

# Assessment of the Challenges and Benefits of Adopting International Public Sector Accounting Standards in Developing Countries the case of Ethiopia

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## ABSTRACT

The review assesses the benefits and challenges of adopting International Public Sector Accounting in Ethiopia in public sectors. The objective of the study was to provide an insight on the contribution of IPSAS in enhancing quality, consistency and comparability of governmental financial information within and between jurisdictions. IPSAS are intended to apply to general purpose financial reports. The methods used for the study were document analysis and interview with concerned officials of accounting and auditing board of Ethiopia for triangulation. The results show that the adoption of IPSAS enhances level of accountability and transparency of managements by providing timely and clear annual financial reports. Unavailability of adequate professionals' staffs in the areas of asset valuation and public sector accounting, lack of budget for training of staffs, difficulties in recognition, measurement and valuation of assets, lack of compiled data, and lack of management commitment are challenges in the implementation of IPSAS in public sectors. The government higher officials should be committed to implement IPSAS to enhance the quality and comparability of financial reports, the government should give emphasis to implement IPSAS to attract foreign direct investment, AABE should assist public sectors by providing training and consultancy in the adoption process, the ministry of education should revised the curriculum of the accounting courses by incorporate PSAS.

**Keywords:** IPSAS, Comparability, Accountability, Public sectors

## INTRODUCTION

There is an increasing center of attention on improving the quality of public financial management around the world, many countries in both the developed and developing world making important and impressive achievements in strengthening public financial management and governance; however, much still remains to be done [1].

Public sector reform in Africa is rare; Ethiopia Successfully transformed its financial management to international standards, now it has the third best system in Africa. The largest portion of aids flow to the continent goes to Ethiopia [2].

International Public Sector Accounting standard board/IPSASB develops accounting standards for public sector entities referred as international public sector accounting/IPSAS with aims to improve the quality of general purpose financial reporting by public sector entities, leading to better informed assessments of the resource allocation decisions, thereby increasing transparency and accountability of governments to their citizens and their elected representatives (IPSAS, 2018). The adoption of IPSAS by developing governments will improve both the quality and comparability of financial information reported by their government entities for

external users. Sound governance and effective institutions are essential to achieve shared prosperity and sustained reductions in poverty. Public accountability and proper governance contribute to better delivery of public services, support competition and growth, including through cooperation with public service entities.

The need for globalization, easy in management of international trade and implementation of joint international development projects requires comparable and similar financial accounting standards. This is because practice and implementation of the standards greatly varies between nations in terms of structure; cash-basis or accrual-based financial disclosure.

## Statement of the problem

According to [3], the global financial crisis of 2008 became the catalyst for a number of public sector challenges. One of the most worrying was he sovereign debt issue. Creditors worried to what extent they could trust debtor governments' financial reports and their capacity to meet their liabilities. Lower (LICs) and middle (MICs) income countries especially in Asia and Africa experience a series of crises resulting to accrual of large public debts. On the hand, privately managed business enterprises in the same

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**Hypothesis 1:** Financial statements are useful for investment decision making in The Gambia.

| Response          | Frequency | Percentage |
|-------------------|-----------|------------|
| Strongly Agree    | 60        | 60%        |
| Agree             | 30        | 30%        |
| Strongly Disagree |           |            |
| Disagree          |           |            |
| Not Sure          |           |            |
| Unreturned        | 10        | 10%        |
| Total             | 100       | 100%       |

**Hypothesis 2:** Banks give out loans to the customer after analyzing the financial statement of customers (loan applicants).

| Response          | Frequency | Percentage |
|-------------------|-----------|------------|
| Strongly Agree    | 33        | 33%        |
| Agree             | 46        | 46%        |
| Strongly Disagree |           |            |
| Disagree          |           |            |
| Not Sure          | 10        | 10%        |
| Unreturned        | 10        | 10%        |
| Total             | 100       | 100%       |

**Hypothesis 3:** Investors in Trust Bank base their decision on the results of financial statement analysis.

| Response          | Frequency | Percentage |
|-------------------|-----------|------------|
| Strongly Agree    | 33        | 33%        |
| Agree             | 56        | 56%        |
| Strongly Disagree |           |            |
| Disagree          |           |            |
| Not Sure          |           |            |
| Unreturned        | 10        | 10%        |
| Total             | 100       | 100%       |

**Hypothesis 4:** Big depositors in banks base their decision on financial statement analysis

| Response          | Frequency | Percentage |
|-------------------|-----------|------------|
| Strongly Agree    | 17        | 17%        |
| Agree             | 63        | 63%        |
| Strongly Disagree |           |            |
| Disagree          |           |            |
| Not Sure          | 10        | 10%        |
| Unreturned        | 10        | 10%        |
| Total             | 100       | 100%       |

**Hypothesis 5:** Shareholders and investors base their decision on financial statement analysis.

| Response          | Frequency | Percentage |
|-------------------|-----------|------------|
| Strongly Agree    | 37        | 37%        |
| Agree             | 53        | 53%        |
| Strongly Disagree |           |            |
| Disagree          |           |            |
| Not Sure          |           |            |
| Unreturned        | 10        | 10%        |
| Total             | 100       | 100%       |

**Hypothesis 6:** Financial statements of Trust Bank Limited are always published and made available to the general public.

| Response          | Frequency | Percentage |
|-------------------|-----------|------------|
| Strongly Agree    | 63        | 63%        |
| Agree             | 17        | 17%        |
| Strongly Disagree |           |            |
| Disagree          |           |            |
| Not Sure          | 10        | 10%        |
| Unreturned        | 10        | 10%        |
| Total             | 100       | 100%       |

**Hypothesis 7:** Financial statements published by Trust Bank are easily understood by investors, shareholders, and potential investors.

| Response          | Frequency | Percentage |
|-------------------|-----------|------------|
| Strongly Agree    | 37        | 37%        |
| Agree             | 53        | 53%        |
| Strongly Disagree |           |            |
| Disagree          |           |            |
| Not Sure          |           |            |
| Unreturned        | 10        | 10%        |
| Total             | 100       | 100%       |

**Hypothesis 8:** The information in the financial statement of Trust Bank Limited is sufficient to assist in investment decision making.

| Response          | Frequency | Percentage |
|-------------------|-----------|------------|
| Strongly Agree    | 33        | 33%        |
| Agree             | 47        | 47%        |
| Strongly Disagree |           |            |
| Disagree          |           |            |
| Not Sure          | 10        | 10%        |
| Unreturned        | 10        | 10%        |
| Total             | 100       | 100%       |

**Hypothesis 9:** Financial statement analysis is the only means of determining profitability, liquidity, and solvency of a Trust Bank Limited.

| Response          | Frequency | Percentage |
|-------------------|-----------|------------|
| Strongly Agree    | 23        | 23%        |
| Agree             | 57        | 57%        |
| Strongly Disagree |           |            |
| Disagree          |           |            |
| Not Sure          | 10        | 10%        |
| Unreturned        | 10        | 10%        |
| Total             | 100       | 100%       |

**Hypothesis 10:** Financial information in the financial statement of Trust Bank Limited is of very high quality in terms of disclosing all relevant information about the state of affair about the result of financial performance whenever they are published

| Response          | Frequency | Percentage |
|-------------------|-----------|------------|
| Strongly Agree    | 33        | 33%        |
| Agree             | 57        | 57%        |
| Strongly Disagree |           |            |
| Disagree          |           |            |
| Not Sure          |           |            |
| Unreturned        | 10        | 10%        |
| Total             | 100       | 100%       |

countries are thriving well. Partially this can be attributed to the poor management of the public funds. Most of these countries use cash based financial accounting system which presents with a lot of disparities across entities and even within the same organization, hence not comparable. Adopting and implementing IPSASs will provide a solution to ensure consistence, and comparability is attained. Strengthening the country's financial architecture will make available quality financial information to facilitate investment decisions and to help reduce the risk of financial crises and corporate failures together with their associated negative economic impacts that have been witnessed in many industrialized and developing countries. This paper makes the case that International public sector accounting standards adoption is necessary because it improves the comparability and transparency of government financial reports and this enhances institutional capacity necessary for achieving development goals and ensures the government's accountability to its citizen and elected representatives. This study tries to assess the challenges in adopting IPSAS in the country and recommending possible solutions to overcome those challenges.

## METHODOLOGY

The method designed for study was a survey literature review which provides comprehensive insights about the topic under review and is essential for development of current literature. This method is preferred than the other due to the logistics and other issues of covering long distances over a small period, it is efficient to use the already existing literature [4].

### Articles Reviewed for the Study

International Public Sector Accounting Standards (IPSAS), the equivalent of international financial reporting standards (IFRS) that govern financial accounting in the private business entities is steadily gaining implementation momentum in public sector accounting over the past 10 years. The IPSASs regulates financial accounting processes of government sectors excluding profit making public firms [4]

IPSASs are designed for use by Public sector and Non for profit organizations and they are principle based rather than rule based. Conversion from GAAP to IPSAS will touch almost every aspect of the organization it does not end with the publication of the first set of IPSAS compliant financial statements but it also it requires preparation including changes in accounting policy, IT system, process, etc. which must precede conversion to IPSAS Dawit (2017).

IPSAS requires the presentation in the financial statements of all assets acquired, including real property, equipment and intangible assets, and their gradual depreciation or amortization over their period of use; such detailed requirements will necessitate improved stewardship of the organizations' assets. IPSAS adoption will also lead to more accurate recognition of liabilities resulting from past transactions and events, including a comprehensive recognition of all employee benefit liabilities. These changes will require improvements in the Organization's control framework and will allow for enhanced management of resources and improved decision making [5]. IPSAS are primarily intended for adoption by developing countries. Most developed countries already have government accounting standards that are either similar to, or more rigorous than, IPSAS. Even if their national standards are quite different from IPSAS, they are under little external or domestic

pressure to adopt IPSAS. Developing countries, on the other hand, face a different situation. [6] The World Bank endorses the use of IPSAS in accounting for its financial assistance to developing countries. Furthermore, IPSAS is held up as the best government accounting ideas that the global accounting profession has to offer. IPSAS have become de facto international benchmarks for evaluating government accounting practices worldwide, adopted by countries regardless of their political and economic systems. IPSAS are independently produced accounting standards, which are backed by a strong due process and supported by governments, professional accounting bodies and international organizations.

In general, entities that change accounting policies to comply with IPSAS do this retrospectively; however, to ease this transitional process the IPSAS Board (IPSASB) allows the use of transitional provisions in certain Standards. Where transitional provisions exist, they may allow an entity additional time to meet the full requirements of a specific accrual based IPSAS or provide relief from certain requirements when initially applying an IPSAS. The creation of an international accounting standard helps nations to follow similar rules in order to present information in a similar manner. Creating a hard set of rules to follow, the principles allow for an application of basic principles to either large and small entities or municipalities. An international set of accounting principles is also necessary for smaller nations to learn and adopt rules that will enhance their accounting process. Most times, developing nations cannot or do not have the resources capable to create and instill a framework for their

IPSAS therefore has become recognized benchmark for evaluating and improving government accounting in developing countries.

### Public financial reforms

Reforming the public sector is a constant process to address emerging challenges stemming from an increase in economic sophistication and expanded citizens' expectation. However, reforming public sector organizations their structures, policies, processes and practices is difficult, in rich and poor countries alike. Typically, significant challenges emerge from the enormous scale and complexity of the reform tasks to be undertaken. This requires levels of commitment, coordination and collaboration that may be without precedent for those involved even when the circumstances are most favorable. These kinds of challenges can be especially difficult in low income countries [7].

### Objectives of IPSAS

According to [8] The objective of the IPSAS is to improve the information from public sector accounting, permitting the comparability and providing tools for the social control of public entities, with a view to the further understanding of bookkeeping information and its disclosure in the financial statements, provoking profound changes in management, whether in the way the public equity is managed or in the form of recognition, measuring and disclosure of equity items.

PSAS aims to improve the quality of general purpose financial reporting by public sector entities, leading to better informed assessments of the resource allocation decisions made by governments, thereby increasing transparency and accountability.

### Management Commitment and Ownership

The crucial role of managers cannot be overemphasized and will

be very important during the whole process of benefits realization. The Management Committee as the highest internal strategic management body of the United Nations Secretariat has endorsed the IPSAS benefits realization plan and related organization wide responsibilities and stakeholders for benefits realization. At the same time, support tools will be developed to assist managers in their efforts towards benefit realization such as a tracking/reporting mechanism, training, and communication/information material (UN, 2015).

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### Benefits of IPSAS

The World Bank has supported the development of IPSAS by actively engaging in the technical agenda and by providing significant funding to the program. As part of this support, together with the Development Assistance Committee of the Organization for Economic Co-operation and Development (OECD DAC) and several multilateral development banks, the Bank is cosponsoring a project to develop an IPSAS on Accounting for Development Assistance. The Bank's involvement reflects its interest in improving the quality of financial reporting by governments and their constituent agencies [9].

According to [10], IPSAS requires the capture and presentation of additional details of the assets, liabilities, revenue and expenses of an organization. For example, IPSAS requires the presentation in the financial statements of all assets acquired, including real property, equipment and intangible assets, and their gradual depreciation or amortization over their period of use; such detailed requirements will necessitate improved stewardship of the organization's assets. IPSAS adoption will also lead to more accurate recognition of liabilities resulting from past transactions and events, including comprehensive recognition of all employee benefit liabilities. These changes will require improvements in the Organization's control framework and will allow for enhanced management of resources and improved decision-making. More comprehensive information about revenue and expenses will better support strategic planning and results-based management.

The adoption of IPSASs by governments will improve both the quality and comparability of financial information reported by public sector entities around the world. [11] Financial statements are a structured representation of the financial position of and the transactions undertaken by an entity. The objectives of general purpose financial statements are to provide information about the financial position, performance and cash flows of an entity that is useful to a wide range of users in making and evaluating decisions about the allocation of resources. Specifically, the objectives of general purpose financial reporting in the public sector should be to provide information useful for decision-making, and to demonstrate the accountability of the entity for the resources entrusted to it by:

- (a) Providing information about the sources, allocation and uses of financial resources;
- (b) Providing information about how the entity financed its activities and met its cash requirements;
- (c) Providing information that is useful in evaluating the entity's

ability to finance its activities and to meet its liabilities and commitments;

(d) Providing information about the financial condition of the entity and changes in it; and

(e) Providing aggregate information useful in evaluating the entity's performance in terms of service costs, efficiency and accomplishments. General purpose financial statements can also have a predictive or prospective role, providing information useful in predicting the level of resources required for continued operations, the resources that may be generated by continued operations, and the associated risks and uncertainties. Financial reporting may also provide users with information:

- (a) Indicating whether resources were obtained and used in accordance with the legally adopted budget; and
- (b) Indicating whether resources were obtained and used in accordance with legal and contractual requirements, including financial limits established by appropriate legislative authorities.

### Challenges of adopting IPSAS

There are costs to be incurred in the implementation of IPSASs. Statutory bodies responsible for enforcing accounting regulations require funding to roll out implementation of IPSAS. These costs include research, training, technology, and consultancy [12] [13-16] there is call for political goodwill in the implementation of better accountability in the public sector due divergent views on accountability.

### IPSAS is time and money consuming

The adoption of IPSAS compliant accounting methods requires additional commitment of time and effort from staff. During the transition phase, depending on their available resources, the organizations will have either to rely for an extended period of time on support from existing staff working in addition to their regular duties or recruit many additional staff Adamu (2014).

### Potential risks

IPSAS adoption is a complex and comprehensive change management process. While it offers numerous benefits over the medium and long term, it also entails short-term costs and challenges that need to be seriously addressed by the executive heads of all the organizations concerned

### CONCLUSION

The adoption of IPSASs increases the level of accountability and transparency in the public sectors in developing country. Government officials' commitment, international organizations support trained professional speed up the level of IPSAS implementation.

The result of the study shows that adoption of IPSAS in public sector in developing countries like Ethiopia will have positive impact, and improves the quality of the financial statements which strengthen good governance. Adoption of IPSAS will provide useful information for better management and decisions for greater public responsibility. International funding organizations, donors and creditors requires the host country to prepare financial statements with IPSAS to make their decisions.

There are different challenges of adopting IPSAS in developing like Ethiopia; lack of adequate professionals, huge amount of training cost lack of governments' commitment.

## RECOMMENDATIONS

Governments of developing countries should be committed to adopt IPSAS in the public sectors so that they can improve the socio economic benefits of citizens. Public sectors should adopt IPSASs for better management, accountability and transparency in financial reporting and the regulatory and supervisory organizations like Accounting and Auditing Board of Ethiopia, universities and professional associations should provide the necessary support and follow up during the IPSAS adoption by public sectors. International organizations like IMF, and World Bank should support developing countries technically and financially in their IPSAS adoption.

The Accounting and Auditing Board Ethiopia and the Ministry of Education should review the accounting curriculum in higher institutions to include IPSAS requirements.

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