

Bureaucratic Reform: Bridging Financial Conditions, Reporting Quality, Accountability, and Internal Control for Enhanced Government Performance

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Abstract. This study aims to examine the role of bureaucracy reform in mediating the impact of financial conditions, quality of financial reports, accountability and internal control on government performance. This research is quantitative research using SEM-PLS. The population is provincial, district and city governments in Indonesia, and sampling was carried out using purposive sampling techniques. With observation data spanning 2 years, from 2021 to 2022, 424 local governments make up the sample that satisfies the standards. The research's empirical results demonstrate that financial conditions, quality of financial reports, accountability, internal control and bureaucracy reform all significantly contribute to local government performance. In addition, bureaucracy reform has also been proven to mediate the impact of financial conditions, financial reporting quality, accountability and internal control on government performance. This study provides practical implications for local governments in considering factors that are priorities for successful bureaucratic reform.

Keywords: bureaucracy reform, financial reports, accountability, internal control, government performance

1. Introduction

Studies related to government performance are always interesting to develop, both by previous and future research. However, the scope of government performance remains different from previous researchers. Previous study on measuring government performance in Indonesia has mostly focused on measuring financial and public service performance. Financial performance looks at the government's performance from the aspect of its financial condition. Measurements related to financial conditions also vary. Some researchers define government performance as public service performance, such as study by [1], [2], [3], [4], [5], [6], [7], [8], [9], where the researchers used the EPPD Score (evaluation of regional government administration) as a proxy for government service performance.

The EPPD score is used by researchers in Indonesia as a measuring tool to assess the performance of government public services. The score in question is the value of the evaluation results of regional government administration (EPPD) based on Government Regulation

Number 13 of 2019 concerning Reports and Evaluation of Regional Government Administration which is intended to assess performance administration of provincial, district and city regional government. Government performance is related to how the standard of public service delivery follows the characteristics of the government entity itself, which is a public sector organization that is not profit-oriented. The main operational function of the government is to provide services to the community and account for its annual budget as much as possible for the prosperity of the people. Consequently, government institutions need to formulate policies aimed at enhancing the standard of public service delivery. The government must be able to promote citizen satisfaction and trust, especially when it comes to essential needs and services like education and health. [10].

The main source of regional income is transfers from the central government. In general, the ratio between own sources of income and total income is still low. The higher the ratio of own sources of income to total regional income, the better the regional government has financial independence. It is interesting to examine the relationship between regional independence and the performance of its public services. Meanwhile, the annual budget provided by regional governments in Indonesia has increased from year to year. This is in line with the trend of increasing transfer funds from the central government to local governments allocated in the annual budget (APBN). In recent years, the portion of transfers to regions and village funds has reached one-third of the total APBN. In 2024, it is recorded in the APBN that the transfer budget to regions and village funds will reach IDR 857.59 trillion, while in 2023 it will amount to IDR 814.72 trillion. Will regional government performance also improve with the increase in regional income?

Assessment of regional government administration includes macro performance achievements, performance of regional government affairs, and performance accountability [11]. According to the Ministry of Home Affairs' 2022 Performance Report, regional government public services have not met expectations. The performance of regional government administration remains below target, at 2.31 (performance category "Low") against the planned aim of 3. The evaluation results indicate that the average performance score is 2.80, with a performance status of "Medium". The average performance score for 415 districts is 2.39 with a "Low" performance status, while the average performance score for 93 cities is 2.53 with the same status. The number of regional governments that receive low and medium performance status is still relatively large. This is a driving factor for the importance of investigating factors that can improve government performance, especially public service performance.

Factors that influence government performance have been widely studied by previous researchers. However, research results are still mixed. [12], [13], [14], [15], [16] research that government performance is influenced by the management of government spending. Government performance is also influenced by regional revenue management [12], [14], [15], [17]. Other research related to government performance examines accountability and governance factors [12], [18], and internal control [1], [5], [9], [19], [20], [21], [22], [23], [24].

Efforts to improve government performance in public services align with the principles of New Public Management (NPM) concept which focuses on modernization and decentralization of services linked to bureaucratic reform in the public sector [25]. Providing high-quality public services is the government's ultimate goal in contemporary public sector management [12]. Therefore, bureaucratic reform is an important thing to implement to improve governance

towards increasing government performance. The role of bureaucratic reform in its influence on improving government performance has not yet been widely studied. This research is novel in placing bureaucratic reform as a mediating variable.

The implementation of bureaucratic reform as mandated in Presidential Regulation Number 81 of 2010 concerning Grand Design for Bureaucratic Reform 2010-2025 has entered its third period, namely 2020-2024. The implementation of this reform in the government, both central government and regional government, was evaluated by the Menpan-RB based on the Regulation of the Minister for Empowerment of State Apparatus and Bureaucratic Reform Number 26 of 2020. In line with the objectives of bureaucratic reform, one of which is bureaucrats who are able to serve the public (Kementerian PAN & RB, 2022), so it is interesting to study the role of the reform bureaucracy in regional government that is being implemented.

Bureaucratic reform aims to ensure excellent service through effective governance supported by professional and highly moral state officials. Bureaucratic reforms carried out by regional governments include structuring and strengthening organizations, structuring management, structuring apparatus management systems, strengthening supervision and accountability, performance and improving the quality of public services. [26] also proves that Bureaucratic Reform has a positive effect on government performance. [27] found evidence that bureaucratic reform has a positive and significant impact on the implementation of good governance principles and the quality of public services. Better bureaucratic reform will support improvements and improvements in government performance, both in central and regional governments [28].

This study aims to examine the role of bureaucratic reform in mediating the influence of financial conditions, quality of financial reports, accountability and internal control on government performance. In this research, financial reporting is of good quality if it obtains WTP opinions on LKPD for 3 consecutive years. Local governments that receive a WTP Opinion are assessed as good at complying with laws and regulations in managing their finances and presenting financial reports in accordance with government accounting standards. [14] dan [29] found that opinions on BPK audit results influence government performance.

2. Literature Review

The NPM concept emerged as a government effort to improve public services by applying management principles in the private sector [30]. With new management principles, it is hoped that government entities can enhance the quality of public services as a form of government responsibility in managing the budget. This theory developed along with the process of public sector reform in various countries in the world. NPM encourages leaders to implement efficiency-based management standards and abandon an inflexible work culture.

Implementation of new public management (NPM), which focuses on the modernisation and decentralization of public sector services, is associated with the current government reforms [25]. Aligned with the reform process in regional financial management, the New Public Management (NPM) concept is pertinent for enhancing the quality of financial management, leading to improved and measurable performance outcomes.

Additionally, institutional theory is employed in this study due to its relevance to public sector

issues, where institutions significantly influence the design and structure of public sector performance [12]. Institutional theory has been extensively examined in the public sector due to its pivotal role in understanding the dynamics of public organizations. It provides insights into how institutions shape the policy-making process and how policies, in turn, influence and reinforce institutional structures. Moreover, institutional theory aids in promoting accountability and transparency within the public sector. This is relevant to this study, which seeks to investigate the impact of bureaucratic reform on public sector performance by examining factors related to financial management and good governance.

This study also uses agency theory [31] which is relevant in explaining the role of internal control in agent performance relationships. Agency theory is relevant in the public sector because bureaucrats tasked with managing government must explain to the public through parliament the results of their work. This principle is fundamental to New Public Management (NPM). The NPM doctrine, which focuses on performance measurement, highlights the importance of applying agency theory in the public sector. As agents entrusted by the public, bureaucrats may have incentives that differ from those of society, the principal party.

Bureaucratic Reform

Bureaucratic reform involves implementing comprehensive changes to the government administration system, focusing on institutional structures, management processes, and human resource aspects. The primary goal of these reforms is to achieve good governance (Permenpan-RB Number 15 of 2008). According to [32], the realization of good governance is the goal of bureaucratic reform which is strengthened by state administrators who are professional and free from corruption, collusion and nepotism as well as improving services to the community so that excellent service is achieved. The objectives of bureaucratic reform include three important components. First, the creation of a professional, neutral and prosperous bureaucracy, which can position itself as a state servant and public servant in order to provide better public services. Second, the realization of professional, flexible, efficient and effective government institutions both within the central and regional governments. And the final target is the realization of administration (public services) that is faster, less complicated, easier and in accordance with the needs of the people served.

Assessment of the implementation of regional government bureaucratic reform is carried out every year independently by the regional government and then validated by the Ministry of Administrative and Bureaucratic Reform. Evaluation of the implementation of bureaucratic reform is carried out based on the leverage and results components. The leverage component (process) is measured through indicators that represent bureaucratic reform programs which include the areas of change management, policy deregulation, organization, governance, human resources, accountability, supervision and public services. Meanwhile, the results component is the impact of the program that has been carried out. The results components consist of performance and financial accountability, quality of public services, clean government and free of corruption, collusion and nepotism, as well as organizational performance (Permenpan-RB Number 26 of 2020).

3. Methodology

The type of research used is causal research because this research wants to describe the cause-

and-effect relationship of one or more problems as stated in the problem formulation. According to the approach, this research is quantitative research, namely research based on the philosophy of positivism which views that reality/symptoms/phenomena can be classified, are relatively fixed, concrete, observable, measurable, and the relationship between symptoms is causal [33].

The data used in this research is secondary data, which relates to the proxies used to measure the variables of financial independence, quality of financial reporting, accountability, internal control and government performance. Data is collected from various sources, including: BPS, Ministry of Home Affairs, Ministry of Finance, BPK, BPKP and regional government financial reports.

The population in this research is the Regional Governments in Indonesia which consist of 542 Regional Governments which are divided into 34 Provincial Governments, 425 Regency Governments, and 93 City Governments. The observation period is 2021 and 2022 with the consideration that starting in 2021 there will be new arrangements regarding performance evaluation results reports (EPPD scores) based on Minister of Home Affairs Regulation Number 18 of 2020 which is used as a proxy for government performance. The sampling method was purposive sampling, by subtracting the sample from several criteria that were not met, so that the final sample size that met the criteria was 424 provincial/district/city governments or 848 observations.

In this research, the analysis technique uses descriptive and inferential statistics. Descriptive statistics aims to describe the concentration and distribution of data without drawing conclusions. Subsequently, inferential statistics were conducted utilizing Partial Least Squares-Structural Equation Modeling (PLS-SEM) with panel data to determine the impact of the independent variables on the dependent variable. This analysis is a multivariate statistical analysis with the aim of testing the influence of variables simultaneously with an emphasis on prediction studies [34]. The use of PLS-SEM considers non-normal distribution of data considering that samples come from various types of different characteristics. [35] stated that one of the advantages of using PLS-SEM is that it does not require a normal data distribution.

4. Results and Discussion

Descriptive Statistics Results in Table 1 show that the government performance variable has an average value of 2.723 which indicates a "medium" performance status in line with the phenomenon explained previously that local government performance has not met the expected targets.

Table 1: Descriptive Statistics

Variable	Min	Max	Mean	Std Deviation
Government Performance (PERF)	1.08	4.08	2.723	0.504
Financial Condition (DEP)	0.01	0.80	0.162	0.130
Financial Reporting Quality (FRQ)	0.00	3.00	2.694	0.717
Accountability (ACT)	1.00	5.00	3.002	0.788
Internal Control (ICS)	1.00	3.00	2.683	0.505
Bureaucratic Reform (BR)	1.00	5.00	2.246	0.885
Human Development Index (HDI)	57.03	87.69	71.481	4.883
Population (POP)	10.17	17.72	13.013	1.132
Observation	848			

Variable	Min	Max	Mean	Std Deviation
Sample	424			

The average financial independence of 0.162 shows that on average from the research sample the financial condition of local governments in Indonesia still depends on transfers from the central government. On average, of total regional income, only 16.2% comes from original regional income. Meanwhile, the average Bureaucratic Reform is 2,246, indicating that on average bureaucratic reform is still not optimal.

Table 2 shows the results of the correlation test carried out to see the correlation between variables.

Table 2: Correlation Test Results

	PERF	DEP	FRQ	ACT	ICS	BR	HDI	POP
PERF	1.0000							
DEP	0.4206	1.0000						
FRQ	0.2550	0.1469	1.0000					
ACT	0.4694	0.4826	0.2351	1.0000				
ICS	0.3141	0.2953	0.1941	0.4146	1.0000			
BR	0.5041	0.6077	0.2492	0.7186	0.4185	1.0000		
HDI	0.3737	0.5461	0.1746	0.3675	0.2875	0.4566	1.0000	
POP	0.3112	0.6815	0.0734	0.4178	0.2434	0.5200	0.1539	1.0000

Table 2 shows the results of the correlation test performed to identify the correlation between variables. Statistically, all research variables are positively and significantly related (table 2). This is consistent with the research hypothesis, which all independent variables have a positive relationship with government performance.

This research applies SEM-PLS in testing the research model. The image of the research model in SEM-PLS presented in Figure 1 shows that this research uses a first-order model which uses a single construct layer model.

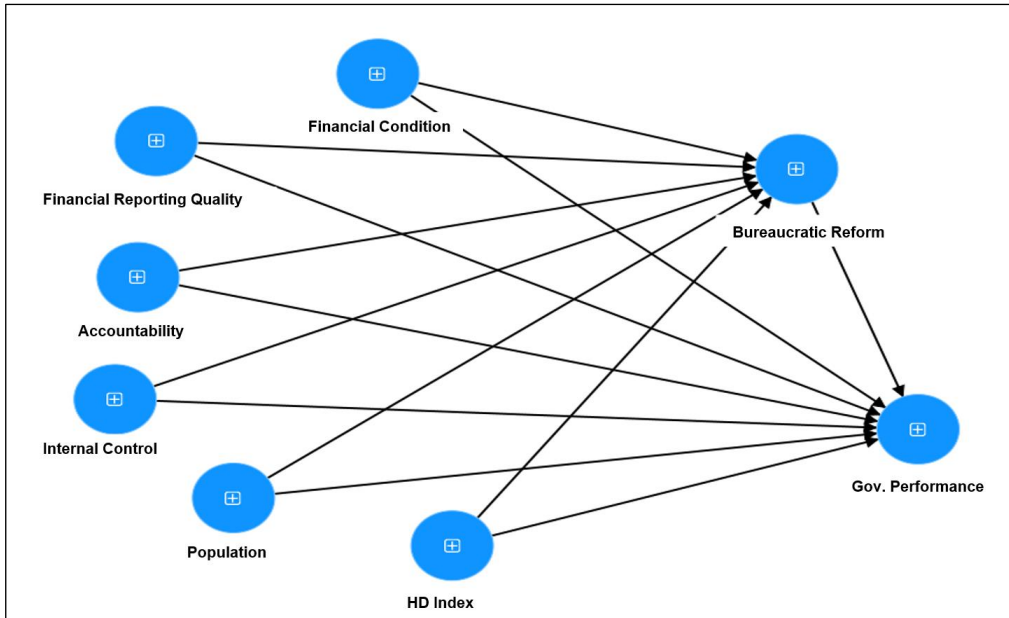


Figure 1: Research Model in SEM-PLS

The model in PLS consists of a measurement model (outer model) and structural models (inner model). However, this research variable is measured by single indicators therefore hence the evaluation convergent validity and discriminate validity is not necessary [34]. Model evaluation when the model is measured by single indicator is only done on inner model or structural model. Table 3 shows the results of the collinearity test from this research with the regression equation:

Model 1:

$$BR = \alpha + \beta_1 DEP + \beta_2 FRQ + \beta_3 ACT + \beta_4 ICS + \beta_6 HDI + \beta_7 POP + \varepsilon$$

Model 2:

$$PERF = \alpha + \beta_1 DEP + \beta_2 FRQ + \beta_3 ACT + \beta_4 ICS + \beta_5 BR + \beta_6 HDI + \beta_7 POP + \varepsilon$$

Table 3: Collinearity Test Results

Model 1 (Bureaucratic Reform)		Model 2 (Performance)	
Variable	VIF	Variable	VIF
DEP -> BR	2,091	DEP -> PERF	2,265
FRQ -> BR	1,079	FRQ -> PERF	1,089
ICS -> BR	1,247	ICS -> PERF	1,274
ACT -> BR	1,524	ACT -> PERF	2,169
IPM -> BR	1,020	BR -> PERF	2,657
POP -> BR	1,928	IPM -> PERF	1,020
		POP -> PERF	1,962

Based on the processing of the inner VIF (Variance Inflated Factor) values in table 3, the VIF value is less than 5, so the multicollinearity between the variables is low. These results indicate that the resulting PLS model parameter estimates are acceptable or that the PLS model parameter estimates are not biased [34].

Table 4 shows the results of the t test (Individual test) from this research.

Table 4: Hypothesis Test Results

Variable	Sign	Coeff	P values	VIF	Ket
Model 1 (Bureaucratic Reform)					
DEP -> BR	+	0,256	0,000***	2,091	H1 Accepted
FRQ -> BR	+	0,060	0,003***	1,079	H2 Accepted
ACT -> BR	+	0,493	0,000***	1,247	H3 Accepted
ICS -> BR	+	0,100	0,000***	1,524	H4 Accepted
HDI -> BR	+	-0,003	0,886	1,020	Not significant
POP -> BR	+	0,113	0,000***	1,962	Significant
<i>R Square</i>			0,624		
<i>Adj. R Square</i>			0,621		
Model 2 (Government Performance)					
DEP -> PERF	+	0,172	0,000***	2,265	H5 Accepted
FRQ -> PERF	+	0,122	0,000***	1,089	H6 Accepted
ACT -> PERF	+	0,171	0,000***	1,274	H7 Accepted
ICS -> PERF	+	0,074	0,020***	2,169	H8 Accepted
BR -> PERF	+	0,223	0,000***	2,657	H9 Accepted
HDI -> PERF	+	0,058	0,048**	1,020	Not significant
POP -> PERF	+	-0,018	0,653	1,928	Significant
<i>R Square</i>			0,320		
<i>Adj. R Square</i>			0,314		

Notes: ***Significant at 1%. **Significant at 5%. *Significant at 10%.

Based on direct effect hypothesis testing, the influence on bureaucratic reform appears significant in all hypotheses. Thus, this research has empirically succeeded in proving that each variable DEP, FRQ, ACT and ICS has a significant positive influence on increasing the value/quality of bureaucratic reform with a p-value <0.05. Among the variables that are significant for bureaucratic reform, the variables ACT and DEP have the highest path coefficients, namely 0.493 and 0.256 respectively. This shows that the dominant factors in improving the quality of bureaucratic reform are accountability and financial conditions.

Furthermore, testing the direct effect hypothesis on government performance was also proven to be significant for all hypotheses. Thus, this research also succeeded in proving that the DEP, FRQ, ACT and ICS and BR factors have a significant positive influence on increasing PERF with a p-value <0.05. In terms of path coefficient values, the bureaucratic reform variable has the highest path coefficient, namely 0.223, in terms of its influence on government performance. This shows the important role of implementing bureaucratic reform in achieving government public service performance.

This research empirically succeeded in proving that financial conditions have a positive influence on bureaucratic reform. Good financial conditions support the infrastructure needed to implement bureaucratic reform. Comprehensive bureaucratic reform requires a fairly large investment of funds, both physical and non-physical. This research also proves that financial conditions have a positive effect on government performance. A government with a healthy financial condition can allocate sufficient budget to support its performance. Good financial conditions also enable the government to provide effective and efficient public services. Local governments that exhibit strong financial performance possess a greater ability to fund

expenditures, deliver public services, and foster economic growth. [36].

These results support the research of [37] which proves that low level of financial dependence has a positive effect on public service performance. These findings are consistent with [12] which demonstrated that local sector public with effective financial management have enhanced opportunities to improve the quality of performance. The results of this study also support this resource-based theory [38] stated that if the organization's internal resources are allocated well, they can become a competitive advantage. In line with this theory, appropriate use of resources (allocation of expenditure in the APBD) will support government performance.

The quality of financial reporting has also been proven to have a positive influence on bureaucratic reform. Financial Reporting Quality in this research follows [14] dan [29] the Financial Reporting Quality variable uses the Audit Board's Opinion on local government financial reports. In this study, the scores are given as follows: a score of 3 for a WTP Opinion in a row for 3 years, a score of 2 for a WTP Opinion in a row for 2 years, a score of 1 for a WTP Opinion for only 1 year and a score of 0 for a Disclaimer Opinion. Quality opinions in harmony with good governance will support the implementation of bureaucratic reform. In this research, the quality of financial reporting was also proven to have a positive effect on government performance. Thus, a better audit opinion has a positive effect on the performance of government public services. This is in line with research by [39] dan [14].

Further results also prove that accountability has a positive effect on bureaucratic reform. Financial management becomes ineffective and inefficient if it is not supported by financial accountability. Financial abuse is negatively correlated with the level of accountability of local government entities [40]. These things will hinder the successful implementation of bureaucratic reform. The test results of [28] prove that there is a significant influence of bureaucratic reform carried out by reducing the number of corruption cases.

This research also succeeded in proving that government accountability has a positive influence on local government performance. This corresponds with earlier studies that highlight the significant role of accountability in ensuring the financial efficiency of public sector organizations. [41]. [26] also proves that Bureaucratic Reform has a positive effect on government performance. The results of this study also support [27] which states that bureaucratic reform has a positive influence on the implementation of good governance principles and public service performance.

Internal control has also been proven to have a positive influence on both bureaucratic reform and government performance. Internal audit system serves as a control tool that minimizes possible conflicts of interest between the public and the government within the context of agency theory. Internal audit contributes significantly to the accomplishments of government performance goals. The effectiveness of the internal control function has also been proven to be able to detect and prevent corruption which will disrupt public service performance [28]. [8] found that that supervision by internal audit plays an important role in the implementation of decentralization in Indonesia in managing agency problems that exist in the relationship between executives as agents and the community as principals. This is very relevant to the findings in this study. The success of bureaucratic reform requires a mature internal control system. An internal audit function with a higher level of maturity can provide more structured and consistent monitoring of local government activities [42].

This research proves that bureaucratic reform has a significant influence on government performance. This means that the success of government performance needs to be supported by various reforms carried out by the government. Local governments' bureaucratic reforms include restructuring and strengthening organizations, structuring management, structuring apparatus management systems, enhancing oversight and accountability, performance, and improving public service quality. [43] found that bureaucratic reform motivates government professionals to innovate in public services. These results are also in line with research by [26] which also proves that bureaucratic reform has a positive effect on government performance. Bureaucratic reform significantly and positively impacts the adherence to good governance principles and the enhancement of public service quality [27].

This research also investigates whether bureaucratic reform variables play a mediating role in testing the impact of financial conditions, financial reporting quality, accountability and internal control on government performance. The process of testing the mediation effect in SEM PLS uses a bootstrapping process because the SEM PLS analysis is non-parametric, so this mediation test does not assume that the data resulting from the mediation product is normally distributed. This bootstrapping test is considered more reliable and consistent than the Sobel test [34]. As shown in the path analysis results in Table 5, bureaucratic reform has proven to have a significant role as a mediating variable for the indirect influence of DEP, FRQ, ICS, and ACT with a test p-value of <0.05. The highest mediation effect was seen in ACT with a mediation path coefficient (0.110).

Table 5: Path Analysis (Indirect Effect)

Variable	Coeffisien	T value	P value	Ket
DEP -> BR -> PERF	0,057	4,109	0,000	Accepted
FRQ -> BR -> PERF	0,013	2,460	0,014	Accepted
ICS -> BR -> PERF	0,022	3,074	0,002	Accepted
ACT -> BR -> PERF	0,110	4,756	0,000	Accepted
HDI -> BR -> PERF	-0,001	0,141	0,888	Not significant
POP -> BR -> PERF	0,025	3,107	0,002	Significant

5. Conclusion

This Study examines the factors that influence the implementation of bureaucratic reform. This research also empirically tests the determining factors, including bureaucratic reform, which influence government performance. Bureaucratic reform has proven to have a positive effect in improving local government performance. Furthermore, bureaucratic reform has also been proven to mediate impact of financial conditions, financial reporting quality, accountability and internal control on government performance. The determining factors for bureaucratic reform proven in this research include: financial conditions, financial reporting quality, accountability and internal control. These factors have also been proven to be determining factors for local government performance.

Based on this research it can be concluded that financial conditions, financial reporting quality, accountability and internal control increase the success of bureaucratic reform. Improved financial conditions, higher quality audit opinions, financial accountability and maturity of the

internal control system have proven to encourage the success of bureaucratic reform. Furthermore, these factors have also been proven to improve the quality of government performance. With good financial conditions, there is sufficient budget to carry out public services. This is getting better with the support of good and accountable financial management and the optimal role of internal audit.

The implications of this study can provide consideration for local governments regarding the factors that are priorities for successful bureaucratic reform which will ultimately improve the quality of government performance. Regional governments need to pay attention to the sustainability of the implementation of bureaucratic reform which will support the achievement of the goals of government administration, namely quality services towards community welfare

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