

Effects of Leadership and Accounting Capacity on Accountability through the Quality of Financial Reporting¹

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Received: 2022/06/19

Accepted: 2023/01/03

Research Paper

INTRODUCTION

Public sector organizations play an essential role in every economy yet are often stereotyped as operational inefficiencies. Therefore, there have been calls to introduce new practices to improve public sector performance towards better public services. In recent decades, administrative reforms in countries around the world have been implemented under the new public management (NPM) framework to improve public sector performance. NPM encourages public entities to use resources effectively and efficiently and replaces the traditional bureaucratic government model to implement many private sector practices. Furthermore, the pressures arising from market globalization and openness to foreign trade had prompted countries to apply best accounting practices as international public sector accounting standards (IPSAS) or the accrual basis of accounting. Following this trend, the accrual accounting system in Iran started from the beginning of 2015 with the aim of creating financial discipline, improving accountability and improving the quality of public sector financial reporting. The Welfare Organization, as a governmental organization in order to implement this law, has been presenting its financial statements based on accrual accounting since 2015.

Many Asian countries are seeking to promote accountability as part of public sector reform. However, their situation is still weak compared with developed

1. DOI: 10.22051/JAASCI.2023.40407.1702

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countries, as most developing Asian countries are still struggling with political and socioeconomic weaknesses. Financial reporting is a form of transparency to support accountability requirements for public resource management activities for the government and is the output of accounting systems and is beneficial for providing information to user groups when making financial decisions. Public organizations in emerging economies are increasingly starting to use accounting tools for decision-making, control and evaluation of accountability in response to pressures from international donor organizations. At present, many countries around the world have applied IPSAS or the accrual basis to improve financial reporting quality. However, recent studies found that issues regarding leadership and accounting capacity are among the barriers to the application of accrual accounting in developing countries. According to the above, this study was conducted with three objectives in the welfare organization. First, the impacting of organizational leadership and accounting capacity on the quality of financial reporting after accrual accounting. Second, evaluating the impact of organizational leadership and accounting capacity on accountability. Third, examining the direct impact of financial reporting quality on accountability.

MATERIALS AND METHODS

The statistical population of this study includes 175 managers and employees of welfare finance in Bushehr, Ilam, Fars, Hormozgan, Kohgiluyeh and Boyer-Ahmad provinces. Cochran's formula was used to determine the sample size and the number of samples was determined to be 120 based on a 5% error level. To collect the data, a questionnaire was distributed through electronic networks. Out of a total of 175 distributed questionnaires, 122 questionnaires were completed and used to test the hypotheses. This research is applied in terms of purpose and is in the category of descriptive-survey research. The research model consisted of four main concepts with 48 variables and was included in a survey questionnaire with a five-level Likert scale.

RESULTS AND DISCUSSION

122 people participated in this study. About 58% of respondents are male and 42% are female, so the gender status in this sample is balanced. More than 90% of respondents have a bachelor's degree or higher, which indicates the ability of respondents to answer questions. In terms of geographical area, the highest frequency is related to Bushehr province, which includes about 38% of the total weight, followed by Fars and Ilam provinces, which account for

about 20 and 17% of the total weight, respectively. The highest frequency of respondents in terms of job position is the accountant with 54 people (about 44%) and the lowest frequency is related to the responsible accountant with 16 people (about 13%). About 70% of the respondents had more than 10 years of work experience, which increases the reliability of the data.

In inferential statistics, structural equation modeling with partial least squares approach and correlation coefficient has been used. Before any action, the normality test should be performed for the collected data to use the appropriate test to test the hypotheses. Skewness and elongation coefficients have been used to evaluate the normality. The skewness and elongation of the four studied variables are in a safe and acceptable range (2+ and 2-), which indicates that the distribution of data is normal. The level of significance of the test in all cases shows that there is a significant relationship between all available variables, so that a change in one of them will cause a change in the other variables. To test the accuracy of the theoretical model of the research and calculate the coefficients of effect, the structural equation modeling method has been used by PLS software. The results of Cronbach's alpha coefficient and the combined reliability of the variables show that the values of these coefficients are acceptable for all research structures. Smart PLS software was used for construct validity. The results of confirmatory factor analysis show that the structures used in terms of validity have a high credibility and factor loads are significant at 95% confidence level and have a significant share in the measurement of the structures.

CONCLUSION

One of the main ways to prove the improvement of public sector performance through financial statements is to increase the quality of financial reporting, which should lead to improved accountability. In this study, the relationship between leadership, accounting capacity, financial reporting quality and accountability in the welfare organization has been studied. Findings show that accounting capacity does not have a significant effect on the quality of financial reporting and accountability (based on collected data) that these results do not match the previous findings. One of the reasons could be the general limitation of survey research and the use of questionnaire tools. Although the validity and reliability of the questionnaire were assessed, individuals' responses to accounting capacity may not be highly reliable under the influence of various factors. Other reasons for the discrepancy between the findings and the previous findings include the shortage of manpower with

financial education, due to retirement and the deficiency of employment quotas in the welfare organization, which has led to the use of manpower with unrelated education in finance. To overcome this limitations, other methods can be used to measure the ability of employees, such as employee performance appraisal form, as well as organizational chart modification and recruitment and use of related forces in the financial field. It should also be noted that the accounting capacity of an organization is formed over time and its effect on the quality of financial reporting and accountability in the long run, clarifies more reliable results. Research findings also show that organizational leadership has a positive effect on the quality of financial reporting and accountability. These findings indicate the importance of leadership in fundamental reform in the organization. Finally, the results showed that the quality of financial reporting has a positive effect on accountability. Public entities must disclose relevant, reliable, verifiable, understandable, comparable and timely financial information so that users of financial statements can accurately evaluate the accountability of public organizations.

Keywords: Leadership, Accounting Capacity, Accountability, Quality of Financial Reporting, Public Sector.

JEL Classification: M41.

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