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Public Governance Canvas and The Quality of Financial Reporting: The Mediating Role of Internal Control Systems

Riana Mayasari¹
Rosy Armaini²
Maulidia Berlianti³
Khavid Normasyhuri⁴
Muhammad Rizky⁵

^{1,2,3,5} Accounting Study Program, Department of Accounting, Politeknik Negeri Sriwijaya, Indonesia

⁴ Development Economics Study Program, Regional Economics, Universitas Lampung, Indonesia

email: riana.mayasari@polsri.ac.id

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Abstract: This research examines the impact of the Public Governance Canvas (PGC) on the Quality of Financial Statements (QFS), mediated via the Internal Control System (ICS) within local government entities. The study is driven by the increasing need for accountability and openness in financial reporting within the public sector. The investigation used a quantitative methodology utilizing survey data obtained from government officials, employing Partial Least Squares Structural Equation Modeling (PLS-SEM). The findings indicate that PGC has a substantial favorable influence on ICS, whereas ICS markedly enhances QFS. Moreover, PGC directly affects QFS, whereas ICS partly mediates the connection between PGC and QFS. These results substantiate the PGC as an efficacious governance framework, affirm the critical role of ICS as both a direct determinant and mediator, and illustrate that governance and internal controls operate as complementary processes in enhancing financial reporting quality. The research enhances theoretical frameworks of governance-accountability and offers practical recommendations for the amalgamation of governance reforms with effective internal control mechanisms.

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INTRODUCTION

The quality of local government financial statements is a critical measure of accountability and openness in public financial management. In Indonesia, several local governments persist in encountering difficulties in the preparation of financial statements, characterized by submission delays, inadequate disclosure quality, and non-adherence to governmental accounting rules. The Audit Board of Indonesia (BPK) continues to identify substantial deficiencies in internal control systems (ICS) and non-compliance

in budget management, both of which influence the audit views about local government financial accounts. Supriyanto (2024) states that this situation underscores the need to enhance public governance in conjunction with internal control measures to elevate the quality of financial reporting.

The Business Model Canvas (BMC) has emerged as a relevant conceptual framework in the public sector. The modified Business Model Canvas (BMC), known as the Smart and Healthy City BMC (SHC) or the Public Management Business Canvas (PMBC), has been effectively utilized in the realms of smart cities and small to medium enterprises (SMEs) (Afzal et al., 2025; Jahroh et al., 2025; Weyers et al., 2020). The BMC can be adapted into the Public Governance Canvas (PGC) to delineate key actors, public services, resources, processes, and public value, thus allowing city governments to formulate operational models that are more adaptive, robust, and focused on public value creation. Jahroh et al (2025) state that the Public Governance Canvas (PGC) offers a clear framework for local governments to include governance practices, control mechanisms, and accountability into a unified model, in contrast to conventional methods. The originality of this study lies in the implementation of PGC within the realm of local governments in Indonesia, a subject that has not been thoroughly investigated empirically in either international or national literature.

Numerous prior studies have broadened the application of the business model concept from the private sector to the public sector; however, the research is primarily conceptual/design-focused and has yet to investigate the causal relationships to internal control systems (ICS) and the quality of financial statements (QFS) in local governments (Chinwego et al., 2025; Perätalo et al., 2025). The intermediary function of ICS in the governance QFS link within the public sector has hardly been investigated. Recent studies underscore the significance of Internal Control Systems (ICS) for enhancing reporting quality and public accountability; yet, existing research is mostly confined to the non-local government sector (Perätalo et al., 2025). The attainment of formal conformity has not yet yielded the anticipated responsibility. Audit evidence for Indonesian governments reveals a significant occurrence of unqualified views, with deficiencies in internal control systems and substantial non-compliance (Supriyanto, 2024).

This signifies the need for a cohesive model that connects governance design (canvas). Prior research has examined governance design within the public sector; however, no validated and trustworthy constructs currently exist to delineate the nine canvas blocks, the elements of the Internal Control System (COSO), and the Quality of Financial Statements (Chinwego et al., 2025; Perätalo et al., 2025). In the contemporary digital age, there exists a necessity for the amalgamation of governance design, control, and reporting; nonetheless, existing research literature has not illustrated how a public governance canvas can be utilized to synchronize data flows, control activities, and accrual reporting within a singular, testable operational framework (Giang & Dung, 2025; Shonubi, 2025; Tripathi et al., 2025).

The urgency of this research is underscored by the necessity for regional financial reforms, which mandate that governments focus not only on regulatory compliance but also on providing financial information that is relevant, reliable, timely, comparable, and comprehensible to stakeholders (Perätalo et al., 2025). The internal control system functions as an essential method for assuring the veracity of financial information and for combating fraud and inefficiencies (Atmadja et al., 2024). Consequently, the amalgamation of PGC and the internal control system is anticipated to substantially enhance the quality of local government financial statements (Mayasari et al., 2023).

This research conceptually advances public sector accounting by augmenting the understanding of the public governance framework that prioritizes transparency, accountability, and efficiency in the administration of state resources. This research enriches the public sector accounting literature by demonstrating how the effective implementation of PGC may strengthen the internal control system (ISC) in local government organizations, hence improving the quality of financial reporting. ISC functions as a regulatory control system that ensures compliance and reduces the risk of inconsistencies that might affect the integrity of financial reporting. This research advances public sector accounting theory by showing that

strong internal control mediates the relationship between successful public governance and enhanced accuracy and accountability in financial reporting results. This research advances public accounting theory by highlighting the importance of the relationship between PGC, ISC, and the quality of financial reporting in promoting more transparency and accountability in government.

This research provides actionable recommendations for local government entities to improve the quality of financial reports by strengthening public governance and internal control systems. This research illustrates that the Public Governance Canvas (PGC) may aid local governments in improving governance design and implementation, hence strengthening the Internal Control System (ISC). Improving ISC allows local government entities to reduce the risk of irregularities and enhance the accuracy and transparency of financial reporting (QFS). This research provides pragmatic recommendations on how ISC may operate as a mediator connecting PGC with improved financial reporting quality. These findings are crucial for public sector officials to develop and implement more effective methods in local financial management. Furthermore, the results of this research may serve as a standard for governing bodies to improve accountability and transparency in the management of public resources, hence cultivating increased public trust in local financial administration. This research offers a concrete contribution to improving the effectiveness of public financial management at the local level.

LITERATURE REVIEW AND HYPOTHESES

Public Governance

Public governance pertains to the structures and procedures that guarantee the efficient administration of public resources and accountability. Achieving openness, accountability, and efficiency in public sector operations is essential. Effective governance is often associated with the caliber of financial reporting, as it guarantees the precision and dependability of financial statements, so bolstering public confidence and accountability (Cuadrado-Ballesteros & Bisogno, 2021; Evinita et al., 2025; Mulyani & Sudrajat, 2017; Yamen & Can, 2023). Public governance systems often require the establishment of internal controls to guarantee openness and accountability in financial reporting. The Sarbanes-Oxley Act underscores the significance of internal controls in preserving the integrity of financial statements (Brahimi et al., 2013; Gal, 2024; Jaggi, 2022). Effective public governance improves the quality of financial reporting by guaranteeing that financial statements are produced in compliance with established standards and rules. The correlation is apparent in the beneficial influence of governance measures, including regulatory quality, political stability, and rule of law, on the quality of financial reporting (Brahimi et al., 2013; Cuadrado-Ballesteros & Bisogno, 2021; Jouini, 2013; Yamen & Can, 2023).

Internal Control System

The internal control system (ICS) comprises processes and techniques established by an organization to maintain the integrity of financial and accounting data, enhance accountability, and deter fraud. Robust internal controls are crucial for the dependability of financial statements and overall financial stability (Chicaiza et al., 2020; Dombrovskaya, 2020; Efremova et al., 2023; Gal, 2024; Panferova, 2020; Safi et al., 2017). The essential elements of an Internal Control System (ICS) comprise: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring (Bedard & Graham, 2014; Larisa, 2021; Safi et al., 2017). An effective internal control system significantly influences the integrity of financial statements by mitigating mistakes and fraud, assuring adherence to laws and regulations, and facilitating precise financial reporting. Research indicates that robust internal controls result in enhanced financial statement quality and increased financial accountability (Chicaiza et al., 2020; Dewi et al., 2019; Dombrovskaya, 2020; Efremova et al., 2023; Febriantoko, 2024; Gal, 2024; Panferova, 2020; Rahim et al., 2019; Safi et al., 2017).

Quality of Financial Statements

The quality of financial statements is assessed based on their accuracy, thoroughness, and reliability. High-quality financial statements provide an accurate and unbiased depiction of an organization's financial condition, crucial for stakeholder decision-making. Factors influencing the quality of financial statements include the expertise of accountants, the implementation of internal controls, and the use of information technology (Almaqatari et al., 2021; Evinita et al., 2025; Gal & Akisik, 2020; Kim, 2024; Mulyani & Sudrajat, 2017; Nehme & Jizi, 2018; Salehi et al., 2017).

Adapting the Business Model Canvas for Public Governance

The Business Model Canvas (BMC) framework, first created for private sector entities, has been modified to address the specific requirements of public government organizations. This adaptation is essential owing to the unique operational and strategic demands of public institutions in contrast to private enterprises. The main adaptations for this framework are: (1) Integration with Public Sector Mandates; (2) Resource Constraints and Collaboration; (3) Governance and Flexibility; (4) Public Value Creation; (5) Dynamic and User-Oriented Services; (6) Stakeholder Engagement and Accountability (Dobrowolski & Sułkowski, 2021; Edralin et al., 2018; Wirtz et al., 2021, 2023). Public organizations often have difficulties in embracing the business model idea, mostly used by private companies to efficiently manage service delivery (Lorenz et al., 2024; Masnila et al., 2024). This disparity has resulted in the emergence of public sector adaptations of the business model idea, necessitating conceptual harmonization between general and public management literatures (Lorenz et al., 2024). Incorporating sustainability into business models is essential, especially for public governance, since it meets economic, social, and environmental requirements (Wit et al., 2021). The BMC is often used to build business models for public smart services, particularly in smart cities, despite the absence of defined techniques for assessing these models (Janošková et al., 2024). Digital technologies significantly influence contemporary business models, requiring modifications like as the Digital Business Model Canvas (DiBMC) to effectively encapsulate their effects (Matricano & Liguori, 2024). The transformation of public service organizations requires thorough research and strategic planning, including methods such as SWOT analysis and empathy maps to synchronize present circumstances with future objectives (Riauwati et al., 2022). The literature underscores the significance of stakeholder engagement and the generation of value for all parties in public service delivery, which is crucial for the success of strategies such as Electronic Government (EG), Mobile Government (MG), and Connected Government (CG) (Yu & Janssen, 2010).

Hypothesis Development

Public-sector companies are progressively using commercial models to improve service delivery and foster innovation (Edralin et al., 2018). The Business Model Canvas has been tailored for several sectors, like energy, to include aspects such as accountability and stakeholder impact (Dobrowolski & Sułkowski, 2021). Robust internal control systems are essential for attaining corporate goals, guaranteeing financial transparency, and mitigating fraud. Governance structures impact internal control systems in public institutions, enhancing openness and accountability (Al Astal et al., 2024; Antón, 2020; Fidan & Tekşen, 2021; Moreno-Enguix et al., 2019). Governance models that integrate innovative public management concepts may enhance innovation and efficiency in public services (Edralin et al., 2018). Strong internal controls and governance systems improve business reputation and stakeholder confidence (Kim, 2025). The use of organized business models, like the Business Model Canvas, may provide a definitive framework for internal controls, hence augmenting their efficacy.

The findings of the study indicate that incorporating components such as accountability and stakeholder impact into the governance model ensures that internal controls align with overarching business

objectives and societal expectations (Edralin et al., 2018; Dobrowolski & Sułkowski, 2021; Al Astal et al., 2024). Additionally, resource limitations in public sector organizations can be alleviated by business models that prioritize cooperation and partnerships, leading to more effective resource utilization in internal controls (Edralin et al., 2018). A well-organized governance structure with strong internal controls has been shown to significantly enhance financial transparency and mitigate the risk of fraud (Antón, 2020; Dharmawati et al., 2022; Moreno-Enguix et al., 2019). The adoption of a public governance canvas, derived from the Business Model Canvas, can further strengthen internal control systems in public sector entities by providing a systematic framework, improving transparency and accountability, optimizing resource efficiency, and reducing fraud. These findings can be further tested through empirical studies to confirm the impact of the public governance canvas on internal control systems.

H1: the public governance canvas positive influence significantly on internal control system.

An efficient Internal Control System (ICS) guarantees the precision, comprehensiveness, and adherence of financial reporting (Batte & Smith, 2025; Mardiasmo, 2018). Research conducted by (Hamed, 2023) indicates that an effective Internal Control System (ICS) significantly enhances the quality of financial accounts in local government. The quality of financial accounts is assessed based on their relevance, dependability, comparability, and understandability, as stipulated in Government Regulation No. 71 of 2010 on Government Accounting Standards. Studies demonstrate that the establishment of an internal control system enhances the quality of financial reporting in governmental entities. Research conducted in North Sulawesi Province and Bandung, Indonesia, indicates that government internal control systems significantly improved the quality of financial statements, hence improving financial accountability (Evinita et al., 2025; Mulyati et al., 2020). Moreover, internal control systems within public sector entities enhance financial resilience by guaranteeing high-quality audits and dependable financial statements (Lustrilanang et al., 2023). The efficacy of internal controls directly impacts audit quality, therefore affecting the credibility of financial statements. Robust internal controls mitigate audit risk and the probability of substantial misstatements, consequently augmenting the reliability of financial reports (Ghosh et al., 2024; Mayasari, 2022; Wang-feng, 2013). Internal control systems enhance the quality of information presented in financial accounts. This is essential for both public and private sector entities as it guarantees that financial reports are precise, comparable, and beneficial for decision-making (Li et al., 2022; Lustrilanang et al., 2023). The efficacy of internal control systems is often enhanced by the proficiency of managing personnel. Research indicates that management proficiency, in conjunction with strong internal controls, significantly improves the quality of financial statements (Evinita et al., 2025; Techatanaset & Penvutikul, 2022).

H2: internal control system positive influence significantly on Quality of Financial Reporting.

Research conducted by Hosana et al., (2022) and Sipayung (2023) suggests that an effective governance structure positively correlates with the quality of financial reporting. Additionally, research indicates a favorable correlation between several facets of public governance such as regulatory quality, political stability, rule of law, and government effectiveness and the caliber of financial reporting (Yamen & Can, 2023). This finding supports the hypothesis that robust governance mechanisms improve the dependability and precision of financial reporting. Effective governance methods in the public sector, characterized by increased accountability and robust internal controls, are essential for enhancing the quality of financial reports (Evinita et al., 2025; Garcia-Lacalle & Torres, 2021). Corporate governance standards, including auditor independence, corporate ethics, and ownership concentration, profoundly influence the quality of financial reporting (Dwi Karya Susilawati, 2015; Ratnaningsih & Putranto, 2017;

Winoto et al., 2023). These procedures guarantee transparency, accountability, and reliability in financial reports. Furthermore, the implementation of effective corporate governance practices, such as the adoption of International Public Sector Accounting Standards (IPSAS), has been shown to enhance governance quality and, consequently, the quality of financial reporting (Cuadrado-Ballesteros & Bisogno, 2021; Masnila et al., 2022). The Business Model Canvas (BMC) framework highlights essential components, including value propositions, customer interactions, and critical activities, which may be integrated with governance principles to improve organizational performance and reporting quality. Evidence from multiple studies suggests that the implementation of effective public governance principles, informed by the Business Model Canvas, such as PGC, favorably impacts the quality of financial statements.

H3: Public Governance Canvas positive influence significantly on Quality of Financial Reporting

Effective governance in the public sector is vital for attaining elevated standards of accountability and transparency, which are important for superior financial reporting (Avram et al., 2015; Garcia-Lacalle & Torres, 2021; Mulyani & Sudrajat, 2017; Yamen & Can, 2023). Robust governance frameworks, including regulatory quality, political stability, and governmental efficacy, have been shown to enhance the quality of financial reporting (Avram et al., 2015; Mayasari, 2022; Yamen & Can, 2023). Governance attributes, including board size, independence, and experience, substantially improve the quality of financial reports by guaranteeing precise and dependable disclosures (Garcia-Lacalle & Torres, 2021; Goyal & Gulati, 2024; Nehme & Jizi, 2018). Internal control systems are essential for guaranteeing the reliability and comprehensiveness of financial reporting by reducing the risks of material misstatement and improving the precision of financial information (Dombrovskaya, 2020; Prodanova et al., 2017; Safi et al., 2017; Salameh, 2019). Robust internal controls correlate with enhanced financial reporting quality (Evinita et al., 2025; Mulyani & Sudrajat, 2017; Safi et al., 2017; Salameh, 2019). Robust internal control systems can facilitate the connection between governance and financial reporting quality by establishing a structured framework for oversight and verification, thereby ensuring regulatory compliance and asset protection (Prodanova et al., 2017; Qi et al., 2017; Salameh, 2019). The theory put forward is based on prior research.

H4: The internal control system mediates the relationship between the implementation of the public governance canvas and the quality of financial reporting.

METHODS

This research employs a quantitative methodology with a mediation design (Sugiyono, 2017). The independent variable is the Public Governance Canvas (PGC), the dependent variable is the Quality of Financial Statements (QFS), and the mediating variable is the Internal Control System (ICS). The research was carried out at the Pagar Alam City Government, South Sumatra Province. The study period spanned July to August 2025. Primary data were obtained by the distribution of questionnaires to respondents chosen using a purposive selection method. The criteria for respondents are as follows: Respondents hold structural positions in OPDs related to financial management and internal control; respondents have at least 1 year of work experience in the relevant Regional Apparatus Organization (OPD); they bear direct responsibility for budget management and financial reporting in OPDs. Participants possess knowledge of the Public Governance Canvas concept and have expertise in the preparation and management of local government budget reports. The questionnaire employs a five-point Likert Scale, ranging from Strongly Disagree (1) to Strongly Agree (5), to evaluate respondents' perceptions and experiences about each variable. This data collecting strategy was selected for its effectiveness in engaging a varied array of respondents and for assuring the quality and relevance of the gathered data. This study determined a representative sample size

of 138 respondents, according to the recommendations of Bougie dan Sekaran (2019) and Roscoe (1975) which advocate for a sample size ranging from 30 to 500 respondents for research purposes.

Table 1. Operational Definition of Variables

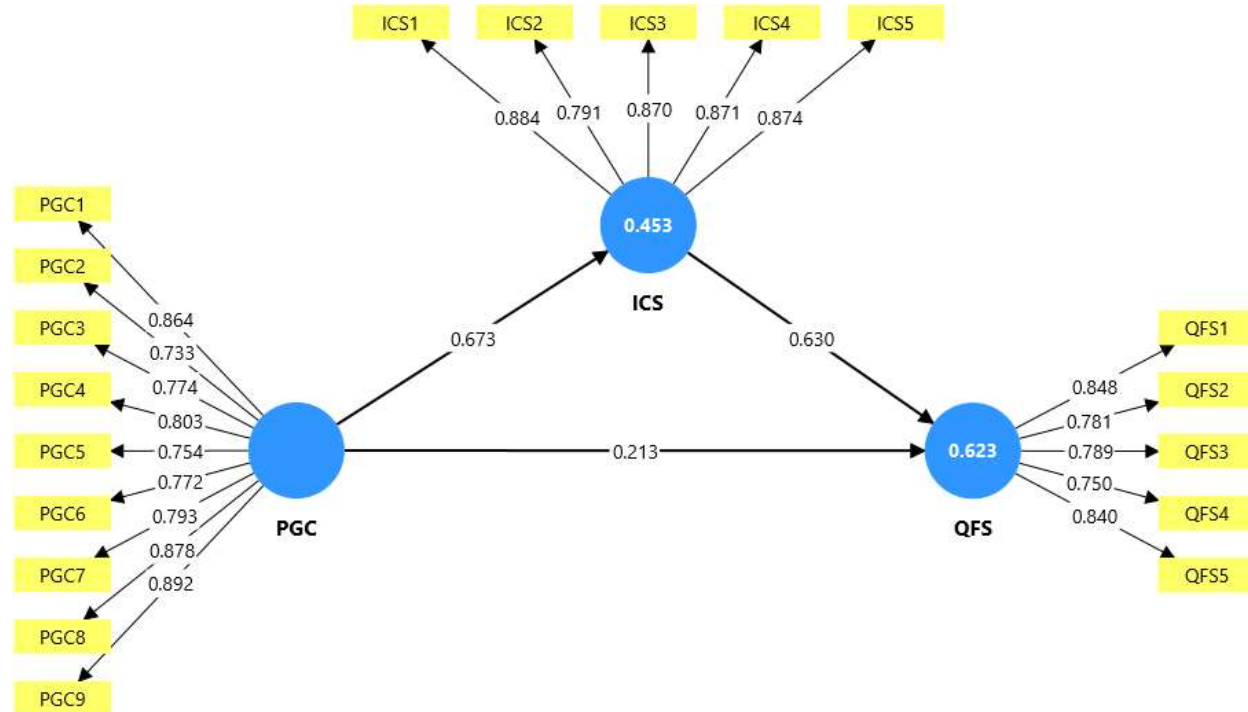
No.	Variables	Dimensions	Scale
1.	Public Governance Canvas (PGC) (X)	Beneficiary Segments (Customer Segments)	Likert
		Public Value (Value Proposition)	
		Communication and Service Delivery Channels (Channels)	
		Stakeholder Relationships (Customer Relationships)	
		Funding Sources (Revenue Streams)	
		Key Resources	
		Key Activities	
		Key Partners	
		Cost Structure	
		Control Environment	
2.	Internal Control System (ICS) (Y)	Risk Assessment	Likert
		Control Activities	
		Information & Communication	
		Monitoring & Evaluation	
3.	Quality of Financial Statements (QFS) (M)	Relevance	Likert
		Reliability	
		Timeliness	
		Comparability	
		Understandability	

The external and internal models were evaluated to commence the data analysis. The external model was constructed to evaluate the validity and reliability of the measuring instrument, whilst the internal model was used to analyze the connections among latent variables. Assessing convergent validity was an essential aspect of this research, achieved via the examination of the factor loadings of the latent variables. Hamid (2019) deems factor loadings over 0.60 as legitimate, indicating that the indicators used in this study effectively represent the latent variables. This research additionally evaluated the Cronbach's Alpha coefficient and composite reliability statistics to ensure the dependability of the measuring device. The acquired data are dependable for further study if the values for both indicators surpass 0.60. The next phase was assessing the inner model using the coefficient of determination (R^2) after the validation and reliability verification of the data. The model's capacity to explain variation in the dependent variable, business growth, is measured by R^2 . This inquiry considers a R^2 value greater than 0.2 as acceptable; yet, a larger R^2 value improves the model's capacity to explain variations in the dependent variable. A coefficient of determination of 0.50 indicates robust explanatory power, but a R^2 value of 0.75 or above is seen quite excellent. Furthermore, to assess the hypothesis, researchers will analyze the p-value and t-statistic. The t-statistic is used to assess the magnitude of each independent variable's effect on the dependent variable, whilst a p-value below 0.05 signifies that the tested hypothesis has substantial statistical significance (Hendriyadi, 2019).

RESULTS AND DISCUSSION

The findings of the validity test must be clearly shown as the preliminary phase in data analysis to enhance understanding of the research instrument's capacity to measure the targeted variables. The purpose of validity testing is to ensure that each indication in the research instrument precisely measures the intended idea or variable, excluding any extraneous elements. Visual representations, like factor loading graphs,

provide an in-depth knowledge of the validity of each questionnaire item, aiding in the assessment of whether the indicators meet the specified validity criteria. This validity test is crucial as its outcomes will determine whether the research instrument can effectively get valid and exact data, and if the variables being examined are appropriately reflected in the measurements. Thus, the quality and trustworthiness of the study findings would be affected (Hair et al., 2019)



Source : Output SmartPLS, (2025)

Figure 2. Research Model

This study involved 128 civil servants (ASN) from the Local Government Agencies of Pagar Alam City, selected through purposive sampling with criteria requiring respondents to hold positions related to financial management, accounting, planning, and supervision. The respondent profile shows that 61.7% were male and 38.3% female, indicating male dominance in technical and managerial positions. In terms of age, the majority of respondents were between 31–40 years old (45%), followed by those aged 41–50 years (55%). This suggests that respondents were generally within a productive age range with considerable work experience. Regarding educational background, 27.3% held a bachelor’s degree, while 72.7% held a master’s degree, indicating that most respondents possessed sufficient academic qualifications to comprehend the research instrument. Furthermore, 75% of respondents had more than 10 years of work experience. Therefore, it can be concluded that respondents had a strong understanding of the practices of financial reporting and internal control systems within local government agencies.

Validity, Discriminant Validity, and Reliability Test

The analytical findings demonstrate that the research instrument satisfies the requirements for validity and reliability. All indicators for the Public Governance Canvas (PGC), Internal Control System (ICS), and Quality of Financial Statement (QFS) have outer loading values over 0.70, hence affirming their validity. The Average Variance Extracted (AVE) values for the three variables above the 0.50 barrier (PGC

= 0.654; ICS = 0.738; QFS = 0.644), hence confirming convergent validity. The Fornell-Larcker Criterion, HTMT, and cross-loading tests for discriminant validity further affirm that each concept is distinctly separable from the others. The reliability test findings indicate that the Composite Reliability and Cronbach’s Alpha values for all variables exceed 0.70, indicating robust internal consistency of the instrument. Consequently, the research instrument is deemed both valid and trustworthy, making it appropriate for the upcoming structural model analysis phase.

Table 3. Loading Factor Value

No	Indicator	Loading Factor	Information	No	Indicator	Loading Factor	Information
1	PGC1	0,864	Valid	11	ICS2	0,791	Valid
2	PGC2	0,733	Valid	12	ICS3	0,870	Valid
3	PGC3	0,774	Valid	13	ICS4	0,871	Valid
4	PGC4	0,803	Valid	14	ICS5	0,874	Valid
5	PGC5	0,754	Valid	15	QFS1	0,848	Valid
6	PGC6	0,772	Valid	16	QFS2	0,781	Valid
7	PGC7	0,793	Valid	17	QFS3	0,789	Valid
8	PGC8	0,878	Valid	18	QFS4	0,750	Valid
9	PGC9	0,892	Valid	19	QFS5	0,840	Valid
10	ICS1	0,884	Valid				

Source : Output SmartPLS, (2025)

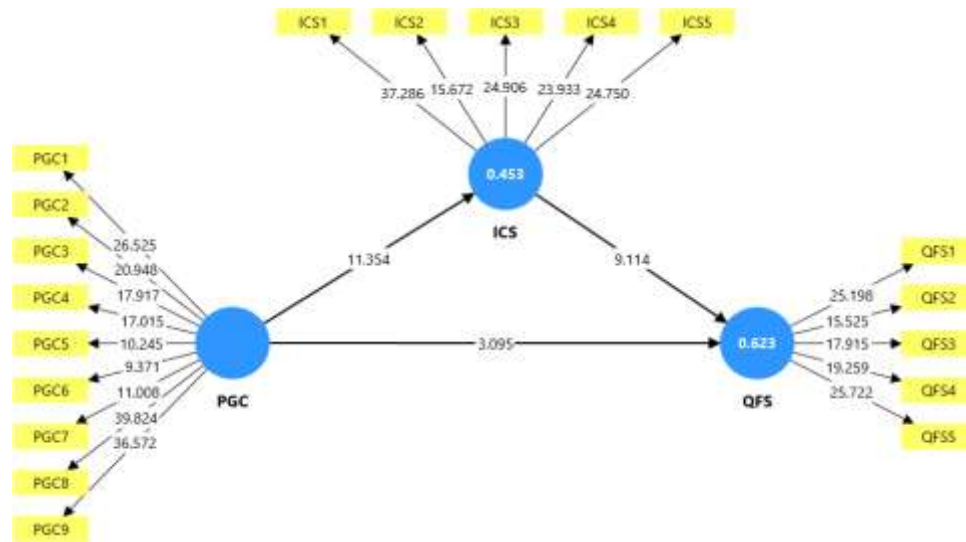
Table 4. Average Variance Extracted, Fornell-Larcker Criterion & Heterotrait-Monotrait (HTMT) Test

Variable	Average Variance Extracted (AVE)					
PGC	0,654					
ICS	0,738					
QFS	0,644					
Fornell-Larcker Criterion Testing				Heterotrait-Monotrait (HTMT)		
Variable	ICS	PGC	QFS	ICS	PGC	QFS
ICS	0,859					
PGC	0,673	0,809		0,724		
QFS	0,773	0,637	0,803	0,859	0,698	

Source : Output SmartPLS, (2025)

Inner Model

This research analyzes the inner model by evaluating R Square values, T Statistics for hypothesis testing, and Q Square. The objective of the inner model analysis is to evaluate the hypotheses about the interrelationships among variables and to comprehend the interactions of constructs inside the research model.



Source : Output SmartPLS, (2025)

Figure 5. Research Model

Table 6. R Square Test

Variable	R Square	R Square Adjusted
ICS	0,453	0,448
QFS	0,623	0,617

Source : Output SmartPLS, (2025)

The R Square value for the ICS variable, as shown in the table of test results, is 0.453. This signifies that 45.3% of the variation in the ICS construct is elucidated by the independent variables in the model, whilst the remaining 54.7% is attributed to extraneous factors outside the model. The R Square value for the QFS variable is 0.623, indicating that 62.3% of the variation in the QFS construct is attributable to the independent variables, while the remaining 37.7% is accounted for by components excluded from the model.

Model Fit Testing

Model fit assessment is performed to determine the degree to which the structural model accurately reflects the overall data. In the SmartPLS methodology, a key metric for assessing model adequacy is the Standardized Root Mean Square Residual (SRMR). SRMR quantifies the mean standardized discrepancy between the observed covariances and those anticipated by the model. A lower SRMR score signifies a reduced disparity between the actual and estimated values, indicating that the model aligns well with the data. An SRMR score below 0.100 indicates that the model exhibits a good fit and is suitable for interpretation and conclusion drawing (Henseler et al., 2016) The following section delineates the outcomes of the model fit assessment:

Table 7. Output Model Fit

Indicator	Saturated Model	Estimated Model
SRMR	0,069	0,069
d_ULS	0,896	0,896
d_G	0,537	0,537
Chi-Square	369,307	369,307
NFI	0,813	0,813

Source : Output SmartPLS, (2025)

Table 7 indicates that the SRMR value for the saturated model is 0.069, which is less than 0.100, and for the estimated model, it is also 0.069, remaining below 0.100. Consequently, the constructed model is deemed to satisfy the requirements for model adequacy.

Hypothesis Testing

Structural Model Bootstrapping Testing

This research used the bootstrapping approach for hypothesis testing on the structural model. This technique seeks to assess the interrelations among latent constructs using statistical significance testing. Three primary indicators were examined in this analysis: the path coefficient, t-statistic, and p-value. Garson (2016) delineates the criteria for decision-making in hypothesis testing as follows: If the t-statistic exceeds 1.96 and the p-value is less than 0.05, the association between the variables is significant, and the hypothesis is accepted. $t\text{-statistic} < 1.96$ and $p\text{-value} > 0.05 \Rightarrow$ The link between variables is insignificant; hypothesis is rejected. Bootstrapping data enable researchers to evaluate both the direction (positive or negative) and the significance level of each route link inside the model. Consequently, this testing provides a robust foundation for assessing the extent to which the hypotheses posited in the research are corroborated by empirical evidence (Garson, 2016). The subsequent outcomes of the route coefficients bootstrapping analysis are as follows:

Table 8. Result of Hypothesis Testing

Variables	Original sample (O)	T statistics (O/STDEV)	P values	Hypothesis	Information
PGC -> ICS	0,673	11,354	0,000	H1	Accepted
ICS -> QFS	0,630	9,114	0,000	H2	Accepted
PGC -> QFS	0,213	3,095	0,002	H3	Accepted
PGC -> ICS -> QFS	0,424	7,433	0,000	H4	Accepted

The results from Table 8 provide the following insights regarding the hypotheses tested, The first hypothesis (H1) explores the effect of Public Governance Canvas (PGC) on the Internal Control System (ICS). The findings show a significant positive effect, with an Original Sample value of 0.673, a T Statistic of 11.354 (which is greater than the critical value of 1.96), and a P Value of 0.000, which is less than the significance threshold of 0.05. This indicates that PGC has a strong and statistically significant impact on ICS, supporting the idea that the implementation of PGC can improve the effectiveness of internal control systems within organizations. Moving on to the second hypothesis (H2), which examines the relationship between the Internal Control System (ICS) and the Quality of Financial Statements (QFS), the results also reveal a significant relationship. The Original Sample value is 0.630, with a T Statistic of 9.114 (well above the critical value of 1.96), and a P Value of 0.000, which is again below the 0.05 threshold for significance.

These findings suggest that ICS plays a crucial role in enhancing the quality of financial statements. In other words, a more effective internal control system leads to higher quality financial reporting.

The third hypothesis (H3) investigates whether Public Governance Canvas (PGC) directly influences the Quality of Financial Statements (QFS). The effect of PGC on QFS is found to be statistically significant, with an Original Sample value of 0.213, a T Statistic of 3.095 (greater than 1.96), and a P Value of 0.002, which is below the 0.05 threshold. Although the effect is smaller compared to the relationship between ICS and QFS, these results suggest that PGC has a direct, significant impact on the quality of financial statements, emphasizing its importance in improving financial reporting standards. Lastly, the fourth hypothesis (H4) explores whether the relationship between PGC and the Quality of Financial Statements (QFS) is mediated by the Internal Control System (ICS). The results show a significant mediating effect, with an Original Sample value of 0.424, a T Statistic of 7.433 (greater than 1.96), and a P Value of 0.000, which is well below the 0.05 significance level. This supports the hypothesis that PGC influences QFS not only directly but also through its effect on ICS, meaning that PGC can enhance the quality of financial reporting both directly and indirectly by improving the internal control systems in place. In summary, the findings demonstrate that PGC significantly influences ICS, which in turn positively impacts the Quality of Financial Statements. Additionally, PGC affects QFS both directly and indirectly through ICS, highlighting the importance of implementing PGC to strengthen internal controls and, ultimately, improve the quality of financial reporting.

The Effect of Public Governance Canvas (PGC) on Internal Control System (ICS)

The statistical findings indicate that PGC has a considerable impact on ICS, shown by an Original Sample value of 0.673, a T Statistic of 11.354 (exceeding 1.96), and a P Value of 0.000 (below 0.05). This robust correlation indicates that a well-designed governance framework enhances internal control systems inside public sector enterprises. This discovery corresponds with the findings of (Moreno-Enguix et al., 2019), which indicate that governance frameworks augment transparency and accountability, thereby strengthening control mechanisms. Likewise, (Dobrowolski & Sułkowski, 2021) assert that the formulation of governance frameworks provides a basis for efficient internal supervision. (Al Astal et al., 2024) emphasize that creative governance solutions in public institutions immediately enhance the execution of monitoring and control procedures. Evidence is also provided by (Edralin et al., 2018) and (Cuadrado-Ballesteros & Bisogno, 2021), demonstrating that governance changes based on New Public Management concepts enhance organizational efficiency via improved internal control techniques. Furthermore, (Kim, 2025) emphasizes that public governance systems combined with internal control promote accountability and reduce the danger of corruption. The present research provides empirical evidence that the PGC, developed from the Business Model Canvas for the public governance context, functions as a systematic framework for integrating governance into operational internal control procedures.

The Effect of Internal Control System (ICS) on Quality of Financial Statements (QFS)

The research indicates that ICS has a substantial positive influence on QFS, shown by an Original Sample value of 0.630, a T Statistic of 9.114 (exceeding 1.96), and a P Value of 0.000 (below 0.05). This affirms the essential function of internal controls in guaranteeing the precision, dependability, and integrity of financial reporting. This conclusion aligns with (Safi et al., 2017), who assert that strong internal controls diminish the likelihood of mistakes and fraud in reporting. (Panferova, 2020) also concludes that internal control systems are essential for guaranteeing adherence to reporting criteria. (Efremova et al., 2023) demonstrate that robust internal control procedures improve transparency and foster stakeholder confidence. In Indonesia, (Mutoharoh & Ifada, 2023) demonstrate that ICS enhances reporting accountability in local governments, while Mulyati et al. (2020) note that enhancements in internal control lead to improved audit quality. Furthermore, (Lustrilanang et al., 2023) contend that the implementation of Integrated Control Systems (ICS) in the public sector is a critical factor influencing the reliability of

financial statements. These results corroborate the worldwide findings of (Garcia-Lacalle & Torres, 2021), who assert that robust internal supervision is essential for financial sustainability in public organizations. Consequently, the current research establishes that ICS functions not just as a compliance tool but also as a strategic catalyst for enhancing financial reporting quality in public sector businesses.

The Direct Effect of Public Governance Canvas (PGC) on Quality of Financial Statements (QFS)

The statistical analysis indicates that PGC has a direct effect on QFS, shown by an Original Sample value of 0.213, a T Statistic of 3.095 (exceeding 1.96), and a P Value of 0.002 (below 0.05). Despite the coefficient being somewhat less than the mediated route, this finding illustrates that governance systems directly influence the quality of financial reporting. This result corroborates the findings of (Hosana et al., 2022) and (Sipayung, 2023), who demonstrated that effective governance methods are directly and positively correlated with the quality of financial reporting (Cuadrado-Ballesteros & Bisogno, 2021) and (Garcia-Lacalle & Torres, 2021), assert that governance characteristics, including openness, regulatory quality, and the rule of law, enhance reporting trustworthiness. (Prodanova et al., 2017) provide supporting evidence that governance structures promote ethical reporting behavior, whereas (Salameh, 2019) contends that governance mechanisms mitigate information asymmetry, thereby enhancing financial disclosure. (Yamen & Can, 2023) have discovered that effective governance changes enhance financial reporting outcomes in developing economies. Collectively, these results substantiate the assertion that PGC has a direct influence on QFS, with its effect being amplified when internal control systems function as mediators.

The Mediating Role of Internal Control System (ICS) in the Relationship between PGC and QFS

The mediation analysis reveals that ICS partly mediates the association between PGC and QFS, exhibiting an indirect effect coefficient of 0.424, a T Statistic of 7.433 (exceeding 1.96), and a P Value of 0.000 (below 0.05). This indicates that PGC affects QFS both directly and indirectly via ICS. This discovery aligns with (Prodanova et al., 2017), who contend that internal control serves as the operational conduit via which governance improves reporting results. Likewise, (Salameh, 2019) and (Qi et al., 2017) assert that the quality of governance enhances financial reporting only when bolstered by robust internal controls. Research conducted by (Dobrowolski & Sułkowski, 2021) and (Moreno-Enguix et al., 2019) provide more evidence that governance and internal control function as complimentary systems rather than replacements. (Al Astal et al., 2024) and (Efremova et al., 2023) emphasize that robust internal control systems are essential, since governance changes alone may not provide significant improvements in reporting quality. The partial mediation identified in this research indicates that governance frameworks have both strategic and operational impacts on financial reporting: strategically via direct governance principles, and operationally via internal control mechanisms. The study's results indicate that governance frameworks and internal control systems are mutually reliant in improving financial reporting quality. The comprehensive influence of governance is realized when it is institutionalized by strong internal controls, including both direct and indirect consequences. This research theoretically expands existing governance literature (Cuadrado-Ballesteros & Bisogno, 2021; Hosana et al., 2022; Yamen & Can, 2023) by confirming the applicability of the Public Governance Canvas as a systematic instrument for correlating governance principles with reporting results. The findings underscore the necessity for policymakers and public administrators to amalgamate governance reforms with robust Internal Control Systems (ICS) implementation to enhance accountability, reduce fraud, and conform to international standards such as IPSAS and COSO (Efremova et al., 2023; Garcia-Lacalle & Torres, 2021).

The research emphasizes that governance frameworks such as the Public Governance Canvas must be implemented via robust internal controls to enhance financial reporting. Policymakers must augment internal audit capabilities, synchronize reforms with daily operations, and use international standards (e.g., IPSAS, COSO) to improve accountability, reduce fraud, and foster stakeholder confidence. This study

corroborates the Public Governance Canvas as an innovative paradigm connecting governance with reporting results. This idea is expanded by demonstrating that internal control systems function as both a direct driver and a mediator of the relationship between governance and reporting quality, therefore affirming the complimentary nature of governance and controls. The research enhances the literature by illustrating partial mediation in public sector accountability frameworks, particularly pertinent to developing economies.

CONCLUSION

This study's results indicate that the Public Governance Canvas (PGC) substantially fortifies internal control systems (ICS), which, in turn, is essential for improving the quality of financial statements (QFS). The direct and indirect impacts of PGC on QFS were validated, with ICS acting as a partial mediator, suggesting that governance and internal controls function as complimentary processes in enhancing accountability and reporting dependability. These findings not only affirm the PGC as a robust governance framework in the public sector but also underscore the dual function of ICS as both a strategy catalyst and a conduit for reporting quality. The report underscores the need for politicians to integrate governance changes into operational procedures via stringent internal controls, bolstered by standards like IPSAS and COSO, to enhance transparency, reduce fraud, and fortify fiscal sustainability. The study theoretically enhances the literature on governance-accountability connections, illustrates the importance of public governance in emerging economies, and validates the significance of partial mediation models in elucidating the relationship among governance, internal controls, and financial reporting quality.

This work theoretically enhances public governance and public sector accounting theories by highlighting the essential function of internal control systems (ISCs) as a mediator between public governance and the quality of financial reporting. This research elucidates how a successful governance framework, as represented in the public governance canvas, may impact the openness and precision of financial reporting via a robust ISC mechanism. It elaborates on ideas about internal control and financial reporting within the public sector, emphasizing the dynamic interplay between these components in attaining superior reporting quality. This study offers substantial advantages to public sector accounting professionals, such as regional financial managers, auditors, and policymakers, by elucidating the significance of enhancing Internal Control Systems (ISCs) to improve the quality of financial reporting and promote more transparent and accountable governance. Its contribution consists of suggestions for the successful implementation of ISC to enhance the quality of financial reporting and public governance, therefore fostering public confidence and promoting more efficient use of public resources.

This research is constrained by its cross-sectional methodology, dependence on self-reported survey data, and emphasis on particular variables (PGC, ICS, QFS) while neglecting larger contextual factors such as political impact or technological progress. Moreover, the use of PLS-SEM, while appropriate for intricate models, constrains longitudinal or multi-level analysis. Subsequent research need to rectify these shortcomings by using longitudinal or mixed-method techniques, integrating archival and multi-source data, and broadening the model to include contextual and moderating factors. It is advisable to conduct comparative research across various locations or nations to enhance both theoretical advancement and practical implementation.

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