

The Role of Accounting in Enhancing Transparency and Accountability in the Public Sector

<https://www.doi.org/10.56830/IJAMS07202505>

Esam O. Elharon 

*School of Government, Government and International Studies, Universiti Utara Malaysia, Kedah, Malaysia
& Finance Manager, Financial Audit Authority, Dubai, United Arab Emirates.*

Esam_omar_saleh@gsgsg.uum.edu.my

Noora A. Hassan 

UUM College of Law, Government and International Studies, Universiti Utara Malaysia, Kedah, Malaysia

noora_ayob_moham@gsgsg.uum.edu.my

Received: 19 May 2025. Accepted: 22 July 2025. Published: 30 July 2025

Abstract

Transparency and accountability are essential cornerstones of effective public sector governance. This paper explores the interrelated nature of these principles, emphasizing that transparency is fundamental for fostering accountability among public officials. By providing accessible and comprehensive information, transparency empowers citizens to make informed decisions regarding governmental policies and actions. Through an analysis of historical governance dimensions, the paper underscores that the expectation of transparency has elevated public sector accounting to a pivotal role in ensuring sound governance practices. Accountability is defined not only as the obligation of public officials to justify their actions but also as a broader concept that relies on transparent information and performance indicators for evaluation. The paper examines the effectiveness of established accounting standards, including the International Public Sector Accounting Standards (IPSAS) and the Governmental Accounting Standards Board (GASB) guidelines, in promoting reliable financial reporting. Additionally, it highlights the critical functions of auditing and internal controls as mechanisms that bolster accountability within the public sector. Ultimately, the findings illustrate that the synergy between transparency and accountability, reinforced by robust accounting practices and standards, is vital for fostering trust and integrity in governmental operations, ensuring responsible use of public resources.

Keywords: Transparency – Accountability – Public Sector – IPSAS – GASB

1. Introduction

Over the past three decades, budgets, financial reporting, and accounting systems in the public sector have received increasing attention from researchers, standard setters, auditors, and practitioners. When it comes to providing financial information, the accounting process acts as a medium through which organizations communicate to users outside the entity to enable them to make alternate decisions. Transparency and accountability hold a crucial place in the operations of the public sector (Jashari & Pepaj, 2018). The standards governing accounting procedures in the public sector worldwide revolve around these two principles. It is, therefore, essential to explore the extent to which accounting enhances transparency and accountability in the public sector.

University accounting education has moved swiftly beyond the traditional focus on the preparation of financial statements and preparing the students for the accounting profession, and it has geared itself towards a multi-disciplinary approach to prepare the students for the rapidly changing and highly demanding employment environment. It therefore sets the students to look beyond matters of facts and figures to consider the social implications of organisational and societal regulation. The principle of transparency needs to be followed to achieve accountability. Transparency requires the public sector to provide necessary information to the public in such a way that all members of the society have physical, electronic or financial access to the information system. A transparent organisation does not withhold information in fear of criticism; rather, it allows members of the public to make objective decisions about policies of an organisation and implements stringent rules to avoid losing patronage. The standard of transparency is a very simple way to instil accountability in the public sector. (Sofyani, Pratolo, & Saleh, 2022)

2. The Concept of Transparency in the Public Sector

Transparency forms the foundation of several dimensions of governance, relevant to major civilizations since antiquity. More recently, it has increasingly been offered as a fundamental principle for business, government, and international organisations. The capacity to hold officials within an organization or political system to account for their actions requires that information regarding those actions be accessible to the wider audience. Availability is a necessary, yet insufficient condition of scrutiny and accountability. In addition, people must have measures at their disposal to punish responsible actors., and must understand the information made available to them (Beckmann, et al., 2012). Hence, government and public administration operations must be conducted transparently to engender public trust and confidence in the apparatus' integrity (Jashari & Pepaj, 2018). This expectation of transparency,

supported by the theoretical virtue of transparency in the governance debate, elevates public sector accounting to a fundamental pillar of sound governance.

3. Defining Accountability in Public Administration

Within the broader goal of government transparency, where informed decision-making is underpinned by the open dissemination of information, the concept of accountability prescribes the necessity for transparent information enabling the public to question and evaluate the actions of public officials (Jashari & Pepaj, 2018). Accountability is defined as the obligation of public officials to answer for the consequences of their decisions and actions (Farhan Mubarak Busenan, Shukri Bakar, & Ramli, 2018). An accounting system interacting with the public sector must produce information enabling a proper assessment of decisions and actions in relation to assigned responsibilities.

Accountability is a considerably broader concept than, but intimately linked to, transparency. Presupposing the provision of transparent information, accountability necessitates mechanisms, such as reporting on performance indicators, to permit an assessment of that information; consequently, how the public holds power-wielders accountable must be relatively transparent to the public itself." (Efunniyi, Abhulimen, Obiki-Osafiele, Osundare, Agu, & Adeniran, 2024)

4. Examining the Effectiveness of Governmental Accounting Standards

The ability to report relevant and reliable financial information to citizens and their agents is a cornerstone of accountability and hinges on proper accounting standards. These standards are designed to ensure the completeness, neutrality, and timeliness of financial reports that describe the operational results and financial condition of public sector entities. International Public Sector Accounting Standards (IPSAS) and the guidelines prescribed by the Governmental Accounting Standards Board (GASB) represent the principal frameworks for the preparation and presentation of governmental financial reports in many jurisdictions. (Jensen, 2023)

IPSAS, formulated by the International Federation of Accountants' Public Sector Committee, seek to promote transparency and accountability in public sector financial reporting by providing internationally recognized guidelines. The adoption of accrual-based IPSAS facilitates the comprehensive disclosure of off-budget and long-term financial activities, thereby enhancing fiscal integrity and the credibility of public reporting (Wahyu Kartiko, Rossieta, Martani, & Wahyuni, 2018). The choice of an appropriate accounting system plays a critical role in shaping fiscal management outcomes and long-term financial outlooks, and the implementation of IPSAS is widely regarded as an effective strategy for strengthening public finance management through improved transparency and accountability. However, empirical

investigations into the direct benefits of IPSAS adoption continue to be limited, representing an area for further research.

GASB, an independent organization established in 1984 by the Financial Accounting Foundation, is responsible for setting and improving accounting and financial reporting standards for U.S. state and local governments. Its authoritative pronouncements serve as the benchmark for governmental accounting and reporting practices and contribute to maintaining fiscal transparency and accountability at various administrative levels. The effectiveness of GASB-issued provisions is contingent upon supplementary auditing and internal control mechanisms, which collectively support the verification, enforcement, and validation of financial management policies and procedures (Ibrahim Hassan Ahmed Shahmurad, 2015).

4.1 International Public Sector Accounting Standards (IPSAS)

The International Public Sector Accounting Standards (IPSAS) aim to establish an international framework for general-purpose financial reporting by public-sector entities and to promote the adoption of this framework by governments and non-governmental organizations worldwide. The standards seek to enhance the quality, transparency, and accountability of public-sector financial reporting, thereby increasing public trust and facilitating more efficient resource allocation and lower costs of external finance. Developed by the International Public Sector Accounting Standards Board (IPSASB) under the International Federation of Accountants (IFAC), IPSAS promotes a single set of high-quality, international accrual-based accounting standards. (Polzer, Grossi, & Reichard, 2022)

IPSAS derives from efforts by the International Accounting Standards Committee (IASC), predecessor to the International Accounting Standards Board (IASB), which developed International Accounting Standards (IAS) issued between 1973 and 2001. IPSASB modifies these standards to incorporate public-sector requirements and adopts new standards from the IASB as International Financial Reporting Standards (IFRS). In the public sector, these standards have been translated into local requirements in many countries, achieving widespread adoption. IPSAS mandates accrual-based accounting, reflecting all reporting entity assets and liabilities, and it requires cash-basis accounting only where accrual methods are unavailable (Wahyu Kartiko, Rossieta, Martani, & Wahyuni, 2018).

4.2 Governmental Accounting Standards Board (GASB)

The Governmental Accounting Standards Board (GASB) formulates accounting principles that promote transparency and accountability for governments in the United States, including states, cities, counties, school districts, and other local jurisdictions (D Cunha, 2015). By developing

standards that assist users in decision-making, the GASB demonstrates the accountability of government officials for public resources. The process for establishing or revising standards comprises five steps: assembling an advisory task force, conducting a thorough review of literature and research, publishing a discussion paper to solicit public comments, evaluating the feedback and issuing an exposure draft, and holding hearings before finalizing the standard. Typically, new standards become effective at a future date. In addition, the GASB disseminates publications designed to educate professionals—preparers, users, and auditors—thereby enhancing transparency and accountability.

Since its inception in 1984 as a successor to the National Council of Governmental Accounting, the GASB has significantly strengthened accountability in governmental accounting. Statement No. 34 introduced more comprehensible financial reports and mandated accrual accounting for government business activities, while government-like activities continue to adopt a modified accrual approach that combines accrual and cash accounting. (Abbas, 2023)

5. Accountability Mechanisms in Public Sector Financial Reporting

Accountability mechanisms represent further options for enabling sound and robust accountability in public financial reporting (Ayaribilla Akudugu, 2012).

Auditing practices serve as a prominent mechanism within public-sector financial reporting. By providing independent assessment of accounting information and related data, auditing enhances the assurance that reliable reports are presented. External auditors can reduce the benefits of financial mismanagement and discourage the concealment of poor administrative practices. Internal audit procedures offer additional oversight by conducting thorough reviews of public-sector financial systems, contributing to the verification of financial data.

Internal controls establish complementary safeguards over accounting systems. By mitigating the risk of providing unreliable financial information, internal controls support the accuracy and completeness of datasets (Kemisola Adeyemi & Magret Olarewaju, 2016). The identification of problems and discrepancies through internal control mechanisms contributes to improved reliability, and the deterrence of errors and irregularities enhances the supervision of public-sector accounting practices.

5.1 Evaluating the Effectiveness of Auditing Practices

Audit, regarded as one of the highest-level accountability and governance mechanisms, verifies the reliability and integrity of financial information and ensures compliance with relevant laws and regulations, thereby fostering accountability and transparency (E. Filli & Opeyemi, 2016). It plays a pivotal role in public services by providing an independent assessment of

management's stewardship of public resources. Two prevalent types of audit in the public sector are independent and internal audits (Lartey Yao, Yusheng, & Binta Maci Bah, 2017). Independent audit is conducted by a public external auditor to offer an unbiased evaluation of an organization's financial statements, assessing their fairness and reliability. Independent auditors examine the accuracy, reliability, and relevance of financial statements, thereby promoting accountability. Internal audit, performed by in-house experts, evaluates the organization's internal control system (Lartey Yao et al., 2017). Internal controls encompass measures designed to hinder, detect, and prevent fraud or errors that could harm the entity. Inadequate internal controls open avenues for misappropriation and financial irregularities, undermining accountability; consequently, a robust internal control framework constitutes a critical accountability mechanism. In tandem with auditing, a well-designed internal control system constitutes a substantial component of an effective public sector accountability framework (refer to 5.2).

5.2 The Role of Internal Controls in Ensuring Financial Integrity

Accountability mechanisms in governmental agencies are vital to enforcing the principle of accountability in public administration. One critically important tool in ensuring the truth and fairness of financial information is the audit—particularly independent and internal auditing. Public sector auditing, performed by dedicated departments and external agencies such as auditors-general, substantiates the credibility of financial reports by ascertaining whether they are truthful representations of the government's financial position, performance, and cash flows. Auditing diminishes the risk of misappropriation, embezzlement, and waste by facilitating oversight and affording early detection of irregularities, as well as delineating responsibility and safeguarding vital records (E. Filli & Opeyemi, 2016). An extensive body of research has investigated the auditing function in the public sector owing to its significance for accountability and financial integrity.

Government agencies furthermore adopt internal control systems aimed at preventing financial statement errors or fraud that audits may either miss or struggle to detect. Such systems act concurrently with auditing to pursue financial accountability (Lartey Yao, P.; Yusheng, K.; Binta Maci Bah, F., 2017). Adequate internal controls enable organizations to make efficacious use of their resources and accurately report performance to thereby establish their stewardship and accountability. The integrity of Nigerian public sector financial management continues to elude full realization despite a proliferation of initiatives—and a conspicuous shortfall in effective application of internal controls is widely held responsible.

An internal control system is critical to ensuring the integrity of an organization's financial affairs and to determining the credibility of the financial information it generates. The controls underpin the efficient management and accountability of resources entrusted to an agency, help reduce financial irregularities, and contribute to reliable, transparent operation and monitoring. Non-compliance with the relevant laws, inappropriate use of resources, and weak or non-existent controls frequently lead to difficulties in establishing accountability. Internal control arises primarily from the interplay of organizational and procedural statutes—not merely the design and operation of controls—and should be viewed as an ensemble of processes that create the control environment necessary for ordered, ethical, and efficient conduct.

A wide range of financial accountability problems in the Nigerian public sector can be traced to inadequate control systems and poor management attitude (Kemisola Adeyemi & Magret Olarewaju, 20169). Maintaining a robust internal control system is substantially less costly than addressing the consequences of its absence.

6. Conclusion

Accounting plays an absolutely crucial and indispensable role in enhancing overall transparency and accountability within the public sector. Public sector financial reporting, which is governed by a variety of national and international accounting standards, provides essential information for key decision makers to ensure efficient resource management and allocation. The intricate relationship between transparency and accountability is fundamental: transparency involves the clear and comprehensive disclosure of critical financial information, while accountability pertains to the inherent obligation of public officials to explain, justify, and be responsible for their use of public resources. The International Public Sector Accounting Standards (IPSAS) and the Governmental Accounting Standards Board (GASB) frameworks significantly contribute to the consistency and comparability of financial data across different jurisdictions, which facilitates the application of these important principles. Beyond these standards, various mechanisms, such as rigorous auditing practices and robust internal control systems, effectively address the risks of negligence and potential misappropriation of funds, thereby promoting a culture of fiscal responsibility. Together, these interconnected concepts, established standards, and well-structured mechanisms illustrate the integral and vital contribution of accounting to enhancing public sector transparency and accountability, fostering trust and integrity in governmental operations.

References

- Abbas, Y. (2023). Future directions for research in governmental accounting, auditing, and financial reporting. *Research handbook on public financial management*.
- Ayaribilla Akudugu, J. (2012). Accountability in local government revenue management: who does what?
- Beckmann, P., Gombert, K., Hoppe, A., Jautz, K., Lindner, M., Roome, J., et al. (2012). Transparency – more than a buzzword?
- D Cunha, C. (2015). Better Measurement of Governments through the Application of Accrual Accounting for Government-Wide Financial Statements.
- E. Filli, G., & Opeyemi, I. (2016). *The Role of Internal Audit in Enhancing Accountability in Tertiary Institutions in Kogi State*. Nigeria.
- Efunniyi, C. P., Abhulimen, A. O., Obiki-Osafiele, A. N., Osundare, O. S., Agu, E. E., & Adeniran, I. A. (2024). Strengthening corporate governance and financial compliance: Enhancing accountability and transparency. *Finance & Accounting Research Journal*, 6(8), 1597-1616.
- Farhan Mubarak Busenan, E., Shukri Bakar, M., & Ramli, A. (2018). Linking Accountability to the Public Service Performance in the Public Sector of Bahrain.
- Ibrahim Hassan Ahmed Shahmurad, O. (2015). Framework to improve government auditing with particular reference to the performance of the State Audit Institution (SAI) in the United Arab Emirates.
- Jashari, M., & Pepaj, I. (2018). The role of the principle of transparency and accountability in Public Administration.
- Jensen, G. R. (2023). International public sector accounting standards (IPSAS). In *Global encyclopedia of public administration, public policy, and governance*, (pp. 6968-6976). Cham: Springer International Publishing.
- Kemisola Adeyemi, F., & Magret Olarewaju, O. (20169). Internal Control System And Financial Accountability. *An Investigation Of Nigerian South-Western Public Sector*.
- Lartey Yao, P., Yusheng, K., & Binta Maci Bah, F. (2017). A Critical Examination of Internal Control Systems in the Public Sector , A Tool for Alleviating Financial Irregularities. *Evidence from Ghana*.

- Lartey Yao, P.; Yusheng, K.; Binta Maci Bah, F. (2017). An Empirical Study of External Auditor's Independence and Contribution to Assurance ,Transparency of Public Sector Accounting Systems and Controls:. *A Case of the Ministry of Finance, Ghana*.
- Polzer, T., Grossi, G., & Reichard, C. (2022). Implementation of the international public sector accounting standards in Europe. *Variations on a global theme. Accounting Forum*.
- Sofyani, H., Pratolo, S., & Saleh, Z. (2022). Do accountability and transparency promote community trust? Evidence from village government in Indonesia. *Journal of Accounting & Organizational Change*, 18(3), 397-418.
- Wahyu Kartiko, S., Rossieta, H., Martani, D., & Wahyuni, T. (2018). Measuring accrual-based IPSAS implementation and its relationship to central government fiscal transparency.