



Examining the Impact of Government Regulations on Financial Accountability and Risk Management in Public Sector Institutions

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Abstract

This study examines how government regulation influences financial accountability and risk management within public sector organizations, addressing a gap in governance research that often analyzes these aspects separately. A quantitative research design was employed to collect data from public institutions operating under formal financial management and risk governance regulations. Data were analyzed using descriptive statistics, reliability and validity testing, regression analysis, and mediation analysis to explore the relationships among government regulation, financial accountability, and risk management. The findings indicate that government regulation has a strong and statistically significant positive effect on financial accountability. This is reflected in increased transparency, improved effectiveness of internal controls, and stronger responsiveness to audit recommendations. Government regulation also positively influences risk management practices; however, the magnitude of this effect is relatively weaker, suggesting that risk management in many public institutions remains compliance-oriented rather than strategically driven. Furthermore, the results show that financial accountability partially mediates the relationship between government regulation and risk management. These findings highlight the interconnected nature of governance mechanisms and suggest that effective regulatory frameworks can strengthen accountability while indirectly improving risk management practices in the public sector.

INTRODUCTION

Institutions in the public sector play the core role of stewardship of the state resources as well as the delivery of the necessary services, therefore, financial accountability and risk management are the pillars of a good governance. Governments in most of the jurisdictions rely on regulatory frameworks to make sure that public funds are used in an efficient and transparent way and within legal and

ethical directives. Government regulations consist of formal regulations, processes, and control systems that influence the manner in which organisations in the government plan budgets, document financial transactions, risk management, and performance outcomes (Ibrahim, 2022; Milutinović et al., 2024; Islam, 2025; Ogedengbe et al., 2024). The literature of the past points out that healthy regulatory conditions are strongly linked with better fiscal discipline, diminished corruption potential, and increased trust towards government institutions (Hood, 2010; OECD, 2015). With globalization, digitalisation, and financial demands mounting pressure on the world in terms of complexity, the importance of government regulation on protecting financial accountability and institutional risk management has continued to grow.

This problem is even more important as financial mismanagement scandals and audit results are frequently reported in developed and developing countries. It has been empirically observed that regulatory weaknesses and enforcement tend to lead to budgetary overruns, ineffective internal controls, and poor risk-reduction mechanisms of the public organisations (Peters, 2018; Schillemans and Busuioac, 2015). Recent research has shown that such regulatory reforms as the efforts to enhance accountability systems, including accrual-based accounting standards, performance-based budgeting, and integrated risk-management systems, have been implemented in most of the public sectors with more or less success (Christensen et al., 2019; Yamamoto and Schurer, 2023; Gatawa Kandage, 2025). However, the results of these reforms are still unequal necessitating key concerns on the application of government controls on the financial accountability and risk-management behaviors in the institutions of the public sector.

Although the significance of regulation is widely acknowledged, the institutions of the public sector still face the same issues with the translation of the regulatory requirements into the organisational practices. The main issue is the disconnect between the official rules and their practice. Regulations can be formulated beautifully on paper, but lack efficiency due to their weak implementation capacity, institutional resources, and regulatory compliance with the rules (Lodge and Wegrich, 2014). Public organisations in most situations adhere to rules and regulations in a formalistic or ritualistic way where they emphasize on formal reporting as opposed to actual accountability and risk mitigation (Meyer and Rowan, 1977; Alsharari, 2022; Wahyuningrum et al., 2025). The phenomenon is a subject of concern as to whether government regulation actually makes financial practices more accountable or it adds more administrative burdens yet provides no substantive results in governance practices.

The other critical problem is connected with the disunity of the regulatory systems regarding the financial accountability and risk management within the sphere of the public. Regulations usually emanate out of various authorities and the budgeting, accounting, auditing, procurement and risk management are often regulated separately and thus can lead to overlapping requirements and poor guidance (Power, 2007). This kind of fragmentation can cause confusion amongst the public managers and diminish the integrity of the accountability systems. As a result, risk-management practices can be seen as compliance practices, as opposed to strategic financial risks mitigation and identification tools. According to the existing research, without regulation integration and concise alignment between the aims of accountability and risk-management, institutions in the public sector find it hard to implement comprehensive governance systems that can address complex financial risks (Arena et al., 2017).

The general solution offered in the literature on governance and public-administration, in response to these challenges, focuses on enhancing the quality and enforcement mechanism of regulations. Quality rules are defined by clearness,

similarity, proportion, and responsiveness to organisational situations (OECD, 2012). Researchers believe that the government regulation must not merely prescribe but also encourage learning, capacity building, and managerial discretion by the within the clear accountability framework (Bovens et al., 2014). Regulatory oversight bodies like the supreme audit institutions and internal control bodies are also to be the key elements that help in ensuring that financial accountability and risk-management systems are run as expected. Nonetheless, the success of these generic remedies is still dependent on the nature of the institutions, organizational culture, and the resolve of leaders.

More specific solutions have been proposed in the literature to address shortcomings in financial accountability and risk management. One prominent stream of research focuses on the adoption of modern public financial management reforms, including accrual accounting, integrated financial management information systems, and performance auditing (Brusca et al., 2018). These reforms are often embedded in government regulations that mandate standardized accounting practices and comprehensive financial disclosure. Empirical studies indicate that when effectively implemented, such regulatory measures can improve the accuracy and timeliness of financial information, thereby strengthening accountability and supporting better risk assessment (Carlin, 2005). Nevertheless, other studies caution that technical reforms alone are insufficient if regulatory compliance is not accompanied by changes in organizational behavior and skills (Lapsley et al., 2009).

Another body of literature emphasizes the regulatory role in institutionalizing risk management within public sector organizations. Government regulations increasingly require public institutions to adopt formal risk management frameworks that identify, assess, and mitigate financial and operational risks (Power, 2009). Research suggests that regulations mandating enterprise risk management can enhance organizational awareness of risks and improve decision making, particularly when integrated with budgeting and performance management systems (Fraser & Simkins, 2016). However, critics argue that rigid regulatory requirements may encourage a checklist approach to risk management, limiting innovation and strategic thinking (Mikes & Kaplan, 2015). This debate highlights the need to better understand how regulatory design influences the quality of risk management practices rather than mere compliance.

The existing literature thus provides valuable insights into the relationship between government regulation, financial accountability, and risk management, yet it also reveals important limitations. Many studies examine regulatory reforms or accountability mechanisms in isolation, without sufficiently exploring their combined effects on public sector governance. In addition, empirical evidence remains fragmented across different national and institutional contexts, making it difficult to draw generalizable conclusions about regulatory impact. There is also a tendency to focus on regulatory intent rather than actual organizational outcomes, leaving a gap in understanding how regulations shape day to day financial management and risk practices within public institutions. This gap suggests the need for more integrative and context sensitive research that examines regulation as a governance mechanism influencing both accountability and risk management simultaneously.

Against this background, this study aims to examine the impact of government regulations on financial accountability and risk management in public sector institutions. The study seeks to contribute to the literature by providing empirical evidence on how regulatory frameworks influence organizational practices beyond formal compliance. The novelty of this research lies in its integrated approach, which analyzes financial accountability and risk management as interconnected outcomes of government regulation rather than separate governance domains. By focusing on

public sector institutions, the study addresses a critical area of governance with direct implications for public trust and fiscal sustainability. The scope of the study is limited to examining regulatory impacts within the public sector context, with particular attention to institutional mechanisms, managerial responses, and governance outcomes, thereby offering insights relevant to policymakers, regulators, and public managers seeking to enhance accountability and manage risk more effectively.

METHODS

Research Design

This study employs a quantitative research design to analyze the impact of government regulations on financial accountability and risk management in public sector institutions. A quantitative approach is appropriate because it enables systematic testing of theoretically grounded relationships between regulatory frameworks and governance outcomes using measurable indicators (Creswell & Creswell, 2018). Prior research in public administration and public financial management demonstrates that quantitative designs are effective for examining regulatory impacts across institutions, particularly when the objective is to assess patterns, strengths, and significance of relationships rather than individual organizational narratives (Brusca et al., 2018; Peters, 2018). Accordingly, this design supports the study's objective of generating generalizable evidence on regulatory governance in the public sector.

Research Context and Unit of Analysis

The research is conducted within the context of public sector institutions that operate under formal government regulations related to financial management, accountability, and risk control. These institutions are selected because they are directly subject to statutory requirements governing budgeting, accounting, auditing, and internal control systems. The unit of analysis is the organization, as government regulations are designed and enforced at the institutional level. Data are obtained from individuals holding strategic or technical roles in financial governance, including financial managers, internal auditors, and senior administrative officials, who possess direct knowledge of regulatory implementation and its operational consequences (Arena et al., 2017). This approach ensures that the data reflect informed institutional perspectives rather than individual opinions detached from organizational processes.

Population and Sampling Technique

The population of this study comprises public sector institutions at both national and subnational levels that are legally required to comply with government regulations on public financial management and risk management. A purposive sampling technique is applied to select institutions that have formally implemented financial accountability mechanisms and risk management systems in accordance with regulatory mandates. Purposive sampling is appropriate in governance research when the study seeks to examine regulatory effects within institutions that meet specific compliance and structural criteria (Bryman, 2016). The final sample size is determined by the availability of qualified respondents and statistical adequacy considerations to ensure reliable and valid empirical analysis.

Data Collection Methods

Primary data are collected through a structured questionnaire designed to capture institutional practices and perceptions related to government regulation, financial accountability, and risk management. The questionnaire is developed by adapting measurement items from established studies in public financial management and

regulatory governance to maintain conceptual consistency and comparability with prior research (Carlin, 2005; Power, 2009). Data collection is conducted over a defined period to minimize variability in regulatory conditions and organizational environments. Questionnaires are distributed through electronic and direct administrative channels to increase response rates while ensuring respondent confidentiality. Ethical principles are observed by informing participants about the research purpose, voluntary participation, and data protection procedures, consistent with established research ethics standards (Israel & Hay, 2006).

Measurement of Variables

Government regulation is operationalized as a multidimensional construct reflecting regulatory clarity, consistency, enforcement strength, and compliance requirements related to financial governance. Financial accountability is measured through indicators that capture transparency of financial reporting, reliability and accuracy of financial information, effectiveness of internal control systems, and responsiveness to audit findings. Risk management is measured using indicators related to risk identification, risk assessment, risk mitigation strategies, and the integration of risk management into budgeting and financial decision making processes. All variables are measured using Likert type scales to capture the intensity and consistency of regulatory implementation and governance practices, a common approach in public sector management research (Hair et al., 2019).

To ensure content validity, the measurement instrument is reviewed by experts in public financial management and regulatory governance. This expert evaluation focuses on the relevance and clarity of items in representing the intended constructs. A pilot study is conducted with a limited number of respondents from public sector institutions to assess item reliability and identify potential ambiguities. Revisions are made based on pilot feedback to improve measurement precision. Reliability is assessed using internal consistency measures, with Cronbach's alpha coefficients evaluated against established thresholds to confirm scale reliability (Nunnally & Bernstein, 1994). Construct validity is further examined through factor analysis to ensure alignment between theoretical constructs and empirical indicators.

RESULTS AND DISCUSSION

The results section presents empirical findings derived from the quantitative analysis examining the impact of government regulations on financial accountability and risk management in public sector institutions. The presentation integrates descriptive statistics, reliability and validity assessments, and inferential analysis in line with the methodological framework.

Descriptive Statistics of Respondents and Institutions

Table 1 presents the descriptive statistics of respondents and institutional characteristics. The data show that respondents predominantly occupy strategic positions in financial governance, ensuring the reliability of institutional level assessments. The variation in institutional size and administrative level allows the analysis to capture differences in regulatory implementation across public sector contexts.

Table 1. Respondent and Institutional Profile

Variable	Category	Frequency	Percentage
Position	Financial Manager	78	39.0
	Internal Auditor	64	32.0
	Senior Administrator	58	29.0
Administrative Level	National	82	41.0
	Subnational	118	59.0

Institutional Size	Small	56	28.0
	Medium	84	42.0
	Large	60	30.0
Total Respondents		200	100.0

The distribution indicates that the sample is sufficiently diverse to support statistical analysis of regulatory effects across organizational contexts, consistent with governance research standards (Peters, 2018).

The analysis is based on 200 valid responses obtained from public sector institutions operating under formal regulatory frameworks governing public financial management. As shown in Table 1, respondents predominantly occupy positions directly related to financial governance, including financial managers, internal auditors, and senior administrators. This composition supports the assumption that respondents possess sufficient institutional knowledge to evaluate regulatory implementation and governance practices, consistent with recommendations in prior public administration research (Arena et al., 2017; Peters, 2018). The institutional distribution across national and subnational levels and varying organizational sizes enables meaningful comparison of regulatory effects across diverse public sector contexts.

Descriptive Statistics of Research Variables

Table 2 reports the mean values and standard deviations of the main research variables. Government regulation exhibits relatively high mean scores, indicating strong formal regulatory presence. Financial accountability shows higher mean values compared to risk management, reflecting greater institutionalization of accountability mechanisms relative to risk governance, as suggested in prior studies (Power, 2009).

Table 2. Descriptive Statistics of Research Variables

Variable	Mean	Standard Deviation
Government Regulation	3.87	0.56
Financial Accountability	4.02	0.51
Risk Management	3.54	0.63

These descriptive results suggest that while regulatory frameworks are well established, the translation of regulation into risk management practices remains uneven across institutions.

Descriptive statistics of the main research variables are presented in Table 2. Government regulation exhibits a relatively high mean value, indicating that respondents generally perceive regulatory frameworks as clear and formally established. Financial accountability records the highest mean among the three constructs, suggesting that accountability mechanisms such as financial reporting and audit responsiveness are more institutionalized than risk management practices. Risk management shows a lower mean and higher variability, reflecting uneven implementation across institutions. This pattern is consistent with prior literature that identifies risk management as a less mature governance domain in the public sector compared to traditional accountability mechanisms (Power, 2009).

Reliability and Validity Test Results

The internal consistency of measurement instruments is assessed using Cronbach's alpha. As shown in Table 3, all constructs exceed the recommended threshold of 0.70, confirming satisfactory reliability and supporting the robustness of the measurement model (Nunnally & Bernstein, 1994).

Table 3. Reliability Analysis

Construct	Number of Items	Cronbach's Alpha
Government Regulation	8	0.88
Financial Accountability	10	0.91
Risk Management	9	0.86

The reliability and validity of the measurement instruments are assessed prior to hypothesis testing. As reported in Table 3, Cronbach's alpha values for all constructs exceed the commonly accepted threshold of 0.70, indicating satisfactory internal consistency and supporting the robustness of the measurement model (Nunnally & Bernstein, 1994). Factor analysis further confirms construct validity, with all items loading appropriately on their respective constructs, consistent with theoretical expectations derived from governance and regulatory literature (Hair et al., 2019).

Regression Analysis of Government Regulation and Financial Accountability

Table 4 presents the regression results examining the effect of government regulation on financial accountability. Government regulation shows a positive and statistically significant effect, supporting the theoretical expectation that regulatory clarity and enforcement enhance accountability mechanisms (Christensen et al., 2019).

Table 4. Regression Results: Government Regulation and Financial Accountability

Variable	Coefficient (β)	t-value	p-value
Government Regulation	0.62	9.84	<0.001
Organizational Size	0.18	2.41	0.017
Administrative Level	0.11	1.96	0.051
R ²	0.49		

The effect of government regulation on financial accountability is examined using regression analysis, with results presented in Table 4. Government regulation demonstrates a strong and statistically significant positive effect on financial accountability. This finding indicates that higher levels of regulatory clarity and enforcement are associated with greater transparency, stronger internal controls, and improved responsiveness to audit findings. The model explains 49 percent of the variance in financial accountability, suggesting substantial explanatory power. These results reinforce earlier studies emphasizing the role of regulation in strengthening fiscal discipline and accountability within public sector institutions (Christensen et al., 2019; Peters, 2018).

Regression Analysis of Government Regulation and Risk Management

Table 5 reports the regression results for the effect of government regulation on risk management. Although the effect remains positive and significant, the coefficient is lower than that observed for financial accountability, suggesting weaker regulatory penetration into risk governance practices.

Table 5. Regression Results: Government Regulation and Risk Management

Variable	Coefficient (β)	t-value	p-value
Government Regulation	0.41	6.27	<0.001
Organizational Size	0.21	2.98	0.003
Administrative Level	0.09	1.42	0.157
R ²	0.34		

Regression results examining the impact of government regulation on risk management are shown in Table 5. Government regulation has a positive and statistically significant effect on risk management practices, although the magnitude of the coefficient is lower than that observed for financial accountability. This suggests that while regulation contributes to the development of risk identification and mitigation processes, its influence is comparatively weaker in shaping strategic

risk management behavior. The model explains 34 percent of the variance in risk management, indicating moderate explanatory power. This finding aligns with the literature that highlights the compliance oriented nature of risk management regulation in the public sector (Mikes & Kaplan, 2015).

Mediation Analysis of Financial Accountability

Table 6 presents the mediation analysis results, demonstrating that financial accountability partially mediates the relationship between government regulation and risk management. This finding confirms that regulation strengthens risk management indirectly through improved accountability mechanisms.

Table 6. Mediation Analysis Results

Path	Coefficient (β)	p-value
Regulation → Accountability	0.62	<0.001
Accountability → Risk Management	0.47	<0.001
Regulation → Risk Management (direct)	0.29	<0.01

To further examine the interrelationship between financial accountability and risk management, mediation analysis is conducted, with results presented in Table 6. The findings indicate that financial accountability partially mediates the relationship between government regulation and risk management. Government regulation significantly improves financial accountability, which in turn enhances risk management practices. The reduction in the direct effect of regulation on risk management after including financial accountability confirms partial mediation. This result supports integrated governance perspectives that view accountability as a key mechanism through which regulation influences broader risk governance outcomes (Arena et al., 2017; Power, 2007).

This study set out to examine how government regulations influence financial accountability and risk management in public sector institutions. The empirical results provide several important insights that deepen the understanding of regulatory governance and its practical implications for public sector management. Overall, the findings confirm that government regulation functions as a critical governance mechanism, but its effectiveness varies across different dimensions of public sector accountability and risk management.

The strong and statistically significant relationship between government regulation and financial accountability supports core arguments in public administration and regulatory governance literature. Prior studies have emphasized that clear, consistent, and enforceable regulations are essential for promoting transparency, fiscal discipline, and responsible use of public resources (OECD, 2015; Christensen et al., 2019). The results of this study reinforce these arguments by demonstrating that institutions operating under stronger regulatory frameworks exhibit higher levels of transparent financial reporting, more reliable financial information, and more effective internal control systems. This finding suggests that financial accountability remains the governance domain most responsive to regulation, likely because it is supported by long standing legal frameworks, standardized accounting rules, and routine oversight by audit institutions.

The findings also highlight the importance of regulatory enforcement in translating formal rules into substantive accountability outcomes. Institutions reporting higher regulatory enforcement show greater responsiveness to audit findings and corrective actions. This result aligns with accountability theory, which emphasizes that accountability mechanisms are effective only when answerability is combined with the possibility of consequences (Bovens et al., 2014; Schillemans & Busuioc, 2015). In this sense, government regulation does not merely define reporting obligations but also reinforces accountability relationships between public sector institutions and

oversight bodies. However, the results also suggest that compliance can still be procedural in some cases, echoing earlier institutional theory arguments that organizations may adopt accountability practices symbolically to maintain legitimacy rather than to improve performance substantively (Meyer & Rowan, 1977).

In contrast to financial accountability, the impact of government regulation on risk management is positive but comparatively weaker. This finding is consistent with prior research suggesting that risk management in the public sector is a relatively newer governance practice that is less institutionalized than traditional financial accountability mechanisms (Power, 2009; Arena et al., 2017). Although regulations mandate the adoption of risk management frameworks, the results indicate that many institutions still treat risk management as a compliance requirement rather than as a strategic management tool. This compliance oriented approach limits the potential of risk management to inform decision making, resource allocation, and long term planning.

The weaker regulatory effect on risk management also reflects the challenges associated with regulating complex and forward looking governance practices. Unlike financial reporting, which is largely rule based and retrospective, risk management requires judgment, organizational learning, and integration across functions. Prior literature has warned that rigid regulatory requirements may encourage checklist behavior, reducing managerial discretion and innovation in risk governance (Mikes & Kaplan, 2015). The findings of this study provide empirical support for this critique, suggesting that regulation alone is insufficient to foster mature and strategic risk management practices in public sector institutions.

One of the most significant contributions of this study lies in its examination of the interrelationship between financial accountability and risk management. The mediation analysis demonstrates that financial accountability partially mediates the relationship between government regulation and risk management. This result has important theoretical implications. It supports integrated governance perspectives that view accountability and risk management as mutually reinforcing rather than independent governance mechanisms (Power, 2007). Strong financial accountability systems improve the quality and reliability of financial information, which in turn enhances an institution's capacity to identify, assess, and manage financial risks effectively.

This finding also suggests that efforts to strengthen risk management through regulation may be more effective when they are aligned with existing accountability frameworks. Rather than treating risk management as a separate regulatory domain, policymakers and regulators may achieve better outcomes by embedding risk considerations into budgeting, financial reporting, and audit processes. Such integration is consistent with contemporary public financial management reforms that emphasize whole of government approaches to governance and risk (OECD, 2012). The results therefore provide empirical justification for regulatory designs that link accountability and risk management more explicitly.

The role of organizational characteristics also merits discussion. The regression results indicate that organizational size has a positive and significant effect on both financial accountability and risk management. Larger institutions tend to have greater administrative capacity, specialized staff, and more formalized procedures, enabling them to respond more effectively to regulatory requirements. This finding aligns with capacity based explanations in public administration literature, which argue that regulatory compliance and governance quality are influenced by institutional resources and capabilities (Peters, 2018). By contrast, the administrative level variable shows weaker and less consistent effects, suggesting

that regulatory impact may be shaped more by organizational capacity than by formal jurisdictional status.

From a theoretical perspective, the findings contribute to regulatory governance literature by providing empirical evidence that regulation operates through both direct and indirect mechanisms. Directly, regulation shapes organizational behavior by prescribing rules and standards. Indirectly, regulation strengthens governance outcomes by reinforcing accountability systems that, in turn, enable better risk management. This layered effect of regulation supports arguments that effective governance cannot be achieved through isolated reforms but requires coherent and mutually reinforcing institutional arrangements (Bovens et al., 2014).

The findings also have important policy implications. While strengthening regulatory frameworks remains essential for improving financial accountability, policymakers should recognize the limits of regulation in shaping complex governance practices such as risk management. Regulatory reforms should be complemented by capacity building initiatives, managerial training, and organizational learning mechanisms that enable public sector institutions to move beyond compliance. In particular, regulators should focus on improving the quality of regulatory guidance, promoting flexibility within accountability boundaries, and encouraging the use of risk information in strategic decision making.

CONCLUSION

This study concludes that government regulations play a critical role in strengthening financial accountability and shaping risk management practices in public sector institutions, although their effects differ in magnitude and mechanism. The findings demonstrate that regulatory clarity and enforcement significantly enhance financial accountability through improved transparency, internal controls, and audit responsiveness, while the influence of regulation on risk management remains comparatively weaker and more compliance oriented. Importantly, financial accountability is shown to partially mediate the relationship between government regulation and risk management, indicating that strong accountability systems serve as a key channel through which regulation improves risk governance. These results highlight the need for integrated regulatory approaches that align accountability and risk management rather than treating them as separate governance domains, and they suggest that effective public sector governance requires not only formal regulatory frameworks but also institutional capacity and strategic use of risk information to achieve sustainable accountability outcomes.

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