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THE RELATIONSHIP BETWEEN THE ORGANIZATION OF PUBLIC SECTOR ACCOUNTING AND THE PERCEPTION OF CORRUPTION

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Abstract

The paper examines the impact of budgetary accounting organization on the perception of corruption in the public sector, focusing on three key independent variables: the financial reporting framework, the accounting basis, and the level of independence of state auditing. The Corruption Perceptions Index (CPI), which measures the perceived level of corruption in the public sector, is used as an indicator of the dependent variable. The study includes data from 89 countries. For statistical analysis, categorical independent variables were encoded using the one-hot encoding method. Statistical tests were applied to assess the correlation between the independent variables and the CPI. The results show variations in correlation depending on the combination of financial reporting factors, the regulatory framework, and the quality of state auditing. The obtained results of multiple linear regression indicate that the model has a statistically significant impact on the CPI ($p = 0.0217$) and explains 21% of its variability.

Keywords: public sector accounting, budgetary accounting organization, perception of corruption in the public sector, public financial management reform.

1. Introduction

The presence of corruption in the public sector represents a serious obstacle to the effective functioning of budgetary institutions, as it results in certain flows of public funds being diverted from serving public interests to pursuing socially unacceptable ones. In addition to its negative implications for the efficiency of economic policies and the stability of the political environment, corruption in the public sector also leads to a significant erosion of public trust in the political establishment (Mills, 1999). Research has shown that public sector corruption reduces investment and significantly slows down economic growth. It can result in the loss of tax revenues, cause monetary instability, or lead to a decline in the quality of infrastructure projects and public services due to a corrupt public procurement system (Mauro, 1997). The cornerstone of the fight against corruption in the public sector lies in the existence of quality legislation, its effective implementation, and adequate oversight. In this context, and considering the organizational aspect of the accounting function in the public sector, it is important to highlight the role of International Public Sector Accounting Standards (IPSAS). Studies have demonstrated that public sector accounting reforms, accompanied by the implementation of these standards, have a positive impact on both the perception and reduction of corruption in the public sector (Cuadrado-Ballesteros et al., 2020). Furthermore, it is essential that the implementation of standards be accompanied by a high level of transparency, improved budget management

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practices in public institutions, and a robust system of state audit (Brusca et al., 2018). Transparency is a particularly important factor in shaping public opinion and attitudes toward corruption in the public sector. Therefore, in democratic countries and governments, openness to the public in areas related to “fiscal policy intentions, the government's financial position, the actual costs and benefits of government activities, including their present and future economic and social implications,” is ranked among the highest priorities (Kopits & Craig, 1998).

Taking all of the above into consideration, the aim of this research is to determine the extent to which the organization of budgetary accounting can influence public perception regarding corruption in the public sector. The study is based on an analysis of the impact of three independent variables—the level of independence of state audit institutions, the applied financial reporting framework, and the accounting basis—on the value of the Corruption Perceptions Index (CPI), using a multiple linear regression model. Relying on data from 89 countries, the research also aims to develop a model that will serve as a starting point for analyzing the factors that influence the CPI. In addition to its empirical findings, the significance of this paper lies in its emphasis on the importance of the independence of state audit institutions and the implementation of international financial reporting standards as tools in the fight against corruption in the public sector. In this regard, the paper also highlights the importance of directing the attention of responsible actors toward implementing measures that will enhance transparency and, consequently, increase public trust in the work of state institutions.

The paper is structured into three parts. The first part provides the theoretical framework of the research, including a review of previous studies. The second part explains the research methodology, objectives, and data sources. The third part presents the empirical results and discussion, serving as a basis for drawing final conclusions.

2. Literature Review

One of the most commonly used definitions of corruption is the one provided by Transparency International (TI): "Corruption is the abuse of entrusted power for private gain." Corruption in the public sector refers to any behaviour by public officials who use their position for personal benefit, thereby undermining citizens' trust in public institutions. Corruption is a general term for a range of illicit activities such as bribery, embezzlement, favouritism, abuse of conflict of interest, financial manipulation, misuse of public property for private purposes, illegal public procurement, influence peddling, extortion, concealment of facts, and similar misconduct.

Corruption in the public sector discourages foreign investment, restricts economic growth, and alters the structure of budgetary expenditures, making them less effective, efficient, and economical. Cao et al. (2021) developed a sentiment-enhanced corruption perception index, finding that high perceived corruption reduces per capita growth by 0.65 percentage points, with stronger effects observed in emerging and low-income countries. The Special Eurobarometer SP523: Corruption (2022) survey found that 68% of EU citizens believed that corruption remained widespread in their country. The focus was primarily on national public institutions, with 74% of respondents increasingly perceiving corruption as widespread in these bodies, followed by political parties (58%) and local, regional, and national politicians (55%).

Adopting an appropriate financial reporting framework results in higher-quality financial statements, in which all balance sheet items are properly classified, valued, and explained. This ensures comparability across different levels of government, with other countries, and over time. A higher-quality financial reporting framework can reduce corruption in the public sector through increased transparency, improved control over public funds, and enhanced accountability. The International Public Sector Accounting Standards (IPSAS) provide a

comprehensive framework that enables consistent and reliable financial reporting, thereby reducing opportunities for manipulation and non-transparent use of public resources. Compared to national accounting standards, IPSAS are based on the accrual basis of accounting, which allows for more accurate recording of long-term liabilities and financial transactions. In contrast, many national standards still apply a modified accrual or cash basis, which may obscure actual obligations and lead to irresponsible management of public funds.

In countries with lower levels of IPSAS compliance, there are often greater issues related to non-transparent expenditures, concealment of budget deficits, and misuse of public funds. In contrast, the implementation of IPSAS enables better international comparability of data, facilitating audit and oversight by independent institutions and international organizations. Furthermore, the adoption of IPSAS requires stronger internal controls and financial accountability mechanisms, which further limit opportunities for corrupt practices. Although national standards may be tailored to specific legislative frameworks, their inconsistent application frequently results in weaker transparency and increased risk of misuse.

IPSAS adoption is associated with lower corruption perceptions. Ben Slama and Jandoubi (2024), Cuadrado-Ballesteros and Bisogno (2020), and Hamed-Sidhom et al. (2021) report that implementing international public sector accounting standards tends to coincide with lower levels of perceived corruption. Similarly, studies by Gustavson and Sundström (2018) and Brusca et al. (2018) document that strong auditing practices are linked to reduced corruption in the public sector. Transparency in financial reporting and improved budgetary management are likewise associated with enhanced corruption control, as shown by Brusca et al. (2018). Prijaković (2022) reports that governments with higher levels of budget transparency tend to achieve better budget balances, stronger credit ratings, and lower perceived corruption.

Findings on accrual accounting are mixed. While the implementation of accrual accounting in Indonesia was found to have a positive impact on fiscal transparency quality (Putra & Sulistyowati, 2021), another study revealed its inefficacy in improving local government financial performance and decision-making (Fahlevi et al., 2022). Cuadrado-Ballesteros and Bisogno (2020) find that accrual accounting improves governance and reduces corruption, whereas Lewis and Hendrawan (2020) report no significant effect once endogeneity is addressed. Among the regions studied, advanced public financial management systems in OECD countries show a particularly strong inverse relationship between accounting reforms and corruption, while evidence from developing countries is less consistent.

In the study by Mešković, Jagodić, and Gadžo (2024), which measured the impact of financial reporting frameworks and accounting bases on the Corruption Perception Index (CPI), results indicate that countries applying simpler accounting frameworks—such as national standards or IPSAS adapted to the local context—tend to demonstrate a lower perception of corruption, as reflected in higher CPI values. In contrast, more complex frameworks, including IPSAS or national standards referencing IPSAS combined with cash and partial accrual bases, do not significantly reduce perceived corruption. Additionally, countries applying national standards based on IFRS exhibit the lowest levels of perceived corruption in the public sector.

The jurisdiction of Supreme Audit Institutions (SAIs) often depends on their organizational model, whether it follows the Westminster, judicial, or collegial framework. This determines whether the SAI has judicial authority or functions as part of parliamentary oversight. SAIs are not considered anti-corruption bodies, as they do not possess the mandate to investigate corrupt activities. The primary responsibility for uncovering corruption lies with law enforcement institutions and/or anti-corruption agencies. However, the public understandably holds strong expectations that SAIs will help detect misuse of public resources.

In line with GUID 5270 – Guideline for the Audit of Corruption Prevention (INTOSAI, 2019), SAIs are expected to analyse the occurrence, causes, areas, and mechanisms of corruption during each audit. Their role includes identifying ways to reduce discretionary power in the application of laws and regulations, simplify administrative procedures, and eliminate unequal access to information. Similarly, ISSAI 5700 offers a comprehensive methodology for corruption prevention audits (Slobodianyuk et al., 2020). This standard prescribes approaches for identifying corruption risks, developing audit strategies, and applying analytical techniques to detect irregularities. ISSAI 5700 also emphasizes the importance of cooperation between audit institutions, judicial authorities, and other relevant bodies to ensure the effective implementation of audit findings. It mandates that auditors apply risk assessments, evidence analysis, and appropriate audit procedures to identify potential instances of corruption. Furthermore, the standard outlines key steps in reporting identified irregularities, including recommendations for strengthening internal controls and improving legal frameworks. Some SAIs have adopted both guidance and preventive roles alongside their traditional auditing functions, thereby contributing to improved financial discipline in the public sector (Pleșa & Stegăroiu, 2019).

3. Research Methodology and Data Sources

The objective of this study is to measure the impact of budgetary accounting organization on the perception of corruption in the public sector. The organization of budgetary accounting is operationalized through three categorical textual independent variables (var1, var 2, and var 3), while the dependent variable-the Corruption Perceptions Index (CPI)-is numerical. The research model is presented in “Fig. 1”.

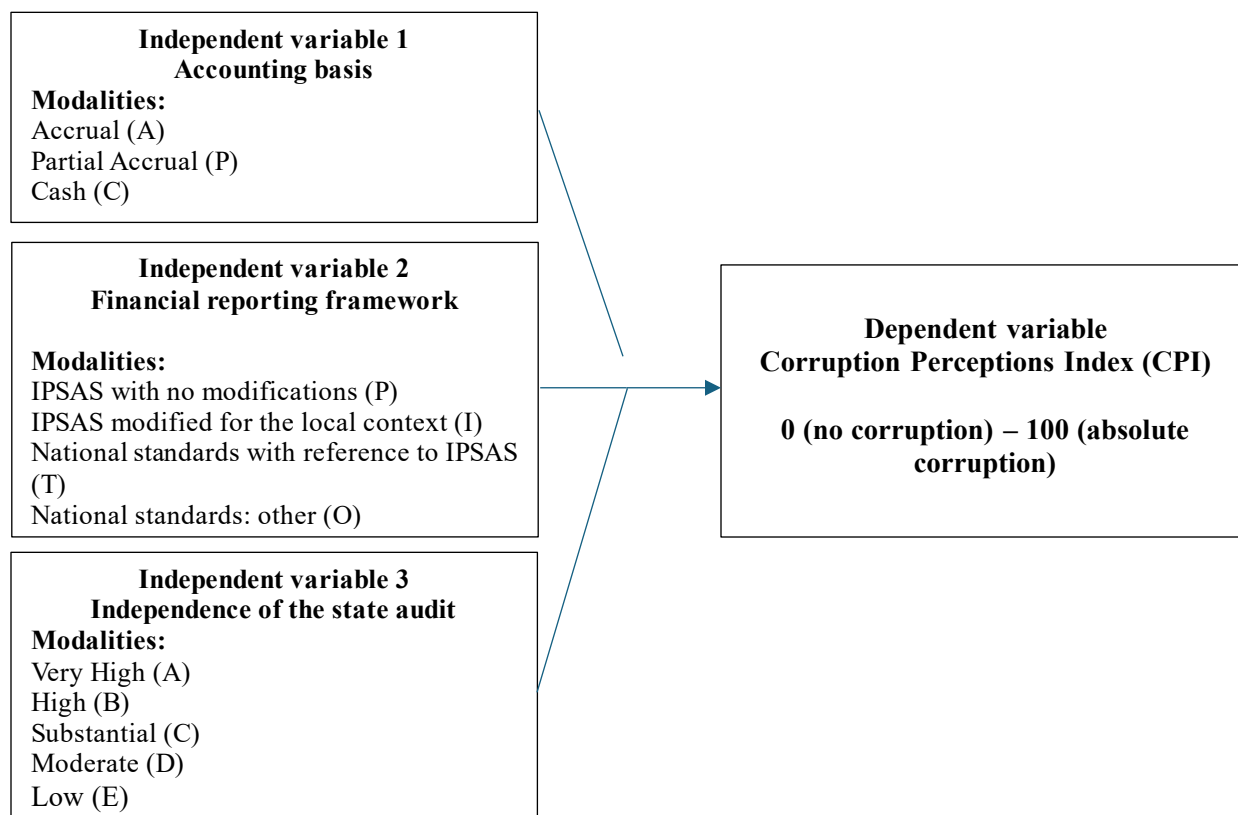


Figure 1. Research Model
Source: Prepared by the authors

The data sources used in the study are of a secondary nature. The financial reporting framework, accounting basis, and the level of independence of the supreme audit institutions represent structural characteristics that typically do not change significantly over time. In contrast, the CPI is an annually published measure and may vary year by year. The total number of countries for which data were available for all three independent variables amounts to 89. Since the independent variables are categorical (textual), they first need to be converted into numerical values, as statistical software cannot establish correlations between textual and numerical variables. The conversion of textual variables into numerical format was done using one-hot encoding. The dummyvar function was used to process the textual values. An example of how (a part of) the variables look after encoding is shown in Table 1.

Table 1. Overview of Variables Before and After Encoding

Var 1	Var 2	Var 3	CPI	Encoded Variables												
'P'	'O'	'C'	37	37	0	0	1	0	1	0	0	0	0	1	0	0
'A'	'O'	'B'	37	37	1	0	0	0	1	0	0	0	1	0	0	0
'P'	'T'	'C'	47	47	0	0	1	0	0	0	1	0	0	1	0	0
'P'	'T'	'B'	23	23	0	0	1	0	0	0	1	0	1	0	0	0
'C'	'O'	'C'	24	24	0	1	0	0	1	0	0	0	0	1	0	0
'P'	'O'	'E'	37	37	0	0	1	0	1	0	0	0	0	0	0	1
'C'	'O'	'D'	44	44	0	1	0	0	1	0	0	0	0	0	1	0
'C'	'P'	'D'	68	68	0	1	0	0	0	1	0	0	0	0	1	0
'P'	'O'	'C'	29	29	0	0	1	0	1	0	0	0	0	1	0	0
'P'	'T'	'C'	35	35	0	0	1	0	0	0	1	0	0	1	0	0
'P'	'O'	'C'	59	59	0	0	1	0	1	0	0	0	0	1	0	0
'A'	'T'	'B'	36	36	1	0	0	0	0	0	1	0	1	0	0	0
'P'	'O'	'E'	41	41	0	0	1	0	1	0	0	0	0	0	0	1
'P'	'P'	'E'	20	20	0	0	1	0	0	1	0	0	0	0	0	1
'C'	'P'	'E'	24	24	0	1	0	0	0	1	0	0	0	0	0	1
'P'	'T'	'E'	20	20	0	0	1	0	0	0	1	0	0	0	0	1
'A'	'T'	'C'	66	66	1	0	0	1	0	0	0	0	0	1	0	0

Source: Prepared by the authors

The first three columns correspond to the three values (modalities) of the first independent variable. The next four columns represent the four possible values of the second independent variable, and the following five columns relate to the five possible values of the

third independent variable. The last column, numeric, is the value of the dependent variable (CPI).

4. Results and Discussion

The research was carried out by applying methods of descriptive statistics, correlation analysis, and multiple linear regression. The results of these analyses are presented in the following sections.

4.1. Descriptive Statistics

The dependent variable represents the Corruption Perceptions Index (CPI). There is a total of 89 data points, and the CPI ranged from 13 (South Sudan) to 73 (Uruguay). The CPI is published by Transparency International and is measured on a scale from 0 to 100, where 0 indicates the highest level of corruption and 100 indicates a complete absence of corruption.

The mean value of the CPI was 36.89 ± 1.32 (see Table 2).

Table 2. Results of Descriptive Statistical Analysis

Descriptive Statistics			
Statistic	Value	Percentile	Value
Sample Size	89	Min	13
Range	60	5%	20
Mean	36.88764045	10%	23
Variance	155.1917773	25% (Q1)	28
Std. Deviation	12.45759918	50% (Median)	36
Coef. of Variation	0.3377174313	75% (Q3)	42
Std. Error	1.320502872	90%	53
Skewness	0.8631392377	95%	66.5
Excess Kurtosis	0.8535380495	Max	73

Source: Prepared by the authors

The standard deviation is 12.46, which indicates a moderate dispersion around the mean. Some countries are significantly more or less corrupt compared to the average. The standard error of the mean is 1.32, suggesting a relatively precise estimate of the mean in the sample. Skewness is 0.86, indicating a slight positive skew - more countries have a CPI below the average (higher corruption), while a smaller number of countries have exceptionally high CPI scores (lower corruption). Excess kurtosis is 0.85, implying that the distribution has moderately pronounced “tails” compared to a normal distribution - there are countries with extreme values, but not in excessive numbers.

4.2. Correlation Analysis

The correlation matrix is a key statistical tool used to analyse the relationships between variables in the research. Its purpose is to quantify the degree of linear relationship between the different independent variables, as well as between the independent variables and the dependent variable (CPI). The correlation matrix is presented in Table 3.

Table 3. Correlation Matrix

1.0000	-0.3008	-0.4952	0.1798	-0.1679	-0.1077	0.1686	-0.0710	0.2582	-0.0352	0.0210	-0.2108	-0.0359
-0.3008	1.0000	-0.6796	-0.2412	0.1880	0.2937	-0.3459	-0.0974	-0.1572	-0.0029	0.2393	-0.0912	-0.0560
-0.4952	-0.6796	1.0000	0.0814	-0.0422	-0.1846	0.1854	0.1433	-0.0554	0.0297	-0.2341	0.2452	0.0786
0.1798	-0.2412	0.0814	1.0000	-0.2814	-0.2412	-0.2022	-0.0569	0.1045	-0.0596	-0.0160	0.0133	-0.0324
-0.1679	0.1880	-0.0422	-0.2814	1.0000	-0.4813	-0.4034	0.0444	-0.0246	0.1894	-0.0694	-0.1497	0.1202
-0.1077	0.2937	-0.1846	-0.2412	-0.4813	1.0000	-0.3459	0.0693	-0.2232	-0.0548	0.2393	-0.0252	0.0577
0.1686	-0.3459	0.1854	-0.2022	-0.4034	-0.3459	1.0000	-0.0816	0.1891	-0.1111	-0.1683	0.1891	-0.1755
-0.0710	-0.0974	0.1433	-0.0569	0.0444	0.0693	-0.0816	1.0000	-0.0683	-0.1108	-0.0974	-0.0683	0.2339
0.2582	-0.1572	-0.0554	0.1045	-0.0246	-0.2232	0.1891	-0.0683	1.0000	-0.3292	-0.2892	-0.2027	0.0501
-0.0352	-0.0029	0.0297	-0.0596	0.1894	-0.0548	-0.1111	-0.1108	-0.3292	1.0000	-0.4697	-0.3292	0.2275
0.0210	0.2393	-0.2341	-0.0160	-0.0694	0.2393	-0.1683	-0.0974	-0.2892	-0.4697	1.0000	-0.2892	-0.0979
-0.2108	-0.0912	0.2452	0.0133	-0.1497	-0.0252	0.1891	-0.0683	-0.2027	-0.3292	-0.2892	1.0000	-0.3133
-0.0359	-0.0560	0.0786	-0.0324	0.1202	0.0577	-0.1755	0.2339	0.0501	0.2275	-0.0979	-0.3133	1.0000

Source: Prepared by the authors

The dependent variable shows the highest correlation with the eighth and tenth columns in matrix X. Given that columns eight through twelve in matrix X contain the encoded values of the third independent variable, it can be concluded that the dependent variable is most strongly correlated with the third independent variable, which represents the level of independence of the state audit.

Based on the correlation coefficients, it is evident that the dependent variable is most influenced, respectively, by: the level of independence of the state audit, followed by the applied financial reporting framework, and to the least extent by the accounting basis.

The analysis of the correlation matrix indicates the existence of certain statistically significant relationships between the encoded independent variables and the CPI. However, in order to gain a deeper understanding, it is necessary to conduct a regression analysis.

4.3. Multiple Linear Regression

In order to examine how all values of the independent variables simultaneously affect the value of the dependent variable, a multiple linear regression analysis was conducted. The multiple linear regression generated an object that contains all relevant information about the model and provides an equation that links all twelve categorical variables with the dependent variable (Table 4). Naturally, this also enables future predictions of the CPI value based on a new set of input parameters.

Model specification and details:

$$\text{CPI} = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \dots + \beta_{12} x_{12} + \varepsilon$$

Where:

- β_0 is the intercept, i.e., the expected value of the CPI when all independent variables are at their reference level (e.g., when all dummy variables are equal to zero);

- $\beta_1, \beta_2, \dots, \beta_{12}$ are the regression coefficients, indicating the change in the CPI when a specific independent variable (categorical modality) changes, while all other variables remain constant;
- x_1, x_2, \dots, x_{12} are the encoded categorical variables, where each independent variable is represented by multiple dummy variables due to one-hot encoding;
- ε is the error term, which captures all factors not included in the model.

Table 4. Estimated Coefficients

Estimate	SE	tStat	pValue	
(Intercept)	34.62	4.059	8.5293	1.0655e-12
x1	0	0	NaN	NaN
x2	-0.74241	4.2869	-0.17318	0.86297
x3	3.0195	3.6395	0.82964	0.40934
x4	2.3643	4.415	0.53551	0.59386
x5	4.4531	3.751	1.1872	0.23886
x6	5.6867	4.0101	1.4181	0.16025
x7	0	0	NaN	NaN
x8	13.29	9.1602	1.4509	0.15093
x9	0	0	NaN	NaN
x10	0.83034	3.8466	0.21587	0.82967
x11	-4.5904	4.051	-1.1331	0.26071
x12	-11.343	4.5339	-2.5018	0.014507

Source: Prepared by the authors

Number of observations: 89, Error degrees of freedom: 79

Root Mean Squared Error: 11.7

R-squared: 0.21, Adjusted R-Squared 0.12

F-statistic vs. constant model: 2.34, p-value = 0.0217

The model explains only 21% of the variability in the CPI based on the independent variables. This indicates that a substantial portion of the variation in CPI is caused by factors not included in the model. When the number of variables in the model is taken into account, the adjusted R^2 decreases further to 12%, suggesting that the model has limited predictive power. This implies that the inclusion of additional variables did not significantly improve the explanatory capacity of the model.

The F-test examines whether at least one independent variable has a statistically significant effect on the dependent variable. The p-value of 0.0217 (< 0.05) indicates that the model is statistically significant, meaning that the independent variables jointly have an impact on the CPI. However, since the F-statistic is relatively low (2.34), the overall effect of the model is weak. Therefore, we can conclude that while the model is statistically significant, it has low explanatory power.

An R^2 of 0.21 shows that the model explains only a small portion of the variation in CPI, implying that other important factors influencing CPI are not captured by the model. The RMSE value of 11.7 indicates a relatively large prediction error. Let us now examine the model's prediction using a graphical representation („Fig. 2”).

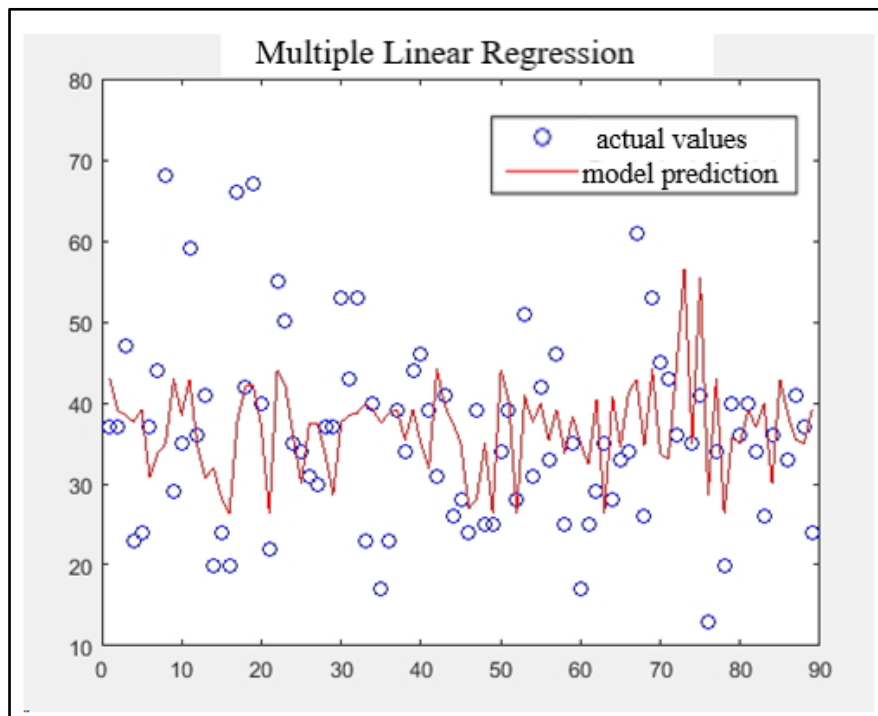


Figure 2. Multiple Linear Regression
Source: Prepared by the authors

The graph visually compares the actual CPI values with those predicted by the multiple linear regression model. The blue circles represent the observed values, while the red line shows the predicted values based on the model. As evident from the figure, there is a noticeable deviation between the actual and predicted values across the dataset. The predictions tend to fluctuate around a central trend, but they fail to capture the full extent of variation present in the actual data. This further supports the earlier conclusion that the model, despite being statistically significant, has limited predictive accuracy. The visual discrepancies highlight the presence of unexplained variability, suggesting that additional factors not included in the model may play an important role in influencing the CPI.

5. Conclusion

The aim of this research was to examine the impact of selected institutional factors on the Corruption Perception Index (CPI), using correlation and regression analysis. The results of the correlation matrix indicated the presence of certain statistically significant relationships between the dependent variable and individual independent variables, particularly those related to the level of independence of the state audit. This variable showed the strongest correlation with CPI, while somewhat weaker correlations were observed with the applied financial reporting framework and accounting basis. However, the results of multiple linear regression suggest limited explanatory power of the model. Although the F-test indicated that the model as a whole was statistically significant ($p = 0.0217$), the coefficient of determination ($R^2 = 0.21$) and adjusted R^2 (0.12) suggest that most of the variability in CPI is not explained by the analyzed variables. Only one variable (x12) showed a statistically significant individual impact on CPI ($p < 0.05$), while the other variables were not significant. Graphical representation further confirms the poor predictive accuracy of the model, as the estimated values deviate from the actual ones.

This leads to the conclusion that additional variables, not included in this model, are needed for a more complete understanding of the determinants of CPI.

Although there is a statistically significant relationship between the independent variables and the Corruption Perception Index, the model has several limitations that reduce its practical applicability. Future research should include a broader range of institutional, economic, and social factors in order to improve the explanatory and predictive power of the model. Ultimately, we can conclude that the results of this research contribute to understanding the factors influencing CPI and open up space for further exploration of the relationship between financial reporting quality, regulatory framework, and the perception of corruption in the public sector.

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