



# The Whole Government Financial Reporting Quality of Local Authorities in China

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## ABSTRACT

High-quality financial reporting enhances government accountability. Previous studies have shown that government financial reports in China are not prepared in accordance with reporting standards, resulting in poor reporting quality. This paper aims to clarify the quality of the whole government financial reporting after the implementation of the new accounting system starting from 2019, and examines the factors that influence the quality. This empirical study employs annual financial reports for quantitative analysis. The research sample is the whole financial reports of 31 provincial local governments in China from 2020 to 2022. The reporting quality is tested using the revised 26 indicators. Consequently, six factors which are size, wealth, timeliness, internal audit findings, educational background, and regional work unit, are tested to examine their influence on the whole government financial reporting (WGFR) quality. The research data were statistically analyzed using IBM SPSS. The findings revealed that after the new accounting system was fully implemented, the quality of all financial reporting of the 31 provincial local governments has improved. The average values for 2020-2022 were 77.39, 78.61, and 78.65 respectively with the increasing trend. The average score is 78.22 for 3 years. Three factors are significantly proven to have an influence towards WGFR quality, which are the number of regional work units, the educational background of accountants and the timeliness of financial reporting. However, three other factors which are size, wealth and internal audit findings of local authority are found to be insignificant. The results from this research are useful for the local authorities in China to identify their position and make necessary improvements in their financial reporting for the benefit of the interested parties. Secondly, the results on factors that contribute to the WGFR may be significant to public policymakers to determine the appropriate approach in enhancing the WGFR among local authorities in China. Finally, it has enriched the reference basis for related research.

**Keywords**-Government, Accountability, Financial Reporting, Influence Factor, Quality,

## INTRODUCTION

The efficiency focus of New Public Management (NPM) drove public sector reform, reshaping government accountability by integrating private-sector performance metrics and management systems into public governance. Accrual-based financial reports provide key technical support for this approach (Helden & Ouda, 2016; Carnegie & West, 2005; Cooper, 2015). High quality financial reporting can enhance public confidence in the management of public funds and contribute positively to the government's image (Prabtanto & Respati,



2021). The quality of accrual-based government financial reports serves as a key indicator for assessing the effective implementation of New Public Management (NPM) within governmental institutions. The adoption of an accrual accounting system by local governments, coupled with the production of high-quality financial reports, contributes to improved standards of public service delivery (Furqan, 2017). In November 2013, China also joined the global public sector reform movement when the Chinese government announced at the Third Plenum of the 18th CPC Central Committee its goal of establishing an accrual-based whole government financial reporting (WGFR) system. This reform is expected to enhance fiscal transparency and strengthen government accountability by providing a more comprehensive view of the government's financial position (Chan, 2016; Zhang, 2021). High quality financial reporting can improve transparency and efficiency of central unified management to ensure Party leadership (Chang, 2016).

The quality of financial reports has a positive impact on government accountability. Therefore, it is essential for governments to produce high-quality financial reports to ensure that users of financial statements—such as stakeholders, regional authorities, and legislative bodies—can accurately interpret the information they contain. Inaccurate reporting may lead to significant adverse consequences, including diminished public confidence in the management of public funds (Prabtanto et al., 2021). However, existing studies in China indicate that the quality of government financial reporting remains suboptimal, primarily because reports are not prepared in accordance with the qualitative characteristics of accrual accounting. Since the new accounting system was fully implemented in 2019, research has been largely qualitative, with limited quantitative analysis conducted to date. While prior research has predominantly examined factors such as accounting systems, information technology, internal control mechanisms, and human resource management, there remains a notable absence of studies focusing on the characteristics of local governments.

The objectives of the study are: first, to investigate the Whole Government Financial Reporting (WGFR) quality of local authorities in China. Second, to examine factors that may contribute to the quality of WGFR among local authorities in China. The results may help local governments in China clarify their own positions and make necessary improvements in financial reporting to meet the needs of relevant parties. Additionally, the research results on the factors affecting financial reporting may assist public policy makers in formulating relevant regulations to enhance financial reporting. Finally, it is anticipated that the findings of this study can provide some references for subsequent research.

This study is organized as follows: First, a review of the relevant literature and the hypotheses development are presented. Second, the theoretical and research frameworks are discussed. Third, introduce the research methodology. Finally, the results are analyzed, the findings are summarized, and recommendations are provided.

## LITERATURE REVIEW

### Agency Theory

Agency theory is a framework for explaining and addressing principal-agent issues in organizations. It most commonly applies to shareholders as principals and corporate executives as agents (Raharjo, 2007). An agency problem arises when information asymmetry exists between the principal and the agent—that is, when the principal lacks full knowledge of the agent's actions. Such a challenge necessitates monitoring mechanisms to ensure accountability and alignment of interests (Mofolo & Adonis, 2021). This theory underpins concerns about financial performance through high-quality financial reporting. Within an agency relationship, agents are required to submit periodic performance reports to principals, enabling the latter to evaluate agent performance based on the financial information provided (Kopp & Brock, 2021). Agency theory has always been the core theory of public sector accountability research. Agency problems also occur in government organizations. The



Public, as the principal entities, gives the government a mandate, serving as their agents, to execute governmental responsibilities with the aim of enhancing the welfare of the people (Schillemans & Busuioc, 2015; Agustiningsih, 2017).

## Accountability

When the government manages resources it does not own, it must be fully accountable to the resource owner. (AGO, 2018). One of the standards in effective administration is accountability. Financial accountability means public institutions must use public funds economically, efficiently, and effectively, with no misappropriation, waste, or corruption (Ramdhani et al., 2016). Fair and reliable public services, along with predictable decision-making, foster public trust. Accountability, integrity, and ethical conduct of officials are essential for public trust and require transparent disclosure of institutional actions to enable public debate and scrutiny. (Hasbullah, 2023). Public accountability requires transparency in reporting information, which is a key element in combating corruption (Anselmi L. et al., 2017). Accountability is the cornerstone of all government financial reports. In a democratic society, financial reports play a critical role in fulfilling the government's responsibility to be accountable to the public (Bakar, 2016). In financial reporting, the government as agent must provide useful information to users as principals to support accountability assessment and economic, social, and political decision-making (Nur, 2015). High-quality financial reporting can help governments achieve better accountability (Husnan, 2016; Prabtanto, 2021; Karyatni, 2020).

## The Quality of Financial Reporting

According to the literature, scholars in various countries will use the qualitative characteristics of accounting information as the standard when evaluating the quality of government financial reports. This standard comes from accounting standards or regulations and has strong recognition and enforceability. Different institutional frameworks identify different qualitative characteristics. According to the IASB, assessing financial reporting quality depends on how faithfully the disclosed information reflects its objectives. These qualitative characteristics help evaluate the usefulness of financial reports and improve overall quality (Gajevszky, 2015). The qualitative characteristics are essential for high-quality government financial reporting. (Dewi & Yusoff, 2019). Accounting information must meet these characteristics to achieve its objectives (Erlina et al., 2023; Fauziah, 2018; Setiyawati, 2020). Nurlinda established an index to evaluate the quality of financial reports according to the four quality characteristics of financial statements: relevance, reliability, comparability and understandability (Nurlinda & Erlina, 2023). The new Government Accounting Basic Standards (GABS, 2017) explicitly define seven qualitative characteristics: reliability, completeness, relevance, timeliness, comparability, understandability, and convenience. In addition, in accordance with the requirements of China's Accounting Law and Budget Law, the phrase "obey the rules" with regulatory requirements has been added to standardize the preparation of financial reports and improve the quality of information. Indicators that support the characteristic are Internal control report, which includes whether to clarify the responsibilities and authority of each department in accordance with regulations and regulations, and set up the implementation procedures of budget, revenue and expenditure, procurement, assets, construction projects, and contracts. Whether implementation is monitored and self-evaluated. These standards are designed to enhance the quality of financial reports in alignment with international best practices, thereby promoting sound governance and accountability. The results show that an effective Internal Control System (ICS) positively and significantly improves local government financial reporting quality (Julita, 2018; Widaryani, 2020). Additionally, some Chinese scholars, Ren Gang (2014) & Wang Ying (2019), have drawn on the successful experiences of the West and added the index of "obey the rules".

Although GABS 2017 clearly defines seven quality characteristics of government financial reporting, there remains no uniform evaluation framework for assessing the quality of the financial reporting. Therefore, many



Chinese scholars are trying to find an optimal index framework. The accountability index developed by Zhou Yongmei based on GABS 2017 is widely used by many researchers in China to check the quality of local government financial reports. However, the evaluation index framework lacks “obey the rules”.

## Hypotheses Development

### The size of the local authority

Assets are resources entities use to carry out operations. Regional governments can gain economic benefits in the future by controlling or owning these economic resources. These assets are also components of the financial reports. The larger asset size of a region is, the more information it needs to disclose in its financial reports. Agency theory holds that the financial reports will provide the principal with information on the funds managed by the agent. To reduce agency costs, the government will choose to fully disclose information to enhance the transparency of financial reports, gain public trust, and achieve government accountability. Therefore, the scale of local governments affects the quality of financial reports. Previous studies, such as Trisnawati & Achmad (2014), Agustiningsih (2017), Mariani & Utami (2019), and HardiningSih (2019), indicate that the size of local authority is positively significantly influence on the quality of the report. Therefore, our first hypothesis is:

H1: The size of the local authority is positively related to the quality of WGFR.

### The wealth of the local authority

The financial situation of local governments reflects the prosperity of the region and government performance (Munoz & Bolawi, 2015; Mariani, E., & Utami, W., 2019). Local government wealth is measured by IGR, which is the main source of the regional taxes, regional retributions, and the results of separating local asset management. The larger the IGR becomes, the richer the regional resources will be. To showcase their performance results, local governments will disclose more information in their financial reports. Increased disclosure reduces information asymmetry between the government and the public. According to agency theory, local governments are expected to adopt improved disclosure practices to mitigate agency costs. This includes publishing financial reports online, thereby enhancing reporting transparency, more fully demonstrating government performance outcomes, and strengthening accountability (Agustinisi, 2017; Diputiana & Rockmannia, 2018; Hadini & Octaviani, 2019; Arifin, 2020). Existing studies have shown that the financial strength of local governments is significantly positively correlated with the quality of financial reports. Previous studies provide evidence that the wealth of the local authorities is positively and significantly related to the quality of reporting. Therefore, our second hypothesis is:

H2: The wealth of the local authority is positively related to the quality of WGFR.

### The time spent on publishing the report

The agency theory suggests that untimely information will directly lead to information asymmetry, increase agency costs, and reduce the usefulness of decisions. The timeliness of information directly affects the quality of financial reports and the decisions made by users. Timeliness refers to how quickly information is made available and relates directly to its usefulness for decision-making (IASB, 2010). It shows that information must reach decision makers before it loses its impact (Herath & Albarqi, 2017). Obtaining relevant information as early as possible can improve the quality of financial reports, help achieve performance accountability objectives, and enhance the usefulness of decision-making (Agung, 2020; Darmawan, 2019; Ningtyas, 2019; Mulyati, 2019; Kuntadi, 2019; Ochung, 2023). Timeliness is a critical factor in assessing financial reporting content, enhancing its decision usefulness (Opanyi, 2016; Obazee & Amede, 2019; Zandi & Abdullah, 2019; Bashir & Amir, 2020; Egolum et al., 2021; Zibaghafa & Chukwu, 2024). Timeliness is measured by the time



between when information is expected and when it becomes available for use (Olowokure et al., 2016). Timeliness in annual report quality is assessed by the period between year-end and issuance date (Beest et al., 2009). Timeliness is measured by calculating the total number of days from the end of financial year to the date the report is published (Zhou Yongmei 2018). A shorter duration for report publication indicates greater timeliness, which in turn enhances the quality of the financial report. Previous studies provide evidence that the time spent on publishing reports is negatively and significantly related to the quality of reporting. Therefore, our third hypothesis is:

H3: The time spent on publishing the report is negatively related to the quality of WGFR.

### **Internal audit findings of the local authority**

The accountability theory holds that governments may abuse public power and resources for their own interests, leading to moral hazard and adverse selection, so internal supervision mechanisms are needed to mitigate this problem. Audit systems are key mechanisms for enforcing accountability in local government institutions (Selepe, 2022). Government internal audit can supervise and improve the quality of information in local government reports. Previous studies have shown that when the audit results of local governments are high, the compliance with legislation and financial reporting management is low, and the quality of reports is also low. High audit findings are likely to reduce the quality of local government public service management (Furqan, 2020). Internal audits can detect irregularities and control corruption, strengthen government accountability. The disclosure of illegal amounts found by internal audit will force the audited entity to make a restatement of accounting information to promote the improvement of the quality of financial reporting (Rahmatika & Afiah, 2014; Gamayuni, 2018).

Therefore, Higher audit findings indicate ineffective implementation of internal controls and low compliance with laws and regulations, leading to lower financial reporting quality and poor public service delivery. (Furqan, 2020). Empirical studies show that the more illegal amounts found by government internal audit, the worse the quality of financial reports (Guo Yuzhu, 2021). The research shows that the internal audit findings of local authority are negatively and significantly related to the quality of reports. Therefore, our fourth hypothesis is as follows:

H4: Internal audit findings of the local authority are negatively related to the quality of WGFR.

### **The educational background of local government accountants**

The agency theory holds that the agency costs arise from information asymmetry in the agency relationship. Similarly, in the accountability theory, the two parties in the agency relationship are the government and the public. Producing high-quality financial reports can reduce the agency cost problem caused by information asymmetry between the principal and the agent, enabling the government to better fulfill its fiduciary responsibilities (Agustiningsih, 2017; Mofolo & Adonis, 2021; Harymawan, 2023). The degree can measure expertise. Researchers such as Ismail et al. (2021) find that CFOs with a master's degree report earnings more conservatively, while Sun et al. (2021) show that executives with an MBA engage in less aggressive and more conservative earnings reporting. Therefore, we predict that professionals with high academic qualifications will produce high-quality financial reports, as they have received a more comprehensive education system, thereby understanding that the formulation of financial statements aims to address the information asymmetry between external investors and internal investors (Harymawan, I., Minanurohman, 2023). Therefore, highly educated government agency accountants will, through the accounting knowledge reserves and defect identification capabilities cultivated by the high-quality education system, produce high-level financial reports, effectively reducing agency costs and better achieving accountability (Schillemans, 2016; Meng Di, 2019; Mariani & Utami,

2019). Therefore, the fifth hypothesis is thus derived:

H5: The educational background of local government accountants is positively related to the quality of WGFR.

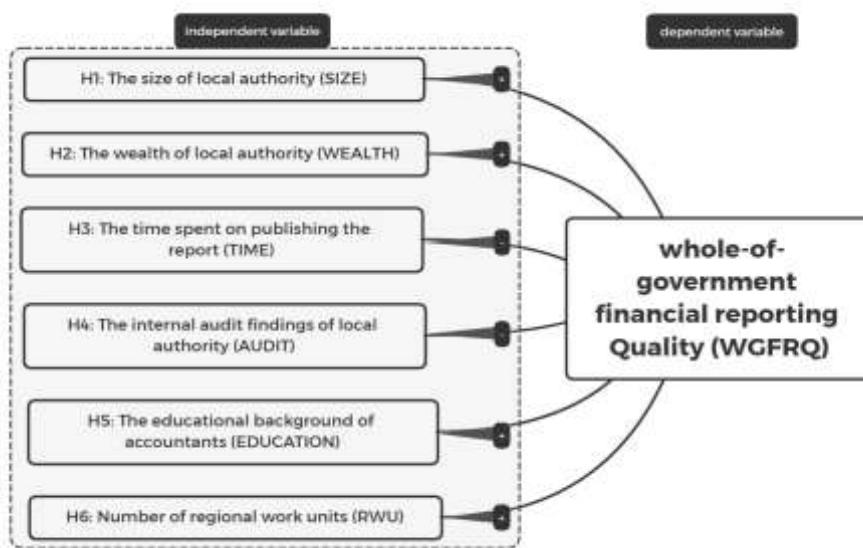
### The number of regional work unit (RWU)

Regional financial independence reflects the capacity of regional governments in regional work units (RWUs)—accounting entities responsible for recording internal transactions. A higher number of RWUs indicates more prioritized functions, leading to greater administrative complexity and increased disclosure (Hilmi & Martani, 2012; Indriyati, 2020). From an agency theory perspective, a higher number of RWUs reflects greater local government complexity and necessitates more disclosure to reduce information asymmetry. More RWUs also mean greater availability of ideas, information, and innovations related to disclosure (Khasanah & Rahardjo, 2014). The accountability theory holds that as the party with abundant information, the government has the responsibility to safeguard the trust bestowed upon it by the people. Those citizens with a sense of supervision continuously demand that the government maintain transparency and accountability. This awareness is essential for the government. As civil servants who follow orders, government officials must prepare financial reports in accordance with generally accepted accounting system to fulfill accountability obligations. Studies conducted by Christiana & Mariano (2016) and Hardiningsih, P. (2019) indicate that local governments with greater functional division tend to disclose more information to enhance financial reporting quality. Therefore, the sixth hypothesis is thus derived:

H6: The number of RWU is positively related to the quality of WGFR.

Figure 1 is the research model, which shows the relationship between the hypotheses development and the whole of government financial reporting quality.

Figure 1. The Research Model



## METHODOLOGY

This study is an empirical study. It employs the quantitative analysis using secondary data. The data was collected from the public accounting report of the provincial local governments. The new Government Accounting Basic Standards implemented in 2019. In order to better reflect the quality of current Chinese whole-of-government



financial reporting, this study has selected December 31, 2020, December 31, 2021 and December 31, 2022 as reporting deadlines. China has 34 provincial local authorities. However, since Taiwan, Hong Kong and Macau are special administrative regions and do not implement the new government accounting system for 2019 under the principle of "one country, two systems", three research reports are excluded, 31 annual reports are available for this study. The reports of 31 provincial local authorities are available on the official website.

According to the requirements of the accounting information disclosure quality standard set by GABS (2017), I modified the Government Reporting Quality (GRQ) Index, which was developed by Zhou Yongmei (2018) and Wang Wenxiao (2020), and added an indicator of "obeying the rules" to represent WGFRQ (Whole-of-Government Financial Reporting Quality). The WGFRQ was used to assess the quality of financial reports from local authorities.

The indices designed by Zhou Yongmei (2018) and Wang Wenxiao (2020) were developed according to the seven report quality standards in Government Accounting Basic Standards (GABS, 2017). Wang Wenxiao (2020) revised the index of completeness and relevance on the basis of Zhou Yongmei (2018) to make it more in line with the current quality requirements of accounting reports. Therefore, I used the index modified by Wang Wenxiao (2020) and added "an obeying the rules" index (Onyulo, 2017), which has a total of 26 indices (Table 1).

The quality of WGFR is analyzed using indicators sourced from GABS (2017), which consist of a) completeness; b) relevance; c) reliability; d) understandability; e) comparability; f) timeliness; g) convenience, and also adapting one indicator sourced from Onyulo (2017), which is obey the rules.

The score of the quality of financial reporting is determined by the scores of 26 indicators. The 26 indicators are mostly measured dichotomously with a score of 1 if in compliance and a score of 0 if not. (Christiaens, 1999). Use Excel to collect data and form a preliminary score table. The study adopted an unweighted approach for scoring each of the disclosure items, thereby assuming that all items are equally important. This method has been used in many previous studies (Ismail & Abu Bakar, 2011; Bakar, 2016).

Consistent with Ismail and Abu Bakar (2011), the Total Disclosure (TD) score is expressed as follows:

$$TD = \sum d_i$$

Where,

TD=Total disclosure for a statutory body.

$d_i = 1$ , if the item  $d_i$  is disclosed.

$d_i = 0$ , if the item  $d_i$  is not disclosed.

The disclosure index for each organization is  $TD/n$ , where  $n$  is the number of items (26). To enable comparison across organizations, the index is expressed as a percentage.

Table 1. The Whole-of-Government Financial Reporting Quality (WGFRQ)

Indicators (26)	Score items
Budget report $X_1$	1
Final report $X_2$	1



Three public expenditure report X <sub>3</sub>	1
Asset report X <sub>4</sub>	1
Liabilities reporting X <sub>5</sub>	1
Comprehensive financial report X <sub>6</sub>	1
Project funding performance report X <sub>7</sub>	1
Basic information of budget units X <sub>8</sub>	1
Basic information of performance units X <sub>9</sub>	1
According to the financial and tax system X <sub>10</sub>	1
The basic information of government procurement of the unit X <sub>11</sub>	1
The budget report shall be made public within 20 days after the completion. X <sub>12</sub>	1
The final report shall be made public within 20 days after completion X <sub>13</sub>	1
Audit of financial reports X <sub>14</sub>	1
Audit of final reports X <sub>15</sub>	1
Disclose comparative data for two consecutive years X <sub>16</sub>	1
Disclose changes in accounting policies, reporting basis, etc X <sub>17</sub>	1
Accounting information centralized disclosure website X <sub>18</sub>	1
The disclosure website is searchable X <sub>19</sub>	1
Public information is classified by year X <sub>20</sub>	1
Public information is classified by category X <sub>21</sub>	1
Accounting statements can be downloaded X <sub>22</sub>	1
Set the information feedback module X <sub>23</sub>	1
Explain accounting terminology X <sub>24</sub>	1
Analyze reports with images, tables, and text X <sub>25</sub>	1
Internal control report X <sub>26</sub>	1
<b>Total score of component</b>	<b>26/26=1</b>

This study examined the association between WGFRQ and local authorities' characteristics based on the following equation:

$$\text{WGFRQ} = \alpha_0 + \alpha_1 \text{SIZE} + \alpha_2 \text{WEALTH} + \alpha_3 \text{TIME} + \alpha_4 \text{AUDIT} + \alpha_5 \text{EDUCATION} + \alpha_6 \text{RWU}$$

Where WGFRQ is the whole-of-government financial quality, SIZE is the size of local authority, WEALTH is the wealth of local authority, TIME is the time spent on publishing the report, AUDIT is the implementation effect of internal audit. EDUCATION is the education background of accountants. RWU is the number of regional



work unit (RWU). Table 2 presents the data measurement, data collection and data analysis methods for six independent variable

Table 2. Operationalization of Variables

Variables	Measurement	Instrument	Data Analysis
SIZE	Total assets of the local authority (Hardiningsih & Oktaviani,2019)	This study examined the association between WGFRQ and local authorities' characteristics based on the following equation.	Regression Analysis
WEALTH	Internally Generated Revenue (IGR) of the local authority (Mariani & Utami, 2019)		
TIME	The total number of days between the financial year end period and the publication date of the report (Olowokure et al., 2016, Zhou Yongmei, 2018; Wangying 2019).	$\text{WGFRQ} = \alpha_0 + \alpha_1 \text{SIZE} + \alpha_2 \text{WEALTH} + \alpha_3 \text{TIME} + \alpha_4 \text{AUDIT} + \alpha_5 \text{EDUCATION} + \alpha_6 \text{RWU}$	
AUDIT	The amount of illegal money will be found and published in the annual China Audit Yearbook (Rahmatika & Afiah, 2014; Gamayuni, 2018; Furqan, 2020; Guoyuzhu, 2021).	Where WGFRQ the whole-of-government financial reporting quality, SIZE is the size of local authority, WEALTH is the wealth of local authority, TIME is the time spent on publishing the report, AUDIT is the implementation effect of internal audit. EDUCATION is the education background of accountants. RWU is the number of regional work unit (RWU). This study transformed the SIZE, WEALTH and AUDIT into its natural log in order to normalise the distribution.	
EDUCATION	The number of individuals who hold a bachelor's degree in accounting and are employed as accountants in government institutions (Harymawan,2023).		
RWU	Using a total of all RWUs contained in the regency of the Regional Government (Hardiningsih, 2019)		

## RESULTS AND DISCUSSION

Previous studies have shown that the average score of government financial reports is very low. Ren Gang (2014) conducted a test on the quality of financial report disclosure by indicators for the 31 provincial governments in China in 2011, and the average score was only 38.95. Zhou Yongmei (2018) also evaluated the transparency of reports for the 31 provincial governments in China in 2015, and the results showed that it was very low, with an average score of only 16.17. The "China Fiscal Transparency Report" evaluated the quality of provincial government budget report information from three aspects: completeness, detail level, and timeliness. The data shows that from 2009 to 2013, the average score was only 21.71 points (on a 100-point scale), no province passed ( $\geq 60$  points), and the highest score (Fujian Province) was only 50 points; from 2014 to 2018, after the introduction of the new Budget Law, the average score exceeded 40 points, and Guangdong Province surpassed 70 points for the first time. There was a significant gap between the provinces with the highest scores and those with the lowest scores.



Table 3 presents the descriptive statistics of the dependent variable and the independent variables for the years 2020 to 2022. The average score of government accounting and financial reporting quality (WGFRQ) was 78.22, with the highest score being 92, which was in Xinjiang; the lowest score was 35, which was in Jiangxi. This indicates that after the new government accounting system was fully implemented in 2019, the overall quality level of the reports has improved. The maximum and minimum values have also increased compared to before, and the gap has narrowed.

The average value of the scale (SIZE) was 3254.914 billion Yuan, while the highest value was 16740 billion Yuan, which was in Hebei; the lowest value was 480.741 billion Yuan, which was in Qinghai. The average assets of the government are relatively large, but there are significant differences.

The average wealth (WEALTH) was 344.075 billion Yuan, the highest value is 14105.04 billion Yuan, which belongs to Guangdong; the lowest value is 179, which belongs to Tibet. These circumstances indicate that the relative assets of provincial governments are relatively low, and there are significant regional disparities in wealth.

The average time (TIME) was 231 days, the highest value was 495 days, which belongs to Jiangxi; the lowest value is 196 days, which belongs to Henan. This indicates that the number of days between the end of the financial period and the public release of the report is timely, not exceeding the legally mandated 270 days, but there are significant differences among the various provinces.

The average amount of internal audit violations (AUDIT) was 639.509 billion Yuan, the highest value was 325.1473 billion Yuan, which belongs to Shandong, and the lowest value was 45.946 billion Yuan, which belongs to Ningxia.

The average educational background (EDUCATION) was 354 people, the highest value was 681 people, which belongs to Ningxia, and the lowest value was 107 people, which belongs to Jiangsu. This indicates that the number of accounting personnel with a bachelor's degree or higher is not large, and there are significant differences among provincial governments.

The average number of regional work units (RWU) was 7,389, the highest value was 15,284, which belongs to Sichuan, and the lowest value was 1,342, which belongs to Shanghai. This situation indicates that the provincial government has a large number of work units, but there are significant differences.

Table 3. 2020-2022 Descriptive Statistics

<b>Variables</b>	<b>Mean</b>	<b>SD</b>	<b>Minimum</b>	<b>Maximum</b>
WGFRQ	78.22	10.11	35	92
SIZE	32549.14	24644.85	4807.41	167400
WEALTH	3440.75	2931.63	179.63	14105.04
TIME	231.44	35.29	196	495
AUDIT	6395.09	6055.54	459.46	32514.73
EDUCATION	354	92.14	107	681
RWU	7389	3521.07	1342	15284

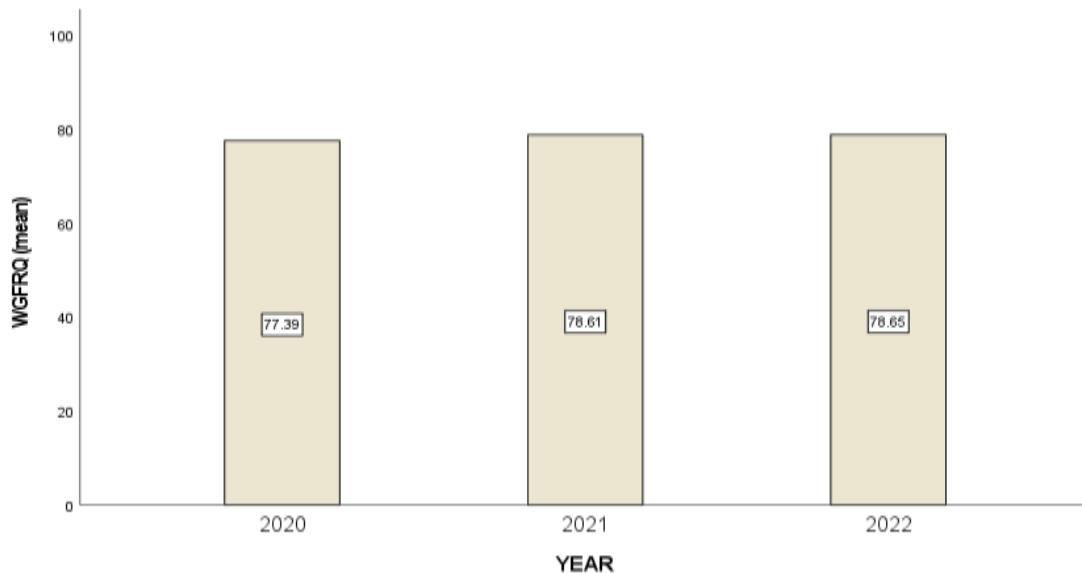


Table 4 presents the average, maximum, minimum, and standard deviation of the quality of WGFR by year. The average values for 2020-2022 were 77.39, 78.61, and 78.65 respectively. The maximum values are 88, 92, and 88 respectively. The minimum values are 35, 58, and 50 respectively. The standard deviations are 11.8, 8.62, and 9.93 respectively. As shown in Figure 2, overall, the quality of the reports has been steadily improving, and the gap between the maximum and minimum values has also been narrowing year by year.

Table 4. 2020 -2022 Whole Government Financial Reporting Quality WGFRQ Descriptive Statistics

	<b>2020</b>	<b>2021</b>	<b>2022</b>
Mean	77.39	78.61	78.65
Maximum	88	92	88
Minimum	35	58	50
SD	11.80	8.62	9.93

Figure 2. The Mean of 2020 -2022 Whole Government Financial Reporting Quality WGFRQ



According to Gujarat (2003), explanatory variables should not exhibit high correlation with each other because that may cause unrealistic regression results. To avoid this, explanatory variables were tested for Multicollinearity using pairwise correlation, with results in Table 5.

Table 5. Correlation Coefficients between Variables

Variables	WGFRQ	SIZE	WEALTH	TIME	AUDIT	EDUCATION	RWU
WGFRQ	1						
SIZE	-0.003	1					
WEALTH	0.158	0.618**	1				
TIME	-0.408**	-0.006	-0.160	1			



AUDIT	0.064	0.445**	0.644**	-0.068	1		
EDUCATION	0.445**	-0.184	-0.120	-0.145	-0.189	1	
RWU	0.440**	0.038	0.073	-0.054	-0.060	0.296**	1

\*\* and \* indicate significance at  $p<0.01$  and  $p<0.05$ , respectively.

Table 5 shows that the seven explanatory variables are moderately correlated, with no correlation exceeding the 0.8 threshold, which could otherwise lead to spurious results. Thus, the OLS technique was appropriate.

Table 6 presents the multiple regression results, including the coefficient of determination, regression coefficients, and overall model significance.

To minimize heteroscedasticity, residuals were tested using graphical and Breusch-Pagan tests after regression. The results showed a p-value of 0.967 at the 95% confidence level, so the null hypothesis of homogeneous errors was not rejected—indicating no evidence of heteroscedasticity. The histogram also confirmed that the data were normally distributed.

Table 6: The Association between WGFRQ and Local Authorities' Characteristics

Variables	Expected sign	Coefficient ( $\beta$ )	t-Statistics	p-values
Constant		35.737	1.048	0.298
SIZE	+	1.408	0.586	0.559
WEALTH	+	1.322	0.863	0.390
TIME	-	-0.024	3.854	< .001 <sup>b</sup>
AUDIT	+	1.195	0.744	0.459
EDUCATION	+	0.010	3.615	< .001 <sup>b</sup>
RWU	+	0.524	3.824	< .001 <sup>b</sup>

The findings on the individual coefficients are shown in Table 6. EDUCATION positively and significantly influences the quality of financial reporting in China (0.010, p-value< .001<sup>b</sup>) at the 1% significance level. RWU positively and significantly influences the quality of financial reporting in China (0.524, p-value< .001<sup>b</sup>) at the 1% significance level. TIME negatively and significantly influences the quality of financial reporting in China (-0.024, p-value < .001<sup>b</sup> ) at the 1% significance level.

The first objective of the study is to assess the quality of the whole government accounting financial reporting. The results show that the quality of the reports has improved compared to before the implementation of the new accounting system. This is mainly because the new system has increased the disclosure of government assets, liabilities and internal control reports, making them more comprehensive and standardized. Furthermore, we have observed that the quality of financial reports has been steadily improving over the three-year period from



2020 to 2022. The gap in report quality between developed and underdeveloped regions, as well as between central and remote areas, has been narrowing. This mainly involves the new system's requirement that reports must be made public, thereby enhancing the transparency of the reports. This confirms the research conclusions of the relevant scholars. Yang Zhiyong (2023) believes that increasing government debt reporting can better improve the disclosure quality of financial reports and enhance the controllable risks of debt. Cheng Ting (2024) believes that the new system has increased the disclosure of asset reporting information, making the financial report information more comprehensive and thereby better enhancing the quality of financial report disclosure. It has also reduced information asymmetry, improved the utilization efficiency of public fiscal funds, and better achieved accountability. Wang Pan (2025) believes that the implementation of the new accounting system has significantly improved the quality of financial reporting in Ningxia Province and strengthened accountability.

The second objective is to identify the factors that influence financial reporting. The results confirmed that the number of educational backgrounds of accountants and the regional work units have a significant positive influence on the quality of financial reporting, indicating that the higher the educational level, the more regional work units there are, the better the quality of the report. The time spent on publishing the report is significantly negatively influencing on the quality of the reports. The shorter time, the more timely it becomes, the better the quality of the report. Additionally, we have found that the number of regional work units has the strongest influence on the quality of financial reports, followed by the time spent on publishing the report, and finally educational levels. This suggests that both educational level and timeliness can better influence the quality of reports only when there is a strong regional work unit system in place. Provincial governments with a large number of RWUs tend to make more extensive disclosures, demonstrating their responsibilities through better disclosure. This leads to an increase in the degree of disclosure in financial reports. This finding confirms the viewpoints of Hardiningsih (2019), Feriyanti et al. (2015), and Cristiana and Maryono (2016), that the number of RWUs has a significant impact on the degree of disclosure of WGFR. The results of this study also confirmed that the SIZE and WEALTH have no significant positive influences on the quality of financial reporting; AUDIT has no significant negative influence on the quality of financial reporting. This is different from the results of Guo Yuzhu (2021), Hardiningsih, (2019), Mariani & Utami, 2019, and it might be due to the differences in the content of the dependent variable indicators.

## CONCLUSION

This study aims to determine the quality of China's overall financial reports after the implementation of the new accounting system and the influencing factors. This study has confirmed that after the implementation of the new government accounting system in 2019, the average quality of the government's overall financial reports significantly improved from 2020 to 2022. Moreover, the quality of the reports from 2020 to 2022 was in a steady upward trend, and the gap in report quality between developed and underdeveloped regions was narrowing, indicating that the implementation of the new accounting system has promoted the improvement of financial report quality.

The research reveals three factors that significantly influence the quality of financial reports which are educational backgrounds of accountants, regional work units and time spent on publishing the report. The educational backgrounds of accountants ( $\beta=0.010$ ) and the regional work unit ( $\beta=0.524$ ) have significant positive influences on the quality of financial reporting while The time spent on publishing the report ( $\beta= -0.024$ ) is significantly negatively influence on the quality of financial reporting. The number of regional work units contributes the most to the quality of financial reports, accounting for 52.4%. The contribution of the timeliness of report disclosure to the quality of financial reports is 2.4%, while the proportion of highly educated accountants is 1%. Therefore, the number of government regional work units has the greatest influence on the quality of financial reports, followed by the timeliness of the release of financial reports, and finally the



educational backgrounds of accountants. SIZE, WEALTH, and AUDIT have no significant influence on the quality of financial reporting.

The government has the responsibility to ensure that public resources are properly managed. Based on past experience, public institutions have performed poorly in resource management and have failed to achieve accountability, which has reduced public trust in the government. Therefore, based on these findings, this study suggests that public sector entities should focus on increasing the number of regional work units and the training of highly educated accountants, standardizing the implementation of new accounting standards, in order to achieve more comprehensive financial disclosure, higher accountability, and greater transparency in financial reporting. In China, the level of attention paid to evaluating the quality of public entities' financial reports and identifying the influencing factors is very limited. Only a few studies have provided specific conclusions. Therefore, scholars can still conduct more in-depth explorations in this field, especially in research following the implementation of the new accounting system in China. Research on public resource management should be further expanded in scale to help public resource managers identify the direction for improvement.

The main limitations of this study are as follows: first, the scope of this study is rather limited because the few independent variables were considered. This makes it necessary to consider more factors to make the inference more inclusive and specific. Second, time and resources have limited our sample size.

Given that the research direction in the field of financial reporting is constantly changing, it is recommended to conduct more related studies. First, add independent variables such as internal control and information technology. Second, expand the sample scope; reports from the governments below the provincial level can be included in the study.

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