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Examining the factors influencing the implementation of public sector reporting standards on the prevention of financial deviations: Evidence from Mashhad University of Medical Sciences

Younes Masoudi[1*], Mohammad Hossein Vadiei[2], Reza Hesarzadeh [3]

1. Ph.D. Student in Accounting, Department of Accounting, Faculty of Economics, Management and Social Sciences, Shiraz University, Shiraz, Iran. younes.masoudi@mail.um.ac.ir.
2. Associate Professor of Accounting Department, Faculty of Administrative and Economic Sciences, Ferdowsi University of Mashhad, Mashhad, Iran. mhvadeei@um.ac.ir.
3. Professor of Accounting Department, Faculty of Administrative and Economic Sciences, Ferdowsi University of Mashhad, Mashhad, Iran. Hesarzadeh@um.ac.ir.

1. Introduction

The financial reporting system in the public sector is essential for ensuring financial accountability, and standardized accounting frameworks enhance transparency, efficiency, and decision-making. Medical universities, due to their complex financial operations, require adherence to such standards. Although Iran's Audit Organization has developed public sector standards since the early 2010s, implementation remains partial, with notable deficiencies in independence, timeliness, and transparency. Public Sector Accounting Standard No. 1 mandates accrual-based reporting, and as medical universities shift from cash to accrual, evaluating their compliance becomes crucial due to its impact on reducing financial deviations and improving accountability. This study focuses on internal challenges, such as weak internal controls, ineffective financial systems, and inadequate behavioral deterrents, and aims to assess the impact of adopting public sector reporting standards on preventing financial deviations, with emphasis on Mashhad University of Medical Sciences.

2. Research Questions or hypothesis

Based on the review of theoretical and empirical background and also relying on the conceptual model designed in this study, a set of causal relationships between components related to public sector financial reporting standards and financial deviations has been extracted and formulated as hypotheses. These hypotheses seek to examine the role of different dimensions of applying public sector financial reporting standards in reducing or increasing financial deviations in public institutions, especially medical universities. In order to test the conceptual validity of the model and measure the significance of the existing relationships between latent and manifest variables, the following hypotheses are evaluated in the form of structural equation modeling:

H1: Factors related to the adoption of public sector financial reporting standards have a significant effect on the amount of financial deviations.

H2: Understanding and enjoying the benefits of public sector financial reporting standards has a significant effect on reducing financial deviations.

H3: The performance capability of public sector financial reporting standards has a significant effect on controlling financial deviations.

H4: Challenges arising from the application of public sector financial reporting standards have a significant impact on the occurrence or intensification of financial deviations.

3. Methods

This research is a field-based descriptive-survey study in terms of its purpose and methodology, which uses structural equation modeling to examine the impact of different dimensions of public sector reporting standards on financial deviations at Mashhad University of Medical Sciences. The statistical population of the study included faculty members, internal and independent auditors, representatives of the Court of Accounts, financial managers, and accounting heads of university financial units in five areas of vice-chancellors, faculties, hospitals, health centers, and research centers, who were selected through census and without sampling. The data collection tool was a structured questionnaire, the section related to reporting standards was derived from the Tesfu model (2012) and included four dimensions of acceptance, benefits, performance capability, and challenges with 42 items. To measure financial deviation indicators, content validity analysis using the Lavish method (CVR) was used with the participation of 15 experts, and the final indicators were categorized into

five main dimensions, including poor performance of the financial information system, ineffective internal controls, lack of individual deterrence, inappropriate environmental conditions, and inability to deal with money laundering. Out of a total of 250 distributed questionnaires, 184 valid versions were retrieved and included in the analysis. The data were processed using SPSS (descriptive analysis) and SmartPLS (inferential analysis) software.

4. Results

In the first stage, the measurement model was fitted using PLS, removing items with low factor loadings and confirming high reliability and validity for all variables, including excellent reliability for "financial deviations." Convergent and divergent validity were satisfactory. In the second stage, structural model fit indices showed strong predictive power (R^2=0.748) and good model fit (Q^2=0.672). Path analysis confirmed all hypotheses, revealing that "acceptance," "benefits," "performance capability," and "challenges" negatively and significantly affect financial deviations. Notably, performance capability had the strongest reducing effect, while challenges had the weakest. These results highlight that enhancing the understanding and application of public sector financial reporting standards effectively reduces financial deviations by improving transparency and managerial accountability in public institutions.

5. Discussion and Conclusion

The study's findings demonstrate that applying public sector reporting standards significantly reduces financial deviations by enhancing transparency, accountability, and report reliability, consistent with international research. Benefits such as comparability and reduced managerial opportunism, along with the standards' control mechanisms—especially under accrual accounting—improve financial information quality and decision-making. Implementation challenges indirectly foster greater accuracy and accountability among financial staff. Professional understanding of these standards is crucial for consistent, accurate reporting and increased trust among managers and decision-makers. Thus, targeted training and workshops are essential, particularly in medical universities, to ensure proper application. Future research should combine qualitative and

quantitative methods and explore effects in diverse governmental contexts due to limitations like restricted data access and low staff participation.

Keywords: Deviations from financial goals; internal controls; performance capability; public sector reporting; reporting standards.