



The Influence of Financial Reporting Quality and Efficiency in Resources Utilization on Public Sector Financial Performance: Evidence from Tanzania

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Authors' contributions

This work was carried out in collaboration between Both authors. Both authors read and approved the final manuscript.

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ABSTRACT

This study intended to examine the influence of financial reporting quality and efficiency in resource utilization on public sector financial performance as the results of adoption of accrual based IPSAS in Tanzania. Guided with Stakeholders Theory, a cross sectional-survey design was applied in collecting data from 178 public sector entities by applying a drop and pick method. PLS-SEM was employed in determining the relationship between financial reporting quality, efficiency in resource utilization and public sector financial performance. The findings revealed that, efficiency in resource utilization has a positive and significant influence on financial performance in the public sector entities. The relationship between financial reporting quality and public sector financial performance was not significant. These findings imply that efficiency in public resources utilisation plays a major role in achieving objectives of IPSAS adoption, hence leading to improved public sector financial performance.

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Keywords: *Financial reporting quality; efficiency in resource utilization; accrual based IPSAS; stakeholders theory; public sector financial performance; Tanzania.*

1. INTRODUCTION

Public sector financial performance plays a vital role in fulfilling interest of various stakeholders including development partners and local citizen [1]. This is effectively achieved when there is provision of financial reports having more quality. Assessment of efficiency in public resources utilisation is also achieved through critical assessment of financial performance of the concerned public entity [2,3,4]. Since public entities are significantly funded through government budget and other stakeholders such as development partners, it creates a need for effective financial performance of public sector organisations. Understanding this, governments of developing countries are required to exercise wise spending of public resources, so as to achieve intended goal of provision of public service with more quality [5]. This is in line with stakeholders' theory, which advocates the needs of various parties in public organisations to be involved effectively in provision of social service [6,7].

In improving public sector financial performance in Tanzania, numerous reforms in public administration and financial management have been undertaken [8,9,10]. These includes but not limited to the adoption and implementation of international accrual accounting (ie accrual based International Public Sector Accounting Standards-IPSASs) and Local Government Reforms [11]. Such reforms aimed at improving financial reporting quality and improvement in public resources utilizations which in turn would enable various stakeholders to evaluate financial performance of public entities [8,10]. Despite these reforms, for the past five (5) years, the Controller and Auditor General (CAG), has reported inadequate financial performance in various public sector entities. For instance, eight (8) public institutions were significantly financed by debts while six (6) recorded negative equity [12,13,14,15,16]. Additionally, twenty-three (23) public sector entities had recorded deficits for more than three years [16]. This implies that, such deficiencies in the operations of public sector entities keeps on decreasing the financial performance of public sector organisations which leads to inefficiencies in public services delivery.

The declining in financial performance of public sector entities in Tanzania raises questions

related to the relevance of adoption of accrual based IPSAS in terms of quality of financial reporting and efficiency in public resources utilizations. It was anticipated that, adoption and implementation of accrual based IPSAS would improve financial performance, through preparing financial reports with high quality hence adding value in assessment of public resources spending [8]. The desire for financial reporting quality placed much pressure on management of public sector entities with high expectations of improving both performance and efficiency in public spending [17]. However, little is known on the extent of financial performance of public sector entities in developing countries especially Tanzania where adoption of IPSAS were made mandatory by the oversight bodies.

Prior studies have focused on drivers for adoption of IPSAS and accrual based IPSAS implementation [8,9,18,19]. In other words, these studies did not examine the post adoption impact of IPSAS on financial reporting quality and efficiency in resource utilization in the public sector entities. Moreover, some of the notable studies which have been conducted in developed countries [for instance, 20,21 and 22] focused on implementation strategies, skills gap in IPSAS and the outcome of implementation measured by countries that adopted IPSAS. Again, they did not also consider the effects IPSAS adoption such as financial reporting quality and efficiency in resource utilization on financial performance of public institutions. Hence, this study is aimed to fill this gap and to add contribution to the literature based on data from sub-Saharan African country-Tanzania, which is scarce in the literature. Tanzania becomes the country of concern due to two reasons. First, Tanzania is a producer of the most valuable resources in the world (gold, diamond and Tanzanite); with variety of natural resources of flora and fauna and large national park resources. Second, these resources are anticipated to add value to the economy and hence their accountability to the public is of great importance. The implementation of IPSAS when linked with quality/reliable financial reporting and improved resources utilization has not been tested in Tanzanian context which this study aimed to add contribution to the literature. Therefore, based on this, this study intended to examine the influence of financial reporting quality and efficiency in resource utilization on public sector financial

performance as the results of adoption of accrual based IPSAS in Tanzania. The remaining of this paper is divided into four sections. Section two is literature review, section three is research methods, section four is findings and discussion and section five is the conclusion.

2. LITERATURE REVIEW

2.1 Guiding Theory

This study was guided by stakeholders' theory, which was established by [7]. It puts forward the importance of recognising that, organisations are not only controlled or purely affected by those exercising ownership rights, but they are also influenced by various individuals and entities having interest in their operations [23]. This means that, there are numerous stakeholders having interest in the day-to-day functioning and operations of various public sector entities. Such interested parties are not limited to owners but also development partners and local citizens. This calls for management of public entities while recognising that, there is a need for organisational management to consider business and public ethics as well as moral values when managing and spending public resources. In doing so, the needs of various stakeholders will be met. This is also in agreement with [6] who suggested that, in order for any entity to succeed, it is necessary to create as much value as possible for stakeholders need. This means that, public sector entities have relationship with various essential groups, which always have some interests in the activities and results of the entity.

According to [24] stakeholders' theory, is established on the premise of values, which are significant components of the entities when taking strategic decisions and whose concern is stakeholders' interests. To achieve the intended purpose of stakeholders' theory, management of the public institutions must express clearly, what they produce and do, in order to enables stakeholders, achieve their objectives. In case of the current study, this implies that, public sector entities must prepare and present financial reports with more quality in order to assist stakeholders to assess existence of efficiency in public spending [23]. In other words, managers are expected to produce financial statements that are thoroughly evaluated by the stakeholders with the aim assessing the performance of the reporting entity. Despite the limitations of stakeholders' theory in terms of difficulties in

determination of what constitutes genuine stakeholders [23], it is still useful in providing theoretical basis for examining the influence of financial reporting quality and efficiency in resource utilization on public sector financial performance. This is because, it provides basis for determining stakeholders need in terms of financial reporting quality and efficiency in public resource utilization.

2.2 Hypotheses Development

2.2.1 Quality of financial reporting and public sector financial performance

The stakeholders' theory gives much emphasis on effective public sector performance, in order for various stakeholders and interested parties to make best assessment of their performance [7]. This is significantly achieved when there is financial reporting quality in the prepared and presented financial reports [8]. Moreover, adoption and implementation of international accrual accounting (ie IPSAS) intended at improving quality of financial reports [25]. This means that, when resources are allocated to public sector entities by the government and other related stakeholders, automatically, they will demand meaningful, transparent and reliable financial reports. Such reports to be of high quality needs to be characterised with relevance, faithful representation, timeliness, comparability and verifiability [17]. Possession of such attributes in the presented financial reports assist interested parties in evaluating financial performance of the concerned public sector entity [26]. This is also in agreement with [21], who stated that, financial reporting quality significantly influences provision of public service, which in turn leads to effective financial performance. Generally, existence of financial reports with more quality helps in evaluating the impacts of public resources in the delivery of public service, hence adding value in the assessment of public sector financial performance. Therefore, based on these arguments, it is therefore stated that:

H₁: Quality of financial reporting positively influences public sector financial performance

2.2.2 Efficiency in resource utilization and public sector financial performance

For the view of achieving stakeholders need on assessment of financial performance in public sector entities, stakeholders' theory requires

existence efficiency in public resources utilization [7]. As per the IPSASB [27] adoption and implementation of accrual based IPSAS calls for public entities to exercise efficiency in public resources spending. Such efficiency in utilization of resources aids in effective assessment of financial and non-financial results [28]. This implies that, assessment of financial performance in public sector shows whether the entity has acquired and spend public resources economically and efficiently as well as effectively while delivering public services. Additionally, adoption and implementation of IPSAS is highly useful in assessing management on how decisions are made in terms of public resource allocation and the way social service are provided [1]. This in turn, helps in evaluation of public sector performance. Relying on this, it generally considered that:

H₂: Efficiency in resource utilization positively influences public sector financial performance

3. METHODOLOGY

Data was collected from Public Sector Entities by including 178 respondents from LGAs in Tanzania. The selection of the stated public entities was enhanced by their adoption and implementation of accrual based IPSAS in Tanzania [11]. There are 581 public sector entities that adopted accrual based IPSAS in financial reporting which includes 52 Central governments, 184 Local Government Authorities (LGAs) and 345 Public Authorities [11]. From this population a sample size was ascertained from recommendations by Krejcie and Morgan (1970). It was revealed that a population of 581 corresponds to a sample size of 237, while the actual sample size was 178. Therefore, a questionnaire was distributed randomly to the identified participants in LGAs.

Measurement variables for financial performance were adopted from [29]. Meanwhile, quality of financial reporting measurements was adapted from [27] and measurements for efficiency in resource utilization were adapted from [29]. A Partial Least Squares-Structural Equation Models (PLS-SEM) which was supported by SMARTPLS3 was employed in analysing data and in validating the proposed hypotheses. It is contented that PLS-SEM should be recommended in the analysis of data involving models with large number of constructs and complex statistical models [30,31]. Accordingly,

measurement model was conducted to establish reliability and validity of the model. Furthermore, reliability and validity of the measurement model were undertaken to determine the structural model of the study. It involved conducting PLS bootstrapping with 5000 re-samples to generate values related with path coefficients and other relevant values as pre-requisites of using PLS-SEM [32]. The results were reported in the next subsections. Table 1 is the profile of the respondents of the study.

Table 1 shows that majority of the entities were public authorities, standing for 77%. In terms of age of the PSE, more than half of the public sector entities (60.1%) had 16 years and above from the date of their establishment. In terms of academic qualifications, 69.7% of the respondents had master degree whereas 77% are professional accountants (CPA). Majority of the respondents had working experience of 11 to 15 years while 60% were working as chief accountants.

3.1 Reliability and Validity

The Cronbach alpha and Composite reliability were conducted to establish reliability of the model. It involved assessment of how much each of the indicator variance was explained by the respective constructs. As presented in Table 2, Cronbach alpha and composite reliability as well as reliability coefficients (ρ_A) for the each of the three (3) variables were found to be within the required threshold of at least 0.7 [30,31]. This suggested acceptable level of reliability for the measurement scale.

Furthermore, Average Variance Extracted (AVE) and Discriminant Validity were considered to conclude on the Validity of the model. Since the required threshold for AVE is 0.50, it is stated that there is convergent validity in terms of AVE. This is because; Table 3 displays that the lowest score for AVE is 0.537 for efficiency in resources utilization (EiRU) while the highest score is 0.704 for financial performance (FP). This means that, the constructs are explained by more than 50 percent of each of the indicators variances that comprises the construct. Besides that, Table 3 portrays the discriminant validity computed as per the requirements of Fornell-Larcker criterion, in order to assess the extent in which constructs are empirically distinct from each other in the concerned model. Generally, as per Fornell and Larcker [33] there is guarantee of discriminant validity in our model.

Table 1. Demographic characteristics of the respondents (N=178)

Variables	Categories	Frequency	Percent
Types of public sector entities			
	LGAs	22	12.4
	Central Government	19	10.7
	Public Authorities	137	77.0
	Total	178	100
Age of the public sector entities			
	0 to 5 years	5	2.8
	6 to 10 years	22	12.4
	11 to 15 years	44	24.7
	16 years and above	107	60.1
	Total	178	100.0
Academic Qualification			
	Bachelor degree	51	28.7
	Master degree	124	69.7
	PhD	3	1.7
	Total	178	100.0
Professional Qualifications			
	CPA	137	77.0
	ACCA	22	12.4
	Others (not certified)	19	10.7
	Total	178	100.0
Working Experience			
	0-5 years	35	19.7
	6-10 years	37	20.8
	11-15 years	70	39.3
	16-20 years	14	7.9
	21 years and above	22	12.4
	Total	178	100
Position of the Respondents			
	Director of Finance	46	26
	Chief Accountant	106	60
	Accountant	26	15
	Total	178	178

Source: Field Data, (2024)

Table 2. Construct reliability and validity

Variables	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
EiRU	0.782	0.791	0.852	0.537
FP	0.788	0.797	0.877	0.704
QFR	0.796	0.712	0.831	0.621

Source: Field Data, (2024)

Table 3. Discriminant validity: Fornell-larcker criterion

Variables	EiRU	FP	QFR
EiRU	0.733		
FP	0.642	0.839	
QFR	0.573	0.562	0.788

Source: Field Data, (2024)

Table 4. Heterotrait-monotrait ratio (HTMT)

Variables	EiRU	FP	QFR
EiRU			
FP	0.844		
QFR	0.753	0.745	

Source: Field Data, (2024)

Table 5. Collinearity statistics (VIF): Outer VIF values

Constructs	VIF
EiRU1	1.722
EiRU2	1.293
EiRU3	1.510
EiRU4	1.607
EiRU5	1.529
FP3	2.188
FP4	1.497
FP5	1.792
QFR1	1.266
QFR2	1.402
QFR3	1.525

Source: Field Data, (2024)

Similarly, Heterotrait-Monotrait Ratio (HTMT) was conducted to examine the discriminant validity of the model. The results are presented in Table 4. The results produced a required threshold of is 0.9 or below, which suggests there is discriminant validity in terms of HTMT ratio [30].

3.2 Collinearity Statistics

This involved examination of the extent to which formatively specified constructs associates with alternative reflectively measured variables. Specifically, this was undertaken by considering three elements namely convergent validity, indicator collinearity and statistical

relevance and significance of weights of indicators. To reach this, Variance Inflation Factor (VIF) was considered. Table 5 displays that, the VIF values for each construct used in our study is below 3, which is the required threshold as per [30]. Therefore, there is no collinearity issues since all VIF values are close to three (3).

3.3 Assessment of the Structural Model

As per [34] evaluation of the PLS-SEM Structural Model is conducted after obtaining assurance for reliability and validity as well as after being comfortable with collinearity issues. For the purpose of measuring goodness of fit and explanatory power of the models, coefficient determination (R^2) was calculated and presented in Table 8 as 0.756 while adjusted R^2 is 0.750. As suggested by [34] our model confirms required goodness of fit. Since substantial variations in public sector financial performance is greatly explained by financial reporting quality and efficiency use of public resources, by more than 50 percent.

Additionally, after determination of R^2 , it was important to determine predictive relevance (Q^2) of the model as per supported by [34]. To attain this, blindfolding procedures was applied. Basically, to examine the predictive power of the model through Q^2 , blindfolding procedures are normally applied to variables related with reflective measurement model (endogenous variables). Application of blindfolding procedures resulted in Construct Cross validated Redundancy (Table 6), Construct Cross validated Communalities (Table 7). As presented in the stated Tables, the values of Q^2 is more than zero. This means that, as per [35] there is predictive significance of our model.

Table 6. Construct cross validated redundancy

Variables	SSO	SSE	$Q^2 (=1-SSE/SSO)$
EiRU	890.000	890.000	
FP	534.000	263.533	0.506
QFR	534.000	534.000	

Source: Field Data, (2024)

Table 7. Construct cross validated communalities

	SSO	SSE	$Q^2 (=1-SSE/SSO)$
EiRU	890.000	618.561	0.305
FP	534.000	321.219	0.398
QFR	534.000	398.545	0.254

Source: Field Data, (2024)

4. RESULTS FOR HYPOTHESES TESTING

This study intended to examine the influence of financial reporting quality and efficiency in resources utilizations on public sector financial performance, as the outcomes of adoption and implementation of IPSAS in Tanzania. Based on this, two (2) hypotheses were established. To obtain results for structural model evaluation, procedures related with PLS bootstrapping for 5000 resamples were undertaken. This resulted in generation of values for path coefficient and other related probability values (p values) as it was considered by using PLS-SEM aided by SMARTPLS3. Table 8 shows the outcomes for structural model mainly related with path coefficients (hypotheses testing). The structural model for financial performance is illustrated in Fig. 1.

Based on the findings shown in Table 8 and Fig. 1, the results for the connection between the exogenous and endogenous variable are as follows: Results for H₁ demonstrated that the predicted correlation between quality of financial reporting (QFR) and public sector financial performance (FP) is positively insignificant. This is evidenced by generated coefficients values of 0.048 and probability values of 0.422 for financial reporting quality. This means that H₁ is rejected. Apart from that, findings for H₂ have provided support for the relationship between efficiency in the resources utilization (EiRU) and public sector financial performance (FP). This is advocated by existence of coefficients and probability values of 0.541 and 0.000, implying that, efficiency in the resources utilization positively influences public sector financial performance. Such influence is significant at 0.01. Therefore, this informs that, H₂ is supported and accepted.

Table 8. Results for hypotheses testing

Hypotheses	Relationship	Path Coefficients	P Values	T Statistics	Decision
H ₁ .	QFR -> FP	0.048	0.422	0.803	Rejected
H ₂ .	EiRU -> FP	0.541	0.000	7.317*	Accepted

R²= 0.756 & R² Adjusted=0.750

Source: Field Data, (2024)

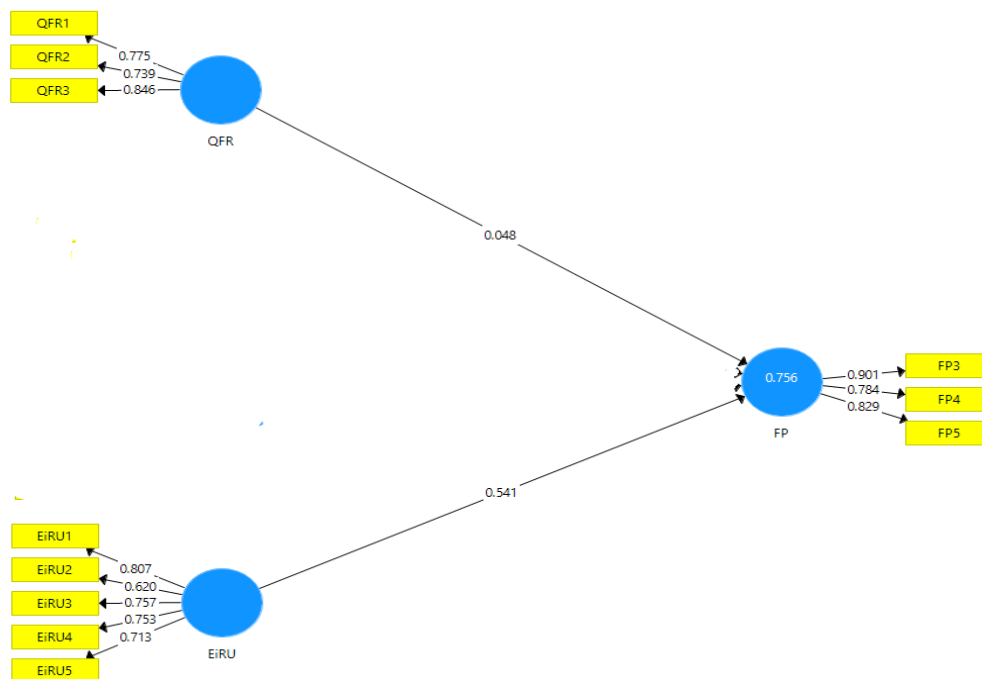


Fig. 1. Structural model for financial performance

Source: Field data, (2024)

5. DISCUSSION

The findings evidenced that, quality of financial reporting has a positive and insignificant effects on financial performance of public sector entities. These results nail out that, financial performance of public entities is not significantly influenced by preparation and presentation of financial reports with more quality. Our findings do not support the expected hypothesis that, quality of financial reporting positively influences financial performance of the public sector entities (H_1). This means that, although quality of financial reporting has a positive influence on financial performance, such influence is insignificant. These findings are contrary to previous studies such as [21,24,36,37,38]. These studies revealed that, preparation of financial reports with high quality signify efficiency public service, hence leading to a desirable public sector financial performance. Existence of these contradictions with past studies could be explained by non-consideration of financial performance in public sector settings. This implies that, most of the public sector entities are highly inclined towards delivery of public service while ignoring financial performance. Based on this, [23,39,36,40,41,42] collectively concluded that, financial reporting quality affects economic decisions, and financial performance of public sector entities.

Apart from that, it was also reported that, efficiency in resource utilization positively and significantly influences financial performance of the public sector entities. This implies that, when public entities demonstrate efficiency in utilisation of public resources, financial performance of public sector entities will be highly improved. These findings denote that, for public entities to attain desired financial performance in provision of public service, it is very indispensable to consider how various public resources are utilized. This also indicates that, implementation and adoption of IPSAS harvest its desired outcomes when public resources are effectively and efficiently utilized, so as to bring desired public organisation performance. This is in agreement with [28,43,44,45,46] who noted that, the implementation of IPSAS assists stakeholders and interested parties in accrual reports to make assessment and evaluation of how public resources are utilized and the way public service are offered. Such assessment and evaluation create a signal on how public entities are performing. Cementing on this, [23,47,48,49] pointed out that, existence of effective resource utilization helps in assessing and evaluating

whether public entities have acquired resources economically and used them efficiently and effectively to achieve its service delivery objectives.

6. CONCLUSION AND RESEARCH IMPLICATIONS

6.1 Conclusion

The current study intended to examine the influence of financial reporting quality and efficiency in resource utilization on public sector financial performance, as the results of adoption and implementation of accrual based IPSAS in Tanzania. Guided with Stakeholders Theory, a cross sectional-survey design was applied in collecting data from 178 accountants and auditors by applying a drop and pick method. PLS-SEM was employed in determining the relationship between financial reporting quality, efficiency in resource utilization and public sector financial performance. Based on the results of hypotheses testing, it was revealed that, efficiency in resource utilization has a positive and significant influence on financial performance the public sector entities. On the other hand, insignificant relationship between financial reporting quality and public sector financial performance was recognised.

7. IMPLICATIONS

Findings for the current study provide various practical and theoretical implications as follows. This study concluded that, financial reporting quality has no significant contributions towards financial performance of public sector entities as the results of adoption of IPSAS. This implies that, reporting entities need to reconsider the basis for adoption and implementation of IPSAS. On the other hand, this implication demand accountants, auditors and professional bodies to rethink their basis of what determines financial reporting quality. Without such implications, it will be very difficult for reporting entities to prepare and present financial reports which are relevant, faithful represented, reliable, verifiable, understandable and timely provided.

Since efficiency in resources utilisation has positive and significant effects on financial performance of public institutions, these findings implies that efficiency in public resources utilisation plays a major role in achieving objectives of accrual based IPSAS adoption and implementation. This implies that, provision of

public services by public officials who are publicly accountable makes them to demonstrate existence of efficiency and effectiveness in utilisations of scarce public resources. This also implies that, public interest on the limited public resources will be met since there is efficiency in government spending. Theoretically, the findings of our current study contribute in scarce literature related with public sector accrual accounting mainly in developing nations like Tanzania. This is because most of the studies have focused in developed countries while ignoring developing nations. This implies that, the current study intended to fulfill the gaps related with the effects of adoption of IPSAS in Tanzanian context, mainly in terms of financial reporting quality and efficiency in resource utilisation. Therefore, this study adds knowledge to the limited literature on accrual accounting, locally and internationally. Finally, as the results of adoption and implementation of accrual accounting in Tanzanian public sector, the element of financial performance has been introduced. This is not common in government sector entities. This creates implications among public officials that, public sector employees need to be aware and highly accustomed towards assessing and evaluating their financial performance. In other words, this continues to create implications in public sector financial reporting that, adoption and implementation of accounting practices and norms borrowed from private sector need further considerations and deliberations, mainly in terms of performance evaluation and financial reporting practices.

8. LIMITATIONS AND AREAS FOR UPCOMING STUDIES

Since the study aimed at establishing the effects of financial reporting quality and efficiency in resources utilization on public sector financial performance, as the result of adoption and implementation of accrual based IPSAS in Tanzania; therefore, based on the stated limitations below, the following are recommended as areas for future studies:

Since the current study concentrated only on the influence of financial reporting quality and efficiency in resource utilization, future studies should pay attention on other effects of adoption of IPSAS on public sector financial performance. This includes levels of compliance, improved decision-making, accountability and reduction in perceived corruption as well as transparency. All these could have impact on performance of public entities.

Qualitative approach needs to be applied in order to establish effects on adoption of IPSAS on performance of public entities. This approach will aid in obtaining inner perception of the implementers, policy makers and citizens. To attain this, interviews, focus group discussion and observations may be applied. Finally, it is recognised that, the current study employed cross-sectional survey design, which may be unable to consider variations in public sector financial performance, financial reporting quality and efficiency in resources utilizations. Based on this, it is recommended that, upcoming studies should be conducted while being longitudinal in nature. This will assist in overcoming changes in financial reporting quality, efficiency in public resources utilizations and public sector financial performance.

DISCLAIMER (ARTIFICIAL INTELLIGENCE)

Authors hereby declare that NO generative AI technologies such as Large Language Models (ChatGPT, COPILOT, etc) and text-to-image generators have been used during writing or editing of manuscripts.

THE SMARTPLS SOFTWARE (VERSION 3.0)

Authors used a 30-day trial version, which doesn't require a copyright license.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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