consists of policies and procedures that safeguard public assets, prevent fraud, and ensure compliance of financial management activities with regulations (Kurniawan et al., 2024). This system helps maintain orderly financial processes and reduces the likelihood of errors or misstatements in financial reporting. Strong internal control systems help produce more accurate and trustworthy financial reports in public financial management. Internal controls help maintain the accuracy of financial information by ensuring that financial transactions are supervised, documented, and verified (Anačkov, 2024). Therefore, effective internal control systems should improve the quality of financial reporting.

H_4: Internal control systems positively affect the quality of financial reporting

2.6 Public Accountability and Financial Reporting Quality

Public accountability means that government agencies must inform their stakeholders how and why they use public resources (Couto & Ferreira, 2020). In the public sector, accountability means that government agencies must be open, honest, and clear about how they use public funds. This duty makes government agencies want to be honest and open about how they handle their money. When government agencies are expected to provide accurate information about their finances and performance, strong public accountability systems can improve financial reporting (Sipahutar et al., 2025). Organizations are more likely to ensure that financial reports are prepared according to standards and are available for public review when they are accountable to stakeholders (Szołno-Koguc, 2018). Therefore, more public accountability should lead to better quality financial reporting.

H_5: Public accountability positively affects the quality of financial reporting

2.7 The Mediating Role of Public Accountability

In the public sector, public accountability plays a key role in connecting governance practices to financial reporting outcomes. Budget transparency and internal control systems are mechanisms that facilitate accountability in public resource management (Fathirah et al., 2024). When these governance mechanisms function effectively, they encourage government agencies to be transparent and responsible for public funds. Heightened public accountability may improve the quality of financial reporting. Transparent budgeting enables public oversight, and strong internal controls ensure that financial management processes are reliable and trustworthy (Rachman et al., 2025). Thus, public accountability may serve as a bridge connecting governance practices to the production of accurate and transparent financial reports (Setyawan, 2025).

H_6: Public accountability mediates the relationship between budget transparency and the quality of financial reporting

H_7: Public accountability mediates the relationship between internal control systems and financial reporting quality

2.8 Conceptual Framework

This study presents a conceptual framework that clarifies the interconnections among the primary variables examined based on the theoretical foundations and relationships previously articulated. The framework includes governance practices, such as budget transparency and internal control systems, which affect the quality of financial reporting. Public accountability acts as a middleman between these factors. These governance tools are meant to make local government institutions more accountable, which will improve the quality of financial reporting. Figure 1 illustrates the concept of this study.

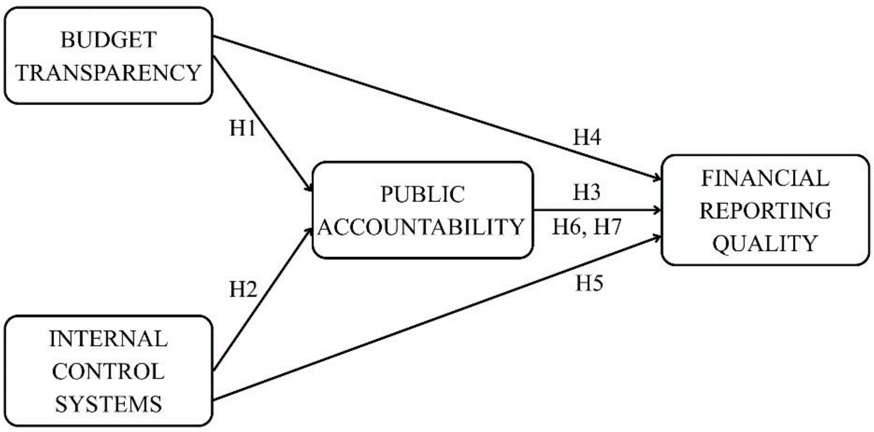

Figure 1. Conceptual framework

3. Research Methodology

3.1 Research Design

This study uses an explanatory quantitative research design to investigate the interrelations among budget transparency, internal control systems, public accountability, and the quality of financial reporting in local government entities. This study aims to investigate both direct and indirect effects among these variables using Structural Equation Modeling (SEM) grounded in Partial Least Squares (PLS-SEM). This method is suitable for examining the intricate relationships among several latent variables and evaluating mediation effects within the proposed research framework (Hair, Hult, Ringle, & Sarstedt, 2022).

3.2 Population and Sample

This study examined structural officials OPD in Merauke Regency who were in charge of managing the region's money. These officials were responsible for planning, implementing, and reporting on the government budget. They were department or agency heads, secretaries, division or section heads, subdivision heads, and other officials. Data were gathered from local government employees, totaling 509 structural officials across 28 OPDs.

This study utilized a proportional stratFormula 1ified random sampling method, categorizing each OPD as a stratum and randomly selecting respondents from each stratum according to its population size. The determination of the sample size considers the complexity of the research model, which encompasses several latent variables examined via PLS-SEM. A sample size of 100 to 200 respondents is usually considered sufficient for stable parameter estimates in PLS-SEM analysis (Sholihin & Ratmono, 2013). The sample size of this study was 150 respondents, which is in line with the size of the population and the need for proportional representation across OPDs. The allocation of samples across OPDs adhered to the proportional allocation formula (Creswell, 2014):

$$n_i = \frac{N_i}{N} xn \tag{1}$$

From Formula 1, where ni represents the number of samples in the i-th OPD, Ni represents the population of the i-th OPD, N is the total population (509), and n is the total sample size (150).

3.3 Data Collection Technique

The data for this study were gathered through a structured questionnaire administered to the respondents in each OPD. The questionnaire assessed respondents' views on budget transparency, the use of information technology, internal control systems, public accountability, and the quality of financial reporting. A five-point Likert scale was used to measure responses, with 1 being "strongly disagree" and 5 being "strongly agree."

3.4 Measurement of Variables and Research Instrument

We used a structured questionnaire to collect primary data from people working for local government agencies. The questionnaire was created using ideas from the research framework, and the measurement items were changed from earlier studies to fit how local governments handle their finances. This method ensures that the tool remains theory-based while also showing the real-life situations that people deal with at work every day. Table 1 summarizes how each variable was measured and the main sources.

Table 1. Measurement of research variables

Variables	Description	Main Source
Budget Transparency	The extent to which budget information is openly accessible, clearly communicated, and easily understood by stakeholders	(Guillamón, Bastida, & Benito, 2011)
Internal Control System	Organizational mechanisms designed to ensure reliability of financial reporting, operational effectiveness, and regulatory compliance	(Bodnar & Hopwood, 2010) (Romney et al., 2012)
Public Accountability	The obligation of public institutions to explain and justify their financial management and performance to the public	(Mahmudi, 2010) (Mardiasmo, 2009)
Financial Reporting Quality	The extent to which financial reports are relevant, reliable, understandable, and useful for decision making	(Sholohah, Sulistyawati, & Santoso, 2019)

3.5 Data Analysis Technique

We used SmartPLS software to analyze the data using Partial Least Squares-based Structural Equation Modeling (PLS-SEM). The analysis consisted of two phases: evaluation of the outer model (measurement model) and evaluation of the inner model (structural model). Convergent validity, discriminant validity, and composite reliability were evaluated for the measurement model. Structural model evaluation analyzed path coefficients, the coefficient of determination (R^2), and the significance of both direct and indirect relationships among variables

4. Results and Discussions

4.1 Sample Characteristics

The study participants were structural officials from the OPD in Merauke Regency, responsible for managing regional finances. Local government records indicate that there are 509 structural officials distributed across 28 OPDs. To account for variations in group size, proportionate stratified random sampling was applied, with each OPD treated as a stratum and respondents selected proportionally to their numbers.

4.2 Descriptive Statistics

Descriptive statistics were calculated to provide an overview of the respondents' perceptions of the variables examined in this study.

Table 2. Descriptive statistics of research variables

Variables	Mean	Std. Dev
Budget Transparency	3.87	0.62
Internal Control System	4.01	0.57
Public Accountability	3.90	0.61
Financial Reporting Quality	4.05	0.55

The Table 2 show that most people who answered the question thought that OPDs in Merauke Regency were doi: https://doi.org/ng a good job of following financial governance practices. The variable with the highest mean value was financial reporting quality, which means that most people thought that the quality of financial reporting was pretty good.

4.3 Measurement Model Assessment

The measurement model was evaluated to assess the indicator reliability, internal consistency reliability, and convergent validity.

4.3.1 Indicator Reliability

Table 3. Outer loadings

Variables	Indicator	Loading
Budget Transparency	BT1	0.812
	BT2	0.845
	BT3	0.801
	BT4	0.834
Internal Control	ICS1	0.824
	ICS2	0.851
	ICS3	0.833
	ICS4	0.809
Public Accountability	PA1	0.842
	PA2	0.861
	PA3	0.817
	PA4	0.836
Financial Reporting Quality	FRQ1	0.848
	FRQ2	0.867
	FRQ3	0.822
	FRQ4	0.839

Table 3 presents the outer loading values for all indicators used to measure Budget Transparency, Internal Control System, Public Accountability, and Financial Reporting Quality. All indicators obtained loading values above the commonly recommended threshold of 0.70, with values ranging from 0.801 to 0.867. Budget Transparency indicators recorded loadings between 0.801 and 0.845, while the Internal Control System indicators ranged from 0.809 to 0.851. Public Accountability showed loading values between 0.817 and 0.861, and Financial Reporting Quality recorded values between 0.822 and 0.867, including FRQ4 with a loading of 0.839. These results indicate that each indicator has a strong contribution to its respective construct and provides satisfactory evidence of convergent validity. Therefore, all indicators can be retained for the subsequent PLS-SEM analysis.

4.3.2 Internal Consistency Reliability

Table 4. Construct reliability

Variables	Cronbach Alpha	Composite Reliability
Budget Transparency	0.842	0.894
Internal Control System	0.851	0.901
Public Accountability	0.856	0.904
Financial Reporting Quality	0.863	0.908

Table 4 presents the construct reliability results based on Cronbach's Alpha and Composite Reliability. All four constructs achieved values above the recommended threshold of 0.70, indicating satisfactory internal consistency and reliability of the measurement instruments. Budget Transparency recorded a Cronbach's Alpha of 0.842 and Composite Reliability of 0.894, while the Internal Control System obtained values of 0.851 and 0.901, respectively. Public Accountability showed Cronbach's Alpha of 0.856 and Composite Reliability of 0.904, whereas Financial Reporting Quality recorded the highest reliability values, with a Cronbach's Alpha of 0.863 and Composite Reliability of 0.908. These results indicate that the indicators used to measure each construct consistently represent their respective latent variables and are therefore suitable for subsequent analysis using PLS-SEM.

4.3.3 Convergent Validity

Table 5. Convergent validity

Variables	AVE
Budget Transparency	0.678
Internal Control System	0.695
Public Accountability	0.704
Financial Reporting Quality	0.711

Table 5 presents the results of convergent validity assessed using the Average Variance Extracted (AVE). All constructs obtained AVE values above the recommended threshold of 0.50, with Budget Transparency recording 0.678, Internal Control System 0.695, Public Accountability 0.704, and Financial Reporting Quality 0.711. These results indicate that each construct explains more than half of the variance in its respective indicators, confirming that the indicators adequately represent their underlying constructs and providing evidence of satisfactory convergent validity.

Table 6. Discriminant validity (HTMT ratio)

Variables	BT	ICS	PA	FRQ
Budget Transparency (BT)				
Internal Control System (ICS)	0.724			
Public Accountability (PA)	0.731	0.768		
Financial Reporting Quality (FRQ)	0.698	0.741	0.812	

Table 6 presents the results of discriminant validity using the Heterotrait–Monotrait (HTMT) ratio. All HTMT values range from 0.698 to 0.812, remaining below the commonly recommended threshold of

0.90. The highest value is observed between Public Accountability and Financial Reporting Quality (0.812), while the lowest is between Budget Transparency and Financial Reporting Quality (0.698). These results indicate that each construct is sufficiently distinct from the other constructs in the model, confirming adequate discriminant validity and supporting the suitability of the measurement model for subsequent PLS-SEM analysis (Hair et al., 2022).

4.4 Structural Model Assessment

The structural model was evaluated using path coefficients, t-statistics, and p-values obtained from the bootstrapping analysis. The hypothesis testing results obtained from the bootstrapping analysis are presented in Table 7, which illustrates the significance of the proposed relationships between variables in the structural model.

Table 7. Hypothesis testing

Relationship	Path Coefficient	t-value	p-value	Result
Budget Transparency → Public Accountability	0.298	3.214	0.001	Supported
Internal Control System → Public Accountability	0.341	3.765	0.000	Supported
Budget Transparency → Financial Reporting Quality	0.187	2.143	0.032	Supported
Internal Control System → Financial Reporting Quality	0.21	2.467	0.014	Supported
Public Accountability → Financial Reporting Quality	0.521	6.184	0.000	Supported
Budget Transparency → Public Accountability → Financial Reporting Quality	0.155	2.318	0.021	Supported
Internal Control System → Public Accountability → Financial Reporting Quality	0.178	2.541	0.011	Supported

The findings indicate that public accountability is influenced considerably by budget transparency and internal control systems. Moreover, public accountability, budget transparency, and internal control systems have a significant positive effect on the quality of financial reporting. Internal control systems are the most important factor in determining public accountability among governance predictors. This shows that strong control systems are necessary to make local government institutions accountable.

4.5 Coefficient of Determination (R^2)

Table 8 show the coefficient of determination (R^2) was used to assess the model's explanatory power.

Table 8. Coefficient of determination

Endogenous Variable	R^2
Public Accountability	**0.489**
Financial Reporting Quality	**0.412**

Table 8 show that budget transparency and internal control systems account for 48.9% of the variance in public accountability. Budget transparency, internal control systems, and public accountability together account for 41.2% of the variance in financial reporting quality, demonstrating moderate to substantial explanatory power.

4.6 Mediation Analysis

A mediation analysis was performed to investigate whether public accountability serves as a mediator in the relationship between governance factors and the quality of financial reporting. The results show that public accountability is a middleman in the link between governance factors (such as budget transparency and internal control systems) and the quality of financial reporting. This finding suggests that the main way governance practices improve the quality of financial reporting by making public sector organizations more accountable to the public.

4.7 Discussion

This study examines how governance practices contribute to financial reporting quality through the mediating role of public accountability in Local Government Institutions (LGIs). Overall, the results show that budget transparency and internal control systems play important roles in strengthening public accountability, which, in turn, improves financial reporting quality. These findings support the theoretical arguments presented in the literature review and highlight the importance of governance mechanisms in strengthening public sector financial management practices.

First, the results support H_1 by showing that budget transparency has a significant positive effect on public accountability. This result shows that stakeholders can better monitor how the government works when it openly shares budget information and clearly explains how public funds are spent and allocated. As the literature review showed, transparency helps the public and oversight bodies understand how financial decisions are made and whether public resources are being used properly (Naik, Nagargoje, Patil, & Raikar, 2024). According to agency theory, transparency helps bridge the information gap between the government and the people (Kivistö & Zalyevska, 2015). When financial information is easy to find, government agencies are more responsible for their actions and decisions. Open budgeting practices make the public more accountable by allowing them to monitor how money is managed (Krafchik, de Renzio, & Garg, 2025).

Second, the findings validate that internal control systems exert a substantial positive influence on public accountability, thereby corroborating H_2. This finding supports the idea that internal control systems provide a structured way to manage public finances responsibly (Kuntadi & Livrianti, 2023). Good internal controls ensure that financial transactions are properly tracked, recorded, and carried out according to the rules that have been set (Huang & Wang, 2025). These systems help stop mistakes, fraud, and the misuse of public money. When strong control systems back up financial processes, government agencies can better demonstrate that they are using public money wisely. Therefore, internal control systems are important for making public sector organizations more accountable.

Third, it has been shown that both budget transparency and internal control systems have a direct and positive effect on the quality of financial reporting, which supports H_3 and H_4. These findings align with those of previous studies, indicating that transparent financial management and strong internal controls enhance the accuracy, reliability, and credibility of government financial reports (Sipahutar, Fadilla, Nadapdap, Nabila, & Supraja, 2025). Open budgeting makes it harder to change information, and strong controls ensure that financial data are checked and documented systematically.

The study also supports H_5 by showing that public accountability improves financial reporting. This result shows that when government agencies are held accountable, they are more likely to make financial reports that are correct, trustworthy and clear. As mentioned in the literature review, accountability means that government agencies must explain and justify how they use public resources (Szołno-Koguc, 2018). This requirement pushes organizations to follow government accounting rules and report financial information clearly and consistently (Suhardi, Pribadi, & Losi, 2023). Strengthening accountability makes financial reports more reliable and helpful for decision-making, policy evaluation, and public monitoring.

Another significant finding is the mediating role of public accountability in the relationship between governance practices and financial reporting quality, which supports H_6 and H_7. As the literature review showed, governance tools such as budget transparency and internal control systems make it easier for people to be held accountable (Doyosi, Abdullah, & Fadli, 2023). In turn, more accountability leads to better financial reporting. This suggests that governance mechanisms may not directly improve reporting quality unless they also make financial management more accountable. In this case, public accountability is like a bridge between good governance and better financial reporting (Setyawan, 2025).

These results underscore the importance of strengthening governance practices in the local government of Merauke Regency to improve financial reporting. By making budgeting more transparent and reinforcing internal controls, government agencies can be more open and responsible in the management of public resources. As the Merauke Regency continues to develop its administrative and financial management systems, improving these governance practices may enhance public trust in local government institutions.

5. Conclusions

5.1 Conclusion

This study investigates the influence of governance practices on the quality of financial reporting, utilizing public accountability as a mediating variable within local government institutions. The findings indicate that budget transparency and internal control systems considerably enhance public accountability in regional government entities. Increased public accountability, in turn, leads to better-quality financial reporting. Among the governance mechanisms analyzed, internal control systems have the most significant impact on public accountability, highlighting the essential function of organized control protocols in guaranteeing prudent financial-management.

The mediation analysis further substantiates that public accountability is crucial for linking governance practices to financial reporting outcomes. The results demonstrate that improvements in financial reporting quality are not solely attributable to technical or administrative adjustments; they are equally dependent on the degree to which government institutions are accountable to their stakeholders. This study affirms that strengthening accountability systems is essential for advancing transparency and trustworthiness in local government financial management.

From a theoretical standpoint, this study enhances public sector accounting literature by clarifying the mediating function of public accountability in explaining how governance practices affect financial reporting quality. Earlier research has primarily focused on the direct relationships between governance factors and reporting outcomes. This study demonstrates that accountability mechanisms serve as crucial institutional conduits through which transparency and internal control systems improve financial reporting practices.

5.2 Research Limitations

Several limitations should be acknowledged when interpreting the findings of this study. First, the sample is confined to structural officials responsible for financial management across 28 OPDs in Merauke Regency, South Papua, which constrains the generalizability of the findings to other regional government contexts in Indonesia. The cross-sectional research design captures respondents' perceptions at a single point in time, precluding causal inferences or assessments of change over time. Additionally, reliance on self-reported questionnaire data introduces the possibility of common method bias, which may affect the precision of the estimated relationships between variables.

5.3 Suggestions and Directions for Future Research

Strengthening budget transparency efforts and reinforcing internal control systems can substantially improve accountability and the quality of financial reporting in local government settings. For regional governments, such as Merauke Regency, implementing governance improvements can enhance public trust, support more informed decision-making, and enable more effective management of public resources. Future research should expand the sample to encompass multiple regencies or provinces across Eastern Indonesia to enhance the generalizability of the findings. Longitudinal designs would allow researchers to track changes in governance practices and their cumulative effects on financial reporting quality over time. Subsequent studies may also examine additional mediating or moderating variables, such as the use of information technology in financial management, the level of human resource competence, or leadership commitment, to develop a more comprehensive explanation of the determinants of financial reporting quality in the public sector.

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Author Contributions
OI was responsible for the conceptualization, study design, data collection, data analysis, and drafting of the initial manuscript. RU contributed to the analysis and interpretation of the data, manuscript review and revision, and supervision throughout the research process. TA contributed to the literature review, data collection coordination, manuscript editing, and formatting. All authors have reviewed the final version of the manuscript and approved it for publication.

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