



**THE BENEFITS AND CHALLENGES OF ADOPTING THE  
INTERNATIONAL PUBLIC SECTOR ACCOUNTING  
STANDARDS IN FOREIGN CHARTIES IN ETHIOPIA**

**SANNI JUHAR HALID**

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## ACRONYMS & ABBREVIATIONS

AABE = Accounting and Auditing Board of Ethiopia

ASHI = After Service Health Insurance

CHSA = Charities and Society Agency

CSOs = Civil Society Organizations

EU = European Union

FASB = Financial Accounting Standard Board

FS = Financial Statements

GAAP = Generally Accepted Accounting Principles

IAS = International Accounting Standards

IASB = International Accounting Standards Board

IASC = International Accounting Standards Committee

IFRS = International Financial Reporting Standards

INGO = International Non Governmental Organizations

IPSAS= International Public Sector Accounting Standards

NGO= Non Governmental Organizations

NPM= New Public Management

NPO= Not for Profit Organizations

MANGO= Management Accounting for Non Governmental Organizations

UN = United Nations

UNAIDS= United Nations Program on HIV/AIDS



## ABSTRACT

*This study examined the benefits and challenges of adopting the International Public Sector Accounting Standards (IPSAS) in the foreign charity organizations working in Ethiopia. The objectives of the study was to provide an insight on the contribution of adopting IPSAS in enhancing the level of accountability, transparency, strengthening the stakeholders perception of the standards and taking educational and professional responsibilities. The population of study was 353 foreign charity organizations and 2 government offices (CHSA and AABE). Using purposive sampling,35 foreign charities organizations and 2 government offices were selected for this study. 75 sample respondents, who were understanding IPSAS's objectives and were responsible for the adoption process, were taken from the above institutions to fill the questionnaire. Before processing the responses, the completed questionnaires were edited for completeness and consistency. The data was then coded to enable the responses to be grouped into various categories. Data were analyzed using descriptive statistics, correlations, and multiple linear regression analysis The main results evidenced that the adoption of IPSAS enhances level of accountability through asset management and transparency in information provided in the financial reports. It was also found that IPSAS adoption is feasible target and clearer understanding of the standard leads to effective implementation. It was also observed that Charity organizations , CHSA,AABE, Universities and professionals need to take the educational and professional responsibilities for qualifying the standards which leads to effective implementation and bring the greater advantages. However, the adoption of IPSASs will have challenges including cost of training ,new manuals, unavailability of adequate staffs in the market, lack of wide participation in the organization, difficulty in recognition, measurement and valuation of assets, delay in amendment to local regulations and lack of coordination and communication. It was recommended that Foreign Charity Organizations should adopt IPSASs for better management, accountability and transparency in financial reporting which implies that CHSA need to amend the existing financial reporting framework proclamation no 621/2009. AABE should also encourage the use of IPSAS which help to attract more donors with big resource into the country.*

*Key words: Accountability, Transparency, adoption, IPSAS, Foreign Charity Organization in Ethiopia.*

## **Chapter One: Introduction**

### **1.1. Background of The study**

The performance reporting and financial reporting system of NGOs is getting high attention from time to time due to the rapid increase in the influence of NGOs and their reliance on third party funding. There is due concern and interest into how they measure and manage performance. They prepare reports of different types and styles depending on the audience for that information. Further, financial reporting differs not only according to the potential users or audience for that information, but often lacks homogeneity within a particular country, due to lack of regulation (CFG, 2012).

Financial reporting is also inconsistent between countries due to lack of international financial reporting standards for NGOs. The CFG Symposium (2012) identified a need for a “shared understanding, commonly known terms or agreement” for NPOs’ financial reporting so that donors, beneficiaries and global networks can use this information appropriately. For example, concern about money laundering and financing of terrorism has recently been focused on criminals’ and financiers’ ability to establish and utilize NPOs to clean and move money around the world ( CFG, 2012).

In addition, fraud in NPOs has reinforced the need for greater reporting and disclosure requirements (Holtfreter,2008). With the rapid growth of NGOs to assist community development in developed and lesser-developed countries, some feel that international standards will be a cost-effective way to ensure accountability of these NGOs and that it would result in savings in terms of audit and regulatory effort (CFG, 2012). Quality reporting should also increase donors’ trust and confidence in NPOs, when they can see that their donations have been directed appropriately. (CCAB, 2014).

Research on the charity sector in the UK has demonstrated that users of their accounts value high-quality narrative reporting that analyses a charity’s achievements as well as financial

reporting in judging efficiency and effectiveness. Mango's experience and other NGOs' and academic research internationally also demonstrates the importance of using downward accountability and feedback from beneficiaries to improve and assess NGO performance. It is time this established good practice in reporting on NGO performance was promoted through the design and implementation of international accounting and reporting standards for NGOs. Mango is keen to help build a broad international coalition to encourage and support the IASB to develop international accounting standards for NGOs( Tim,2011)

The Ethiopian government has understood the scale and importance of NGOs in the country and identified non existence of international standards which have been tailored to the accounting and reporting needs of NGOs in the country. The lack of these reporting standards contributes to the lack of reliable information about the number, financial activities and wider contribution of NGOs. The diversity and inconsistency of accounting and reporting complicates the preparation of financial reports for NGOs in Ethiopia.

With this understanding, Ethiopian Governments has issued FINANCIAL REPORTING PROCLAMATION No. 847/2014 for adoption of International Public Sector Accounting Standard (IPSAS) for Charities and Societies.

The purpose of this study, therefore, is to look at and explore prospects and challenges of Foreign Charity Organizations in Ethiopia in adopting ISPAS.

### **1.1.1. Public Sector Accounting Standard**

The International Public Sector Accounting Standard(IPSAS) are accounting standard developed by IPSAS board for all categories of government/public sector around the world in the preparation of their financial statements applicable to all levels of government. IPSAS are standards of high quality which serve as catalyst for providing sound and transparent financial statements, thereby improving operational performance, accountability and fair allocation of resource. (Yunusa, 2014). International Accountings Standards (IASs) as a basis of development of International Public Sector Accounting Standards (IPSASs) (IFAC PSC, 2000). The IPSASs set out guidance for the structure, minimum requirements, recognition, measurement and

disclosure requirements in the general purpose financial reporting intended to meet the needs of users who are unable to require the preparation of financial reports tailored for their specific needs.

The major objective of IPSASs is to set down a manner in which general purpose financial statements should be prepared to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. IPSASs are set through a due process commencing with research and deliberations held before tentative positions are adopted. Exposure drafts of proposed standards are disseminated to solicit the views of interested parties which are considered in revising and finalizing a standard (IFAC, 2004).

Traditionally, public sector organizations used cash-based accounting systems which posed challenges due to lack of standardized international reporting practices. The cash based system lacked internationally accepted rules and guidelines on recognition, measurement, reporting and management of debt and state assets (Luder and Jones,2003).

Taking into account that relevant and reliable accounting information is an important resource in management decision making, a comprehensive accounting information system is crucial for management performance (Monari, 2015). This increased focus on public sector financial management has created increasing demand for high-quality standards and guidance on how to adopt and implement such standards.

The development of the IPSAS has its origins in the accounting profession as a way to improve the transparency and accountability of governments and their agencies by improving and standardizing financial reporting. ( Deloitte, 2015).

IPSAS provides high-quality, independently produced accounting standards, underpinned by strong due process and supported by governments, professional accounting bodies, and international development organizations, representing best practices for governments and not-for-profit organizations. NGOs qualify as a public entity to use International Public Sector Accounting Standards (IPSAS)(WHO,2013)

The CCAB,2014, study acknowledged that “Charities and other non-governmental organizations (NGOs) increasingly work internationally with grants from government funding their development and relief activities, while private donors and international foundations are increasingly taking a global approach to their work. As a result, charities and other NGOs face a multiplicity of international grant regimes, often made more complex by the lack of an agreed approach to financial planning and reporting.”

### **1.1.2. Use of IPSAS Around The World**

The International Public Sector Accounting Standards (IPSAS) are a series of 32 financial reporting and accounting standards issued by the International Public Sector Accounting Standards Board (IPSASB), which represents more than 160 member bodies in 120 countries ( Mike, 2014).

Nowadays, regardless of different financial reporting requirements or financial characteristics, world is talk one accounting language through adoption of unified "International Public Sector Accounting Standards,( IPSAS)" and "International Financial Reporting standard (IFRS)" that enhance comparability and international best practices. The issue of transparency and comparability is viewed as a means of ensuring state stewardship.(UNIDO,2006). Mhaka1(2014) also advocates for adoption of IPSAS since they permit cross country and cross entity comparability which allows users of financial statements to make objective decisions. IPSAS were prepared in convergence with IFRSs. They prescribe the accounting treatment and measurement of a particular phenomenon which reduces the alternative treatments available to managers (Mhaka1,2014). This makes strategic plans and reports more meaningful and supports economic efficiency of the public sector. Mhaka1 (2014) cites that IPSAS convergence with IFRSs brings with it a perceived prestige and respect which makes financial statements relevant for decision making purposes.

A number of countries and international organizations have been adopting the international accounting standards to different extents, depending on the purposes and specific conditions of each country. 129 Countries that are already applying full accrual accounting standards,

applying accounting standards that are broadly consistent with IPSAS requirements or are in the process of adopting IPSAS (Deloitte 2013).

### **1.1.3 Financial Reporting in Charity Organizations(NGOs) in Ethiopia**

The Charity Organizations (NGOs) in Ethiopia have been increasing from time to time . The growth has not only been in numbers but also in the amount of financial resources that these NGOs control. In year 2009, following Proclamation No.621/2009 , all NGOs, working in the country, were reregistered and Government established Charities and Societies Agency (CHSA) to govern the activities of NGOs and facilitate and strengthen their contribution to the socio-economic development of the country (Habtu 2015).

The CHSA is the regulatory body in this sector and keeps tab on NGO's programs, activities as well as the amount of funds that they control by regulation No.168/2009. According to regulation no 8/2011, NGOs are required to submit annual reports together with audited accounts. The financial reporting standards used as a basis of carrying out independent financial audits of NGOs are those established by the agency (operational procedure, rules and reporting requirements). NGOs are also required to manage grants in line with donors requirement and expected to report the projects and financial performance to the grant makers . To meet the interest of Government and donors, most NGOs agree with Auditors to produce separate audit reports to meet the interest of donors and government.

Currently the Ethiopian government has issued two proclamations, establishment of Institution of "Accounting and Auditing Board of Ethiopia" and "FINANCIAL REPORTING PROCLAMATION No. 847/2014" with the following objective

1. To Establish sound, transparent and understandable financial reporting system applicable to private and public entities.
2. To have a uniform financial reporting law enhancing transparency and accountability by centralizing the decentralized financial reporting structures of Ethiopia:
3. To support various building blocks of the economy and to reduce the risk of financial crisis, corporate failure and associated negative economic impact,; it is necessary to

ensure that the previous of financial information meets internationally recognized reporting standards.

4. To establish a body that undertakes regulatory responsibility in financial reporting.

## **1.2. Statement Of The Problem**

Charities and other non-governmental organizations (NGOs) increasingly work internationally with grants from government funding their development and relief activities, while private donors and international foundations are increasingly taking a global approach to their work. As a result, charities and other NGOs face a multiplicity of international grant regimes, often made more complex by the lack of an agreed approach to financial planning and reporting (CCAB, 2013).

In addition the demand for accountability and transparency by stakeholders in the preparation of financial reports increased and facilitated the need for meaningful internal control and monitoring of public resources (ICPAK,2014). Cash-based accounting systems previously adopted by public sector do not give insight into actual state of assets, finances and revenues (true and fair view). Hence, that is why International Public Sector Accounting Standards is needed to have a clear financial reporting framework for the public sector.

Mhaka, 2014, mentioned that the preparation and presentation of financial statement has series problem as preparation was based on cash basis of accounting. The continued application of the cash basis in the public sector appears to have a number of challenges relating to under-utilization of scarce resources, high degree of vulnerability to manipulation, lack of proper accountability and transparency, inadequate disclosure requirement due to the fact that the cash basis of accounting does not offer a realistic view of financial transaction.

The Charities and Societies in Ethiopia are expected to mandatorily adopt the new "FINANCIAL REPORTING PROCLAMATION No. 847/2014" (IPSAS) by July 8,2017. Thus the severe problem in preparation and presentation of financial statement will be resolved. However foreign charity organizations were uncertain whether the adoption and implementation of IPSAS

improves the accountability and transparency of foreign charity organizations working in the country and whether it increases the understanding and knowledge of stakeholders and lead to professional and educational responsibilities.

To the best of my knowledge, study on adoption of IPSAS of Charity organizations in Ethiopia has not been carried out so far. This study fill the gap and create better environment for foreign charities working in the country and other stakeholders in understanding the adoption of IPSAS and related issues to its first time adoption.

### **1.3. Basic Research Questions**

This is therefore the problem of this research can be presented in the following main questions;

1. Does the adoption of IPSAS increase the level of accountability of international charity organizations working in Ethiopia?
2. Does the adoption of IPSAS improve the level of transparency of international charity organizations working in Ethiopia?
3. Does the stakeholder's perception on the standard lead to a more effective convergence and adoption of the IPSASs in foreign Charity Organizations working in Ethiopia?
4. Does the adoption of IPSAS increase the desired educational and professional responsibilities in foreign charity organizations working in Ethiopia.?
5. What are the major challenges that hinder the implementation and realization of first time adoption of IPSAS in Foreign Charity Organizations working in Ethiopia?



## **1.4. Objectives of The Study**

### **1.4.1 General Objective**

This study is aimed to provide an insight towards benefits and challenges of the adoption of the International Public Sector Accounting Standards (IPSAS) in Foreign charity organizations working in Ethiopia

### **1.4.2 Specific Objectives**

1. To ascertain whether the adoption of the international public sector accounting standard (IPSASs) increases accountability in the foreign charity organization's financial reporting.
2. To ascertain whether the adoption of the international public sector accounting standard (IPSASs) improves transparency in the Foreign Charity Organization's financial reporting.
3. To ascertain explore whether the stakeholder's perception on the standard leads to a more effective convergence and adoption of the IPSASs in foreign Charity Organizations working in Ethiopia?
4. To ascertain whether the adoption of IPSAS increases the desired educational and professional responsibilities in foreign charity organizations working in Ethiopia..
5. To examine the major challenges that hinder the adoption of IPSAS as first time adopting of IPSAS in Foreign Charity Organizations working in Ethiopia.

### **1.5. Significance of The Study**

The study findings can contribute to the body of literature on the adoption of IPSAS and help to build the capacity of foreign charities, donors and government to find the mechanisms and transitional plans for smoothly running to the adoption of IPSAS in Ethiopia.

The recommendations can be also used by researchers who may want to gather data acquire

information on adoption of IPSAS in foreign charities working in Ethiopia.

Moreover, the study findings are believed benefit foreign charity organizations in Ethiopian to increase the level of public trust in terms of accountability, transparency and increase level of perception and professionalism in improving their compliance to donor requirements and thus improve their capability to attract more funding and ensure their organizational sustainability.

## **1.6. Scope of The Study**

The scope of this study is the foreign charity organizations working in Ethiopia. Focus was on foreign charities because they are international foundations and taking a global approach to their work. As a result, they face a multiplicity of international grant regimes with different reporting requirements. But need agreed approach to financial planning and reporting (CCAB, 2013).

## **1.7. Limitation of The Study**

The highly expected limitation in this study was that the respondents might consider some information as confidential and might not be willing reveal most of it. The study overcome the limitation by having a letter of introduction by having a letter of introduction from the university to assure the respondents that the information provided would be used for the academic purpose and would thereby be treated with confidentiality.

## **1.8. Organization of the paper**

The thesis consists of Five Chapters. Chapter one presents background, statement of problem, basic research questions, objectives, significance, scope and limitations of the study. Chapter two present definitions and concepts of IPSAS, uses of IPSAS around the world, benefits and challenges of IPSAs and theoretical model and research hypothesis and summery of the research gap. Chapter three presents research design, study population, data collection instruments, reliability and validity and data analysis and reporting. Chapter four presents data analysis, results and discussions of the study including results of the descriptive statistics, correlation and regression analysis. Chapter 5 provides summery of findings, conclusion and recommendations and recommendation for future research.

## **CHAPTER TWO: Literature Review**

### **2.1. Introduction**

This Literature review is a summary of the past studies carried out in respect of the topic under investigation. It highlights the conceptual and operational frameworks. This review will help identify the research gap and to achieve research methodology and design. In general, this chapter synthesized existing empirical research in the area of international accounting standards and ends by summarizing the review and identifying the gap in the existing literature.

### **2.2. Definition and concepts of IPSAS**

The integration of global economy is enforcing countries to standardize their accounting legislative frameworks to improve quality of financial information. Organizations have been harmonizing and unify their preparation, presentation, and disclosure of financial information. Thus the expectation of producing transparent financial statements is becoming high which presented in accordance with the accounting standards and principles and in line with international practices. So that of users of the world would have comprehensive and convene the same information and able to compare and evaluate financial statements among countries or organizations(Acha,2014).

The IPSAS are pronouncements that generally determine a full set of statements to be elaborated with a view to orienting and harmonizing public sector accounting in a wide range of countries, with a view to the transparency, efficiency and quality of the information transmitted (Monari,2015).

The implementation of these standards can entail different changes in the public sector, mainly regarding the increased information transparency, as well as in the efficiency and efficacy of public actions. In that sense, in line with Hendriksen and Breda (1999), Accounting, as an information sciences, represents an essential tool, as it allows the managers to be able to achieve their objectives skillfully, as it provides information that turns the decisions made more correct.

Currently there are two sets of international accounting standards issued and widely used by professional accountants: IPSAS and IFRS/IAS for financial reporting practice in public sector and for-profit organizations respectively. The financial statements of each entity in the public sector must be prepared and presented in accordance to International Public Sector Accounting Standards (IPSAS) and business enterprises are required to prepare financial statements in line with International Financial Reporting Standards/International Accounting Standard (IFRS/IAS)

The IPSAS are being issued by international public sector accounting standard board (IPSAS B). The goal of the IPSASB is to serve the public interest by developing high quality accounting standards for use by public sector entities around the world in the preparation of general purpose financial statements. This is done with the aim of enhancing the quality and transparency of public sector financial reporting and strengthening public confidence in public sector financial reporting.(UN policy framework-2013).

This is therefore, Ethiopia is going through with adoption of IPSAS with a view to improving the accounting information, to eliminate differences between the national and international standards and to enhance the transparency in public management and admit the comparability of the information to be produced.

### **2.2.1. Why Are IPSAS Important?**

The financial and sovereign debt crises have emphasized the need for better financial reporting by governments worldwide, and the need for improvements in the management of public sector resources. Citizens are affected by a government's financial management decisions. Strong and transparent financial reporting has the potential to improve public sector decision making and make governments more accountable to their constituents. The failure of governments to manage their finances has in the past, had dramatic consequences, such as the impairment of democracy, social unrest, and the failure of governments to meet their commitments today and in the future. These risks are still very apparent (IFCA, 2014).

### **2.2.2 What are IPSAS?**

IPSAS are a series of 32 financial reporting and accounting standards issued by the International Public Sector Accounting Standards Board (IPSASB) which provides high-quality, independently produced accounting standards, underpinned by strong due process and supported by governments, professional accounting bodies, and international development organizations, representing best practices for governments and not-for-profit organizations. ( WHO,2013).

The International Public Sector Accounting Standards Board (IPSASB) is one of the standard setting boards of International Federation of Accountants (IFAC), issued international Public Sector Accounting Standards (ISPAS) for public sector. IPSAS are a basis for the preparation and presentation of financial statements in public entities. Accounting standards are understood as rules and guidelines on the most general and complete principles, methods of basic accounting procedures, providing the basis for accounting records and financial reporting to achieve an honest, reasonable, and objective assessment of an accounting unit's financial position and operation results.

IPSAS are independently-developed financial reporting standards and are widely considered best practice for public sector organizations, as they impose the most stringent requirements of clarity and transparency. IPSAS 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 public entities, thereby increasing transparency and accountability(AU newsletter,2014).

### **2.2.3. Which Public Sector Entities can Adopt IPSAS**

The term Public Sector refers to national governments, regional (e.g. state, provincial, territorial) government, local (e.g. city, and town) governments and related government entities (e.g., agencies, boards, commissions and enterprises). All public entities and NGOs other than government business enterprise qualify as a public entity to use International Public Sector Accounting Standards (IPSAS) issued by International Federation of Accountant's International Public Sector Accounting Standards Board (IPSASB), (Ijeoma, 2014).

### **2.3. The adoption of IPSAS Around the World**

Many governments, jurisdictions, and international institutions have already adopted IPSASs. Many more are on the road to implementing the standards. Globally the trend of IPSAS looks as follows (Joy,2016).

#### **2.3.1. International Trends**

The adoption of IPSAS is being considered by a number of jurisdictions and the current period can best be described as a process of transition, and the situation continues to evolve as governments around the world make decisions about their financial reporting. (Deloitte 2015).

Developing countries are urged to adopt IPSAS by international organizations which provide financial assistance to developing countries. Other countries, regardless of their political and economic systems, are encouraged to harmonize their national standards with IPSAS. Thus, IPSAS have become *de facto* international benchmarks for evaluating Government accounting practices worldwide. For these reasons, IPSAS deserves the attention of accounting policy-makers, practitioners and scholars alike (Mohammed,2014).

Currently there is a rapid adoption of IPSAS around the world. Many countries adopted or in the process of adopting IPSAS.

#### **2.3.2 Intergovernmental Organizations**

The following intergovernmental organizations have adopted IPSAS or are in the process of adopting IPSAS: ASEAN (Association of South-East Asian Nations, Commonwealth Secretariat: , Council of Europe: , EC (European Commission): , ESA (European Space Agency): , EUMETSAT (European Organisation for the Exploitation of Meteorological Satellites), INTERPOL (International Criminal Police Organization), NATO (North Atlantic Treaty Organization, OECD (Organisation for Economic Cooperation and Development): ,

United Nations System All United Nations System organizations have implemented or are in the process of implementing IPSAS.

## **2.4. The Benefits of adopting IPSAS**

The objective of financial statements (FS) is to provide structured basic information on a private or public entity's performance and financial position (i.e. its health and wealth) both for internal and external users. In order to be useful, FS have to be understood in an equal manner by all users and should therefore apply common accounting principles, policies or rules developed by authoritative and independent specialists - hence the concept of accounting standards. With the development of international trade, finance and investments exchanges, the need for common tools to assess the value of commercial entities required international recognition of these standards (UN policy framework-2013).

Financial statements under IPSAS consist of statement of financial performance, Statement of financial position, Statement of changes in equity, Statement of cash flows and Notes.

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.

More comprehensive information about revenue and expenses will better support strategic planning and results-based management.

Financial statements of the Organization prepared under the detailed requirements of IPSAS will allow for improved comparability over financial periods as well as with the financial statements of other entities applying IPSAS. Overall, the application of independent, internationally accepted accounting standards will lend increased credibility to the financial statements of the public sector entities.

According to UNAIDS (2012), the implementation of IPSAS has resulted in the following key benefits.

- Strengthened accountability towards all stakeholders;
- Strengthened support for results-based management through the provision of comprehensive information on costs; ,,
- Improved management and planning across the Joint Programme due to better accounting practices for income and expenditure;
- Better understanding of revenue and expenses and improved management of commitments, risks and uncertainties;
- Increased transparency and harmonization of financial reports and statements across the UN system;
- Enhanced prediction of future asset and cash-flow needs;

### **2.2.1. Enhance Accountability and Transparency**

IFAC consistently promoted the need for enhanced transparency and accountability in the public sector. Public Sector Organizations adopt IPSASs to enhance internal and external transparency, increase accountability and transparency of state and public agencies (Newberry, 2005). Public entities are accountable for the utilization of public funds and must ensure the highest levels of transparency exists across financial processes. It should also provide a reliable basis for evaluating the current financial position and past performance for decision-making purposes. .

Transparency and accountability: these are arguably the greatest motivators for adopting IPSAS. Transparent accrual-based financial statements help public sector to demonstrate, and users to evaluate, accountability in the use of public funds.

Thus NPO sector represents a heterogeneous mix of organizations with accountability relationships to a diverse range of stakeholders, including: beneficiaries, funders, government and regulators ( Hyndman, & McConville, 2009).

#### **2.4.1.1. *Concept of Accountability***

As resources channeled through the non-profit sector increase, NGOs are under greater scrutiny and pressure to demonstrate that they are using their resources in an efficient, accountable and transparent manner, and can be held accountable for their effectiveness, organizational reliability



and legitimacy. In particular, their legitimacy in managing aid resources is closely associated to their accountability to their constituency (and the public at large), their adherence to their mission, the transparency of their processes, and their effectiveness in fulfilling their mandate (Chêne2009). Yet, as “private entities”, NGOs are not submitted to the same integrity mechanisms and legislative norms that apply to state institutions, including internal or external oversight bodies, which can have an impact on their vulnerability to corruption (Trivunovic 2011). In the non-profit sector, accountability is primarily enforced through self-regulatory mechanisms, internal rules and procedures, which therefore need to be carefully, assessed in terms of their effectiveness in managing corruption risks.

Greater transparency and accountability stands out as the greatest benefit of adopting IPSAS or equivalent standards. Information prepared in accordance with internationally recognized accounting standards provides a basis for evaluating NGOs performance in terms Meeting stakeholder requirements, Monitoring programme performance with a Budget Monitoring Report and making comparisons across individual NGOs. Transparent accrual-based financial statements help NGOs to demonstrate, and users to evaluate, accountability for the use of public funds

Accountability in the not-for-profit sector NGOs exist to meet social (non-financial) goals, meaning that the mode of accountability for these organizations cannot be solely on fiscal accountability, but is also based on the purpose for which they were established in the first instance. (CCAB 2014).

#### **2.4.1.2 To Ensuring Accountability ,**

Langenberg (2004), states that while NGOs might argue that existing accountability mechanisms are sufficient, voluntarism and self regulation is not effective. He argues that simply having a code does not ensure all organizations will follow the rules. Thus, on the surface, it would appear that some form of mandatory reporting by NGOs forms an ideal measure of accountability. However, mandatory reporting has its own problems. Firstly, the difficulty of standardizing

reports. Marshall (2002), states that there is no straight forward measure of organizational effectiveness of NGOs.

Boice (2004), stated that for the nonprofit sector, accountability has many meanings. There is being answerable to the public, which includes effectively carrying out activities to fulfill the organization's mission, respecting donor intent, upholding ethical standards and using good governance practices. According to Boice ((2004) accountability also refers to financial responsibility or operational transparency that requires demonstrating how donations to the organization are used and how effectively the organization is achieving its goals.

### **2.4.1.3 Transparency**

Defining Transparency as “being completely open and frank about things, the release of information that is relevant to evaluating those institutions, the process of sustaining trust based relationships with stakeholders through open exchange of information and knowledge

Stakeholders, including the general public, require information from NGOs in order to assess and evaluate their activities. In this realm, transparency means access to such information. Transparency builds trust and confidence on the part of stakeholders and the public in general. Ignatius (2004) also indicated that “Transparency is a process whereby relevant information of an organization is made accessible to the stakeholders, including the public, to enable them to assess, evaluate, and make their own judgment about that organization.” My particular focus is on the availability of information about how NGOs manage development funds. People seek information from NGOs to learn how money meant for community development was spent. It is in this context that NGOs need to explain and justify their actions.

Transparency is an indispensable aspect of accountability: effective accountability requires a statement of goals, transparent decision-making and relationships, and honest reporting of resource use and achievements, which can emphasize the honesty and efficiency with which resources are used or the impact and effectiveness of the work (Ramesh: 1996). Access to relevant and timely information about NGO activities is crucial to ensure that internal and external stakeholders can hold the organization to account.

### **2.4.2 Adoption of IPSAS improves Decision Making**

Sound financial information gives insight into operations and can improve decision-making mainly with financial performance, financial position, and cash flows. For example, accrual accounting provides a clearer picture of WHO's liabilities, such as employee salaries. Better knowledge of liabilities supports better management of WHO's assets and liabilities. Furthermore, IPSAS provides a clearer indication of how financial resources have been used in a given period. This helps to assess managerial performance and the effectiveness of the use of resources (WHO,2013).

Accrual accounting improves decision making by providing information on full cost of operations and resources used to deliver services to the public and information on assets and liabilities at the end of accounting period (Monari,2015).

### **2.4.3 Consistency and Comparability of Financial Information**

According to WHO,(2013) WHO's accounting with best accounting practices through the application of credible, independent accounting standards on a full accrual basis allows WHO to report its results on a consistent and comparable basis - not only between WHO's reporting periods, but also on a comparable basis with other UN system organizations.

By following accounting standards that have been rigorously reviewed by independent third parties, WHO's financial statements can be viewed with increased confidence within the international community. At the same time, the adoption of IPSAS results in improved financial reports, allowing WHO to provide more meaningful information to users of its financial statements.

### **2.4.4. Improved Asset Management**

The adoption of IPSAS results in organizations to have a complete and documented account of its assets, liabilities, revenue and expenses in its financial statements, leading to enhanced

financial and resource stewardship. According to WHO (2013) the following summarizes the changes to WHO's assets as a result of adopting IPSAS:

- Better Receivables Management Under IPSAS, a receivable is recognized upon signature of a binding agreement. By recognizing receivables when revenue is earned, WHO is able to better manage collection on a timely basis.
- Better Matching of Allowances to Historical Payment Experience, based on its historical payment experience and guidance provided under IPSAS, WHO has revised this allowance method to only reflect amounts which may be doubtful. This opening adjustment has resulted in a US\$ 63 million one-time increase in the fund balance of "Members States – regular budget".
- Better Inventory Management, by reporting inventories, WHO is able to better understand the extent of inventories held, leading to better stewardship and logistics management (e.g. the use of vaccines by their expiry date). Furthermore, as a result of recognizing inventory under IPSAS, WHO conducted a physical verification of all stock on hand, the first time WHO engaged in a global inventory count. In the process of understanding and valuing its inventory, WHO was able to develop a documented account of some 80 locations and US\$ 67 million worth of assets under its control, and has implemented common procedures across WHO for managing these assets.
- Better Management of Property, Plant and Equipment IPSAS requires WHO to recognize assets relating to property, plant and equipment (PP&E). By knowing what assets WHO owns as well as the remaining useful life of these assets, WHO is better able to prepare and plan for upcoming capital requirements. WHO is also able to recognize the value of in-kind contributions from Member States where the use of premises has been given for free.
- Enhanced Awareness of Existing Intangible Assets By understanding which assets meet the definition of an intangible asset, WHO is better able to track and control these assets, particularly those assets where there is no physical form.
- Enhanced Disclosure of Financial Instruments IPSAS requires WHO to recognize and disclose the strategies it takes to mitigate its risks and uncertainties, including its hedging strategies, currency exposures and any investment risks.

### **2.4.5 Improved Capacity to Measure costs and Liabilities Management**

According to WHO (2013), adoption of IPASs results in better knowledge of existing liabilities and supports better management of WHO's resources, contributing to improved budgeting and fund-raising in order to ensure that all obligations are met. It also leads to understand its revenue inflows, leading to enhanced cash-flow management and forecasting, and a better understanding of balances carried over from one period to the next.

IPSAS requires the recognition of expenses on the basis of the "delivery principle". Under this principle, expenses are recognized when goods and/or services are delivered rather than when cash is exchanged. Thus, WHO reports expenses when they are incurred and when the benefit to WHO is received rather than when the expense is paid. This will help WHO to better understand the cost of operating in the financial period when the activity takes place, leading to improved budget management.

## **2.5. Types of Reports under IPSAS**

### **2.5.1 Statement of Financial Position**

As stipulated by FASB statement No. 117 Paragraph 9, the purpose of a statement of financial position is to provide relevant information about an organization's assets, liabilities, and net assets and about their relationships to each other at a moment in time. The information provided in a statement of financial position, used with related disclosures and information in other financial statements, helps donors, members, creditors, and others to assess

1. the organization's ability to continue to provide services and
2. the organization's liquidity, financial flexibility, ability to meet obligations, and needs for external financing. Net assets (the difference between assets and liabilities) must be classified into three classes as unrestricted, temporarily restricted and permanently restricted net assets.

## **2.5.2 Statement of Activities**

The primary purpose of a statement of activities is to provide relevant information about (FASB 2010).

- a) the effects of transactions and other events and circumstances that change the amount and nature of net assets,
- b) the relationships of those transactions and other events and circumstances to each other, and
- c) how the organization's resources are used in providing various programs or services.

The information provided in a statement of activities, used with related disclosures and information in the other financial statements, helps donors, creditors, and others to

1. evaluate the organization's performance during a period,
2. assess an organization's service efforts and its ability to continue to provide services, and
3. assess how and organization's managers have discharged their stewardship responsibilities and other aspects of their performance

## **2.5.3. Statement of Cash Flows**

Cash flows are reported in three categories as changes in operating, investing, and financing activities. The indirect method or direct method (with reconciliation) may be used for reporting cash flows from operating activities. The following details should be noted in preparing the cash flow statement.

- Unrestricted gifts are reported as part of operating activities
- Restricted contributions given for long-term purposes are included with financing activities along with the related income.
- The receipt of temporarily and permanently restricted net assets given for longterm purposes are included in the financing activities section as is the related income

- Issuance and repayment of long term debt is included in the financing activities section
- Noncash gifts or in-kind contributions are disclosed as noncash investing and financing activities in a separate section

#### **2.5.4 Financial Statement Disclosures.**

FASB require specific disclosures for not-for-profit entities and encourage certain other financial statement disclosures for contributed Services, temporarily restricted assets, gifts of long-lived assets, promises to give, contributions of works of art or collections items, permanent and temporary restrictions, board designations, and depreciation.

#### **2.5.5 The debate and comparison of current cash basis accounting system and the proposed IPSAS based cash and accrual basis.**

Cash basis and accrual basis have been known as two end points of a spectrum in accounting. Prior to the adoption of accrual basis, accounting in public sector has been traditionally to varying extent based on expenditure basis of accounting which is at the cash end of the spectrum. Regarding this practice Buhr (2012) explained that —although an expenditure basis of accounting can be depicted as a cash basis of accounting, many governments actually went through a cash, modified cash, modified accrual, accrual transition process (p. 288). Following the agendas of NPM, the adoption of an accrual accounting has become the main reform in order to enhance public sector accountability and transparency.

This is therefore, **ACCRUAL BASIS** is the effects of transactions and other events are recognized when they occur (and not when cash or its equivalent is received or paid), recorded in the accounting records and reported in the financial statements of the financial periods to which they relate. Financial statements prepared on the accrual basis inform users not only of past transactions involving the payment and receipt of cash, but also of future obligations to make payments and the receipt of monetary resources. As a result of this method's use, accounting has

taken a complete shape as all incomes and expenses received, paid, accrued or outstanding are taken into consideration. The assets and liabilities are also properly created and accounted for by this method. Hence, they provide the type of information about past transactions and other events that is most useful to users in making economic decisions (UN policy framework-2013)

In the research paper made by, Marissa M. Hassan, (2013) mentioned that "Even though the gradual move to accrual accounting has been internationalized, the dispute on the transformation of financial accounting in the public sector, and in particular the desirability of accrual accounting, is extensive and still open. Furthermore, the move from cash toward accrual in the governments raises several issues relating both the benefits derived from the accrual accounting system and the difficulties of the new accounting practices. Aside from the benefit of external accountability, it is believed that by incorporating accrual accounting fairer picture of economic conditions including asset depreciations and amortizations, and the addition of long-term perspective on organizational resources and debt can be achieved (Athukorala & Reid, 2003). Whilst the benefits of a fairer picture of economic conditions by adopting accrual accounting have been reported, difficulties arise in the process of creating the portrait of economic condition itself. The main identified difficulties are related to the reporting entity and aggregate consolidation, and the recognition and valuation of assets (Carlin, 2004a)."



## Comparison of Current Cash Basis Accounting System and The Proposed IPSAS Based Cash and Accrual Basis

**Table 2.1**

<b>Current System Vs. IPSAS</b>	
<b>Current</b>	<b>IPSAS</b>
Transactions are recorded on a cash basis when cash is either received or paid.	Transactions are recorded on a full accrual basis when goods or services are received.
Reported expenditures represent disbursements and un-liquidated obligations	Recognition of expenses on the basis of goods and services received.
Inventory is expensed when purchased	The value of inventories at the end of the financial period is recorded as an asset in the statement of financial position
Recognition of income on a cash basis	Revenue is recorded when a binding agreement is signed with no 'subject to' clause.
PPE is expensed when purchased	PPE is capitalized and depreciated over its useful life
Items that are Intangible items are expensed when incurred	Intangible assets are capitalized and depreciated (amortized) over the useful life period of the asset
Lease payments are recognized as an expense upon payment	Leases are classified into operating and financial lease. A liability and an asset is recognised for finance leases and future lease payments disclosed.
After service health insurance and annual leave liability are reported in the financial statements as notes only.	Full recognition of liabilities and expenses relating to employee benefits in the financial statements.
Annual financial audits	Annual financial audits are required
Source, CPA Mike Mbaya, Implication of IPSAS benefits and opportunities	

In addition to the above, **Grants and Other Income:** These are currently recorded as and when they are received. Under IPSAS these will be recorded when commitments become binding regardless of the actual receipt date. **Financial Instruments:** Investments are currently recorded at purchase price. Under IPSAS the fair market value for investments will be adjusted at the end of the reporting date. **Budget Statements:** in line with the increased focus on stewardship of, and accountability for, public funds, IPSAS 24 Presentation of Budget Information in the Financial Statements requires entities that make their annual budgets publically available to present a comparison of the budgeted and actual information as part of their financial statements (either as a separate statement or in the notes). This disclosure was not required under Cash basis. The above mentioned changes bring out the gap in cash basis accounting. The fig below shows the sketch diagram of this gap which will be bridged by the adoption of IPSAS based standards. **Gap analysis**

Adopted from (ICPAZ, 2012) *International Journal of Financial Economics* 139

## 2.6. Key challenges of IPSAS

According to Eond Ocansey ( 2014) Adoption of IPSAS in Ghana -prospects, challenges and the way forward, (PP 10) identified as the following as main challenges.

1. *Cost to implement*-Accounting manuals need to be rewritten; manuals must incorporate IPSAS terminologies and also conform to local requirement.
2. *Availability of qualified accountants*-Most of the Public sector and government agencies lack the necessary personnel to adequately carry out the changes in IPSAS as opposed to the financial reporting framework currently existing in the Public Sector.
3. *Apparent complexities* The use of common language to bring uniformity across cultures and governments in the Public sector is also very key. Some terminologies' used in the IPSAS may not apply to the country or Governments financial reporting system due to some uniqueness in its financial operations.

4. *Readiness of government departments and agencies*- Some organizations including central admin, regions and a large number of other public sector bodies still use traditional modified cash based accounting even if cost and management accounting is compulsory.
5. *Resistance*-Not all government systems and administrative machinery will support IPSAS. Currently most of the Government agencies and departments have the Budget and Performance Monitoring Software (BEPEN) which is yet to be put to full use

## **2.7. The limitations of CHSA of Ethiopia's regulations**

The role of charity organizations in Ethiopia is very important and are development partner of government. Most of them play significant role in participating in the development of the country with resource generated from donors and member contributions. Over the years, NGO's accounting system in Ethiopia has been on cash basis or modified cash basis. Whereas the accrual basis has been working on the private sector. The application of cash basis accounting has challenges on utilization of resource and, lack of proper accountability and transparency,, inadequate disclosure due to the fact that the cash basis of accounting does not offer a realistic view of financial transaction.

Charities and Societies (NGOs) prepare and submit financial Statements based on the requirement of CHSA with main purpose of providing relevant information . The basic financial statements issued by Charities and Societies are: a statement of financial position and profit and loss statement with narrative report on activities.(proclamation # 621/2009-article 78).

The activities, of these development partners and their immense resource, are currently governed by proclamation No. 621/2009 in Ethiopia. Article 78 of the Charities and Societies proclamation No. 621/2009 defines annual statement of accounts. Sub article 1 of this article requires a Charity or Society to submit an annual statement of accounts to the Agency prepared in accordance with acceptable standards. what is acceptable standard is not clear. Sub article 2 also demands those Charities and Societies whose annual flow of funds does not exceed Br. 50,000 (Fifty Thousand) , are not required to prepare the statement in accordance with accepted

standard and not required audited financial statement. This indicates the existence of two types of reports based on annual flow of funds (Andarge Lakew 2010).

Article 81 of the Charities and Societies proclamation 621/2009 defines the Agency's right to disclose information obtained from CSs to the public. And according to article 82, Charities and Societies can report books of account, audit reports and annual reports to persons or organizations other than the Agency. The article fails to discuss about the items that need disclosure and on how the disclosure should appear in the financial statements.(Andarge Lakew 2010).

According to article 80 sub article 1 of the proclamation the officers of a Charity or Ethiopian Resident Society shall prepare and transmit to the Agency an annual activity report on the major activities and relevant information regarding the Charity or Society. Sub article 3 states that the report shall accompany the annual statement of accounts. What is unclear in the proclamation is that it doesn't specify information to be included in the annual report. It just says major activities and relevant information without explaining what is major and what is relevant. (Andarge Lakew 2010).

## **2.8. Empirical Review**

CCAB,2014 made an assessment on charities and other non-governmental organisations (NGOs) and indicated that the work of NGO's was increasingly internationally with grants from government funding their development and relief activities, while private donors and international foundations are increasingly taking a global approach to their work. However, charities and other NGOs face a multiplicity of international grant regimes, often made more complex by the lack of an agreed approach to financial planning and reporting.

According to Ijeoma(2014), the expectations, benefits and challenges of adoption of International Public Sector Accounting Standards (IPSAS) in Nigeria, it was observed that adoption of IPSAS is expected to increase the level of accountability and transparency in public sector of Nigeria. It was found that the adoption of IPSAS will enhance comparability and international best practices. Also, it was denoted that adoption of IPSAS based standards will enable provide more meaningful information for decision makers and improve the quality of the financial reporting system in Nigeria. In addition, it was found that adoption of IPSAS by

Nigerian government will improve comparability of financial information reported by public sector entities in Nigeria and around the world. Hence, we conclude that the adoption of IPSAS in Nigeria is expected to impact operating procedures, reporting practices thereby strengthening good governance and relations with the government and the governed.

United Nations system organizations for IPSAS (2010) demonstrated that the adoption of IPSAS is beginning to have a major impact on United Nations system organizations, extending well beyond accounting. The conversion to IPSAS should allow for enhanced management of resources and business processes and improve results-based management across the United Nations system. Depending on the organizations' initial readiness for IPSAS requirements, the transition to IPSAS has been a major undertaking for most organizations as it is impacting accounting, financial reporting and associated information technology systems and should lead to a new approach to planning, decision-making, budgeting and financial reporting. It is expected that the reporting of assets, liabilities, revenue and expenses in accordance with independent international standards will significantly improve the quality, comparability and credibility of United Nations System financial statements to Member States, donors and staff, enhancing accountability, transparency and governance.

Ijeoma (2014) focused on the Impact of International public Sector Accounting Standard (IPSAS) on Reliability, Credibility and Integrity of Financial Reporting in State Government Administration in Nigeria; he concluded that the implementation of IPSAS will improve reliability, credibility and integrity in state government financial management in the public sector of Nigeria. Chan (2006) on IPSAS and Government Accounting and Reform in Developing Countries concluded that as much as accrual accounting in developing countries enable the government to identify and measure the government's assets and liabilities, corruption tends to result in understatement of governments assets or the overstatement of government liabilities leading to loss of integrity, credibility and reliability of governments financial information.

## 2.9. Summary and Gap in the Existing Literature

Based on the literature review, The scale of financial activities of NGOs has been increasing from time. Thus there has been an increase in the public demand for financial accountability and transparency through producing reliable and timely financial reports. There is also pressure from donor community on having international standard which has been tailored the accounting and reporting needs of NGOs, Mango (2010).

"Charities and other non-governmental organizations (NGOs) increasingly work internationally with grants from government funding and relief activities, while private donors and international foundations are increasingly taking a global approach to their work. As a result, charities and other NGOs face a multiplicity of international grant regimes, often made more complex by the lack of an agreed approach to financial planning and reporting". ( CCAB, Final Report, 2014) The lack of these reporting standards also contributes to the lack of reliable information about the number, financial activities and wider contribution of NGOs.

A high-quality narrative and financial reporting by charities will enhance accountability and transparency of NGOs and help them in securing sustained support from donors and the wider public. The International Accounting Standards Board (IASB) has created IPSAS for the public sector. The IPSAS are parts of new public fund management reforms and provide guidance on recognition, measurement and reporting framework for the public sector.

Accordingly many governments and international institutions have already adopted IPSASs. Many more are also in the process of implementing the standards (Deloitte, 2013). Does IPSAS would be more applicable to Charity Organizations? the most critical issue is that the lack of international standards reduces the transparency and accountability of NGOs. Reporting standards should therefore be seen as one component of a wider agenda of understanding and improving NGO effectiveness. The use of IPSAS standards will substantially improve transparency, accountability and performance of NGOs while at the same time making life NGOs much easier. Thus IPSAS would therefore bring considerable benefit to donors as well as the public at large and it is time to adopt IPSAS to promote NGOs performance.

Even though IPSAS look as if more important for all government finance , there is a lack of empirical study that examine the data from charity organizations in particular to Ethiopia. This study attempts fill the gap and create better environment for foreign charities working in Ethiopia and other stakeholders in understanding Benefits and challenges of IPSASof first time adoption of IPSAS.

## **2.10. Theoretical Model**

### **2.10.1. Theoretical Framework**

Theoretical framework helped to search, explain, explains and evaluate actuality and standard provisions of findings for better understanding of such phenomena (Frank, 1979).

In this study in order to address research question which is about the assertion of the accounting experts' perception on prospects of adopting IPSAS in enhancing accountability, transparency ,increasing the perception of the standard and educational and professional responsibility in international charity organizations working in Ethiopia.

Thus one dependent variable against four independent variables was investigated. The dependent variable is the prospects of adopting of IPSAS , while the independent variables are Accountability, Transparency, perception of the standard, educational and professional responsibility..

The dependent variable is the variable that is the effect or is the result or outcome of other (independent) variables (Neumann, 2007). In this study the dependent variable is the prospects of adopting of IPSAS. The independent variables are the cause variables or the one that identifies forces or conditions that acts on something else (Neumann, 2007).

Thus this study will check the adoption of IPSASs will enhance accountability and transparency and the clearer understanding of the standard and educational and professional responsibility will also improve the adoption by foreign charity organizations working in Ethiopia.

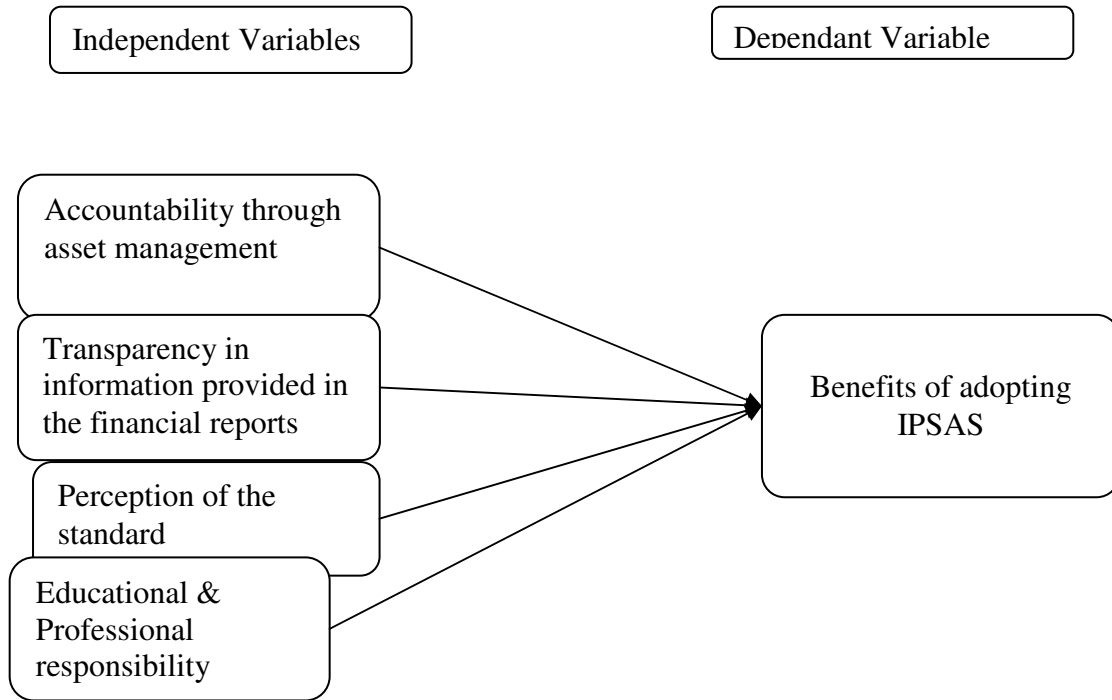


Figure2. 1: Conceptual Framework (Adopted from Repec,2015)

**2.10.2. The description of both dependent and independent variables are discussed below.**

**2.10.2.1. Dependant variable -Benefits of IPSAS adoption**

Based on the proposed model, the benefits in the implementation of the IPSAS depend on the stakeholders' perception regarding the accountability, transparency, perception and educational and professional responsibility in the implementation of the IPSAS in foreign charity organizations working in Ethiopia.

Accounting standards are understood as rules and guidelines on the most general and complete principles, methods of basic accounting procedures, providing the basis for accounting records



and financial reporting to achieve an honest, reasonable, and objective assessment of an accounting unit's financial position and operation results. Public sector accounting standards are standards applicable to the public sector (V. K. Pham, 2011).

Thus IPSAS adoption is to harmonize or adopt the international accounting standards in to the local accounting standard in charity organizations working in Ethiopia.

### **2.10.2.2. Independent variables**

The study considered four independent variables that has an effect on the dependant variable (Accountability and transparency and the clearer understanding of the standard and educational and professional responsibility).

#### **2.10.2.2.1 Accountability**

The charity organization's legitimacy in managing aid resources is closely tied to their accountability to their constituency (and the public at large), their adherence to their mission, the transparency of their processes, and their effectiveness in fulfilling their mandate. Accountability implies being responsible for ones decisions or actions and giving explanations when asked to do so. Flack and Ryan (2003) note that the primary vehicle used to discharge and demonstrate accountability in many charity organizations is the annual report. Stakeholders should be able to easily obtain reliable information on a charities financial position and performance, deployment of resources, organizational structure, policies, priorities and achievements greater accountability stands out as the greatest benefit of adopting IPSAS.

*There is a relationship between Accountability and adoption of IPSAS*

#### **2.10.2.2.2. Transparency**

Transparency is related to the openness with which charity business is doing. Charity organizations need to be open for people to clearly see their activities and understand what they are doing which makes easier for those stakeholders to monitor and evaluate their performance. It also refers to its consistency with the policy, fairness, propriety and sound stewardship.

Transparency is an indispensable aspect of accountability: effective accountability requires a statement of goals, transparent decision-making and relationships, and honest reporting of resource use and achievements, which can emphasize the honesty and efficiency with which resources are used or the impact and effectiveness of the work (Ramesh: 1996). Access to relevant and timely information about NGO activities is crucial to ensure that internal and external stakeholders can hold the organization to account. The adoption of IPSASs promotes greater transparency of charity organization to the community they are working.

*There is a relationship between Transparency and adoption of the IPSAS*

#### **2.10.2.2.3. Perception of the standards**

It is linked to the reliable judgment of how the new board (Accounting and Auditing Board of Ethiopia) meets the requirements of the IPSAS according to their utility, as the board is responsible for issue standards and directive related to financial reporting and auditing and ensure compliance, conduct inquiry or investigation and impose sanction, register and license public auditors, provide accreditation to local professional accountancy bodies and some other responsibilities (FINANCIAL REPORTING PROCLAMATION No. 847/2014).

Hence the board involves in analyzing and elaborating, analyze and studies for the minimal standardization of concepts and accounting practices related to these standards. REPEC, (2015) indicated that the clearer understanding of the IPSAS regarding their utility for public management, with respect to the future improvement of accounting information, converges to the increase of the advantages their implementation is expected to offer.

Joshi, Bremser and Al-Ajmi (2008) highlight that “a single set of standards will not result in substantial increases in uniformity, unless there is a common understanding”. Hence, the expansion of knowledge through the interpretation and application of the IPSAS, in view of the understanding that they are based on principles and need a common interpretation, preferably based on a partnership with all institutions involved in this convergence process, increase the advantages in its implementation

*There is a relationship between perception and adoption of the IPSAS*

#### **2.10.2.2.4. Educational and Professional Responsibility**

Another theoretical construct that depends on the view and expectation related to perception of AABE, CHSA, INGOs, Audit firms, academic and other professional associations in relation with *educational and professional responsibility*, that is, who is responsible for training and for applying the IPSAS.

Colares and Santos (2014), affirmed that the educational responsibility for this implementation is the accounting regulator in the country, and that the main factors hampering their implementation refer to the lack of orientation and training

According to Zeghal and Mhedhbi, (2006) the adoption of IFRS/IPSAS requires a high level of education, competence, and expertise to be able to understand, interpret and then make use of these standards.

Thus, AABE and other partners' perception about the educational & professional responsibility can indicate the technical means that are to be followed to obtain benefit in the implementation of the IPSAS.

*There is a relationship between Educational and professional responsibility and adoption of the IPSAS*

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1. Introduction**

This chapter introduces the research methodology which was used to collect data in order to answer the test.. The chapter discussed the sources of information, research population and the target population. It explained the sampling methods, sampling design and the sample size that was used. The data collection methods, techniques, instruments and procedures were clarified

### **3.2. Research Design**

This research was to establish the challenges and benefits of adoption of IPSASs in foreign charity organizations working in Ethiopia. The study employed a exploratory survey research design, which provides insight into and understanding of the benefits and challenges of IPSAS as first time adoption to the country. The research questions were applicable for this type of study and help to collect data from members of the population.

### **3.3. Study Population**

Statistically, the study of the population was foreign charity organizations working in Ethiopia. According to the statement by the Charities and Societies Agency in Ethiopia (CHSA), there was 353 Foreign charities working in Ethiopia, as shown in <http://www.chsa.gov.org.et>.

The Charities and Societies Agency(CHSA) and Accounting & Auditing Board of Ethiopia (AABE) were government offices considered in the target population. CHSA is government body who is responsible for governing the activities of charity organizations and the Accounting and Auditing Board of Ethiopia who is responsible for adoption of IPSAS in public entities . Thus total target population for the study was 355.

Mugenda and Mugenda, (2003), explain that the target population should have some observable characteristics, to which the researcher intends to generalize the results of the study.

### **3.3.1. Sampling Techniques**

The sampling technique which the researcher used was purposive or judgment sampling technique which the researcher believes that a representative sample can be obtained by using a sound judgment. Purposive sampling method is effective when the focus is on one particular group, which was Foreign Charity Organizations working in Ethiopia and all the sample members are similar which is the nature of work is similar in these organizations (involved in charitable activity) and have same level in an organization's hierarchy. Thus limited numbers of charity organizations can serve as primary data sources for research design. The study also applied stratified sampling technique. after selecting. Stratification aims to reduce standard error by providing some control over the variance. Respondents drawn from 35 selected charity and Gov. organizations. and categorized in to Head of finance department and their deputy in order to choose senior level professional employees who were more experienced, understood the objectives and responsible for smooth transition to IPSASs.

### **3.3.2. Sample Size**

From Statistically, in order for generalization to take place, argues that well-chosen samples of minimum 10% of a population can often give good reliability (Monari K.2014) or a sample of at least 30 elements (respondents) must exist.

From the target population of 353 foreign charity and Gov. organizations, The researcher draw 35 sample foreign charity organizations and 2 government offices using purposive sampling. The researcher focused on accounting department of each organizations and selected two respondents (heads of accounting units and the deputy or professionals working under the head) who directly involved in the adoption of the standard to fill the questionnaire.

The sampling procedure was followed using purposive sampling method as shown in the table below.

**Table 3.1: Sample Size determination**

Sector	Target population (organizations)	Sample elements (two participants from each org.)	Percentage proportions	Sample size (Organizations)	Sample size (respondents/ individuals).
Charity Organizations	353	706	10%	35	71
Gov-CHSA	1	2		1	2
GOV-AABE	1	2		1	2
Total	355	710	10.4%	37	75

The unit of analysis in this study is individuals that have helped the researcher to analyze the study. Hence **the element of the population were 75 which consists of 71 heads of Finance department and their deputy or any staff working in that department and 4 employees of CHSA and AABE who monitoring and providing supportive supervision for charity organizations and adoption of the standard respectively.** Target population of two respondents from each organization was set as criteria due to those employees were more experienced, professional and understood the objectives and responsible for smooth transition to IPSASs and the findings of the survey are meant to generalize. (Appendix I-List sample organizations)

### **3.4. Data and Collection Instruments**

This study used primary data collected using questionnaire. Questionnaires were distributed to the accounts unit heads and their deputies or other professionals working in that department from the selected charity organizations. The respondents were selected because they were more experienced, understanding the objectives and were responsible for smooth transition to IPSASs. The response is expected to assist understand Benefits and challenges of IPSASof adopting IPSAS in foreign charity organizations working in Ethiopia.

The research evidence was gathered using both close-ended and open-ended questionnaires (Appendix II). The data was collected using five-point Likert Scale with ratings of Strongly Agree (SA; or 5), Agree (A; or 4), Neutral (N; or 3), Disagree (D; or 2), and Strongly Disagree (SD; or 1). The respondents were asked to give opinions on open ended questionnaires which they were asked to provide open ended responses if they feel help the researcher would find useful. A score of 5 or 4 indicates that the item is assumed to be essential while a score of 3 or 2 indicates that the item is assumed to be fairly important and score of 1 indicates that the item is assumed to be disregarded for being unimportant.

The questionnaire was also divided into Four parts . Part one was aimed at the identification of the respondents and addressed exploratory information from the respondents' profile, such as gender, Position in the organization, professional area, academic degree, service area, accounting principles applied, financial reporting requirements and related government proclamation. Part two is consists questions for the independent variables, Accountability, Transparency, Perception of the standard and educational and professional responsibility. The third part of the questions addressed the expected challenges while adopting first time IPSAS. The fourth part was aimed to extract information to test hypothesis of the dependent variable of the model perception of respondents' on prospects of adoption of IPSAS.

### **3.5. Reliability and Validity**

Reliability of instruments measures the consistency of the instruments. Most common measure of internal consistency reliability is "Cronbach's alph" which is used to estimate reliability of homogeneous test (test that measures one construct). To determine reliability empirically, value of 0 on reliability coefficient means no reliability and 1 means perfect reliability. It has high value when the items on the test are correlated with one another. The minimum acceptable coefficient in literature is 0.7 (Leontitsis & Pagge, 2007).

Validity refers how sound is the research design and method. The researcher tried to keep internal and external validity. Internal validity refers to the extent that the researcher has reliable and adequate evidence for the statement (Grix, 2004). The researcher can say only the independent variable caused the changes in the dependent variable. But the external validity

refers to generalizability of findings to other population and settings.

The research questions were distributed to heads accounting department and majority of them were senior staff who had at least 10 years' experience in the field which enhances the external validity. This shows that information gathered from respondents used to provide content validity and multiple sources of data (document review and questionnaire) was used for the study that helps to cross validate the data. Since the questionnaire was developed from previous research, the reliability of the results and uniformity of the objective indicated in the study are high. Most of the questionnaires are prepared and used by Josedilton, Alves Dniz (2015) and Monari Nelia k. (2014) and significant conclusions are drawn using those questions.

### **3.6. Data analysis and Reporting**

The responses were edited for completeness and consistency before processing the data. The data was then coded to enable the responses to be grouped into various categories. Data for this study was quantitative hence descriptive and inferential statistics were used to analyze the quantitative data.

The descriptive statistical tools helped the researcher to organize and summarize the data and the inferential statistics to interpret the data and draw conclusions. The findings were presented using tables. The Likert scale was used to collect the data through descriptive statistics, frequency distribution, correlation and multiple linear Regression using Statistical Package for the Social Scientists (SPSS). It helps to describe what the data look like, where there center (mean) is, how broadly they are spread in terms of one aspect to the other aspect of the same data (Leedy, 1989). The SPSS is used to find out percentages, mean values, frequencies, correlations, etc. as main means for summarizing the data. This helped in determining the extent to which the adoption of IPSAS will benefit foreign charity organizations working in the country and the challenges to be faced as first time adoption of the standard.

This study described Benefits and challenges of IPSASof adopting IPSAS in charity organizations in Ethiopia and needed to explore whether the adoption and implementation of



IPSAS will improve the accountability & transparency in the charity organization's financial reporting. The study also tried to look at whether the stakeholders clearer understanding of the IPSAS will lead to a more effective implementation of the standard and the adoption will enhance professional and educational responsibilities. Thus the study involved the analysis of the relationship between the independent (Accountability, Transparency, Perception and educational & professional responsibility) and dependent variables (Prospects of IPSAS).

## **CHAPTER FOUR**

### **DATA ANALYSIS, RESULTS AND DISCUSSION**

#### **4.1. Introduction**

This chapter presents different statistical test results of data collected through questionnaires to determine the prospects of the adoption of international public sector accounting standards on financial reporting in the foreign charities working in Ethiopia . Tables, charts, figures and inferential statistics were used to analyze and describe the results and establish a relationship between the variables of the study.

#### **4.2. Response Rate**

The target population of the study focused on foreign charity organizations working in the country and that should have adopted the IPSASs.. Thus, the study targeted 35 foreign charities and 2 organizations representing government. These organizations are going to be directly involving in the implementation of the standard. Thus 75 questionnaires were distributed to the respondents, 2 respondents participated from each organizations. However, a total of 60 questionnaires were filled and returned from the 37 organizations which represents response rate of 80%.

According to Mugenda (2009), a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. This means that the response rate for this study was excellent and therefore enough for data analysis and interpretation.

#### **4.3. Demographic information**

The study tried to find out the characteristics of the respondents profile by providing information regarding gender of respondents, position they have in their organization, academic degree, number of years worked and professional qualification. The findings were discussed below.

### 4.3.1. Gender of Professionals

Significant part of the professionals who answered the questionnaires are male (65%) and the females are 35%.which indicates that the men respondents are dominating in this study.

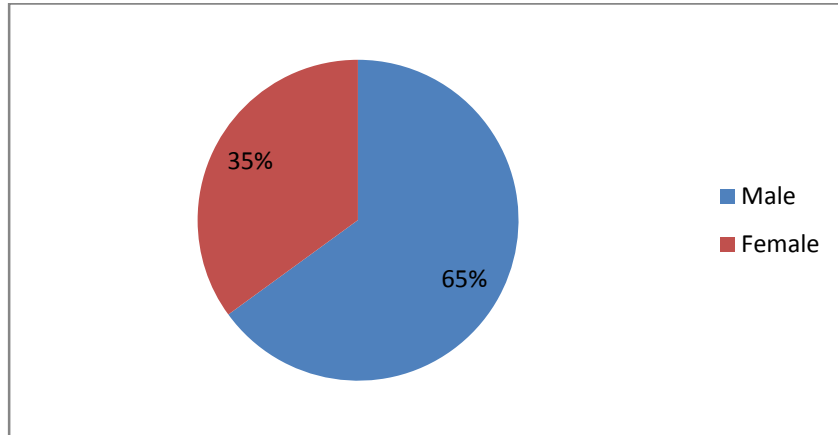


Figure 4.1: Gender of Respondents

### 4.3.2. Position in the Organization

The majority of the respondents in this study were working in higher position and more responsible for the adoption and have the skill in developing policies and procedures in their organization for the adoption of IPSAS. As shown below , the respondents working position was Junior, Supervisory, Middle and top management are 10%, 35%, 18% and 37% respectively.

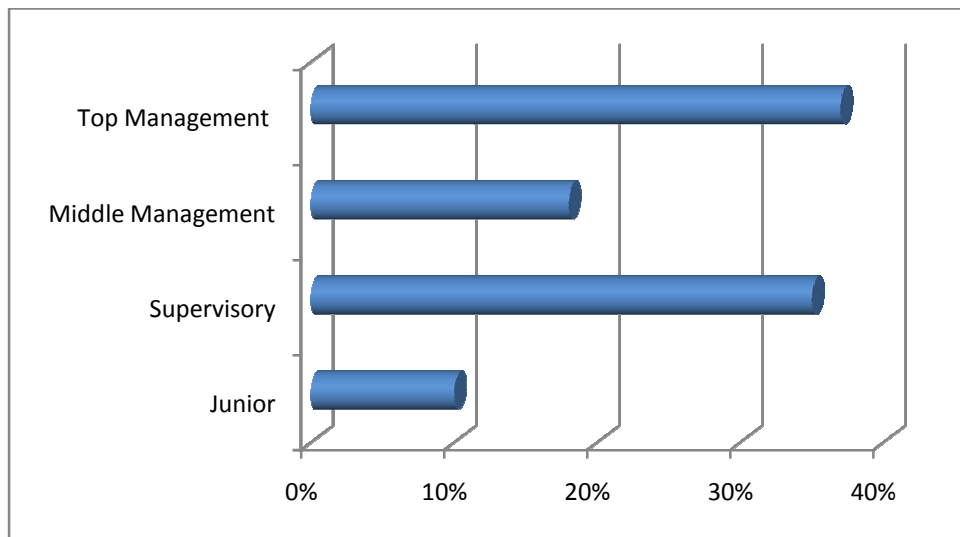


Figure 4.2: Position in the organization

### 4.3.3. Educational Levels of Respondents

The respondents were required to indicate their academic qualification. The majority of the respondents (53%) indicated that they were undergraduates, meaning that they had bachelor's degrees. 38% of the respondents indicated that they were graduates meaning that they had Masters/ PhD. Only 7% and 2% of the respondents were diploma and certificate respectively. It indicates that the respondents were knowledgeable and aware of Benefits and challenges of IPSAS of the adoption of IPSASs on financial reporting in their organization.

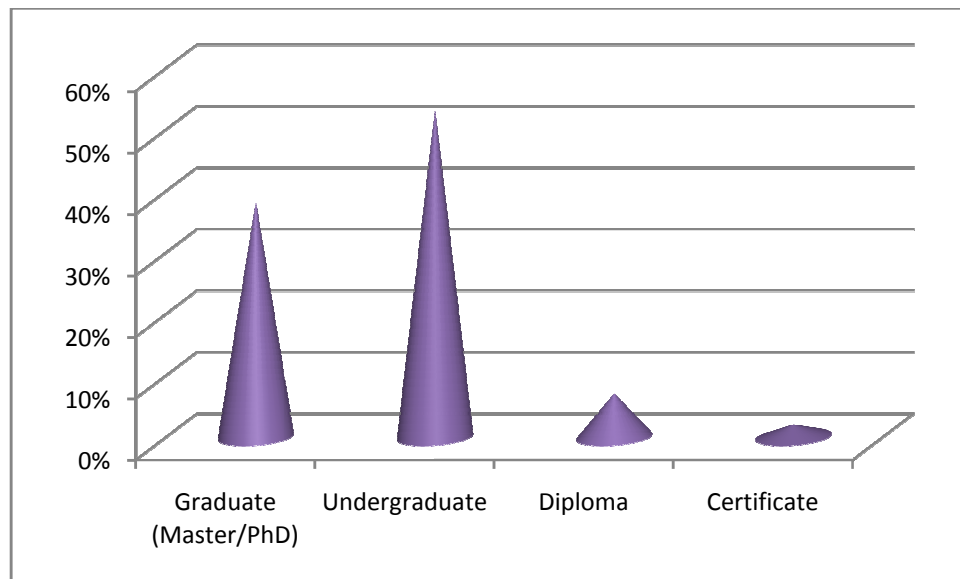


Figure 4.3: Educational Levels of Respondents

### 4.3.4. Work Experience of the Respondents

From the chart below, 40% of the respondents indicated that they had worked in the organization for over 15 years, 11 to 15 years, 23% of the respondents indicated that they had worked in the organization for 6 to 10 years and 2% of the respondents indicated that they had worked in the organization for less than 5 years. Accordingly the study indicates that the respondents had been working in the organization for a good number of years to know about how to adopt IPSAS.

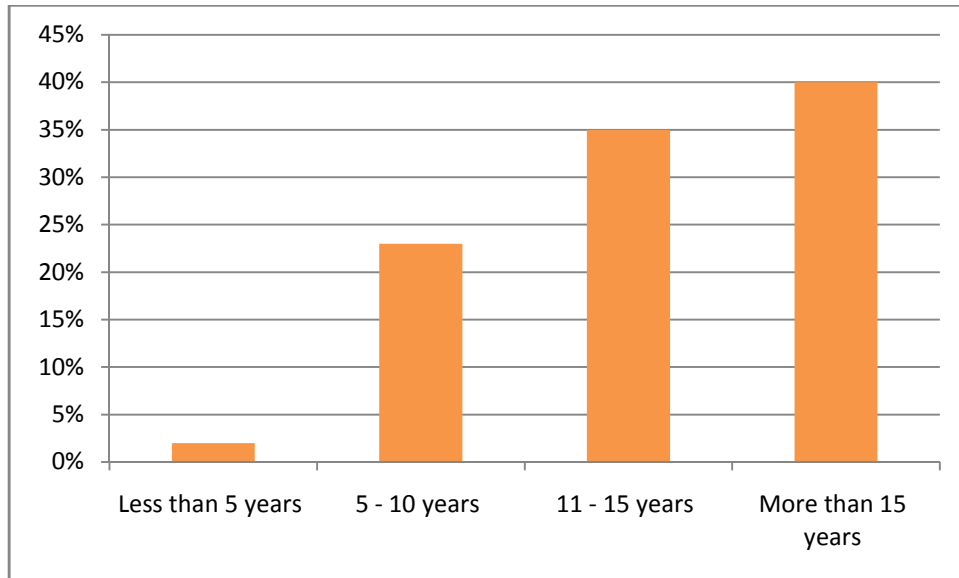


Figure 4.4: Work Experience of the Respondents

#### **4.3.5. Professional Activity Area**

The study identified that the majority of respondents (82%) were working in Finance and internal audit department and 18% were working in Advisory and other areas. The study indicates the responsibility laid on Finance and Audit departments.

#### **4.4. Basis for Preparation of Financial Statements.**

Majority of the respondents confirmed that their organizations financial reporting was prepared on cash basis of accounting. All foreign charity organizations have been applying financial reporting requirements set by Charity and Societies Agency, proclamation no 621/2009, regulation no 168/2009 and by a funders/donors.

#### 4.5. Reliability of the questionnaire

The reliability of the questionnaire was evaluated using the "Cronbach's alph" and all the 39 research questions were considered for the calculation. Table 4.1 shows the result of the estimated Cronbach's alpha coefficient which was 0.907.

#### Reliability of the tool

**Table 4.1. Reliability of the research tools**  
Case Processing Summary

	N	%
Valid	60	100.0
Cases Excluded <sup>a</sup>	0	.0
Total	60	100.0

a. Listwise deletion based on all variables in the procedure.

#### Reliability Statistics

Cronbach's Alpha	N of Items
.907	39

#### 4.6. Descriptive Analysis

##### 4.6.1. Accountability through Asset Management

The study tried to determine the whether the adoption of IPSASs will enhance the accountability of foreign charities through asset management. The findings indicated under table 4.2.

Table 4.2: Accountability Table

ACCOUNTABILITY	Mean	Std. Deviation
The adoption of IPSASs will improve the management and planning of NGO's programmes due to better accounting practices for income and expenditure, commitments, risks and uncertainties and financial reporting.	4.3	0.530
IPSAS will enhance the prediction of future assets and cash-flow needs.	4.53	0.566
The implementation of IPSAS can lead to transparent decision-making and relationships, honest reporting of resource use and achievements, efficiency of resources.	4.48	0.567
The implementation of IPSAS will significantly increase effectiveness of carrying out activities to fulfill the organization's mission, respecting donor intent, maintain ethical standards and using good governance practices.	3.18	0.792
Adoption of IPSASs will improve Asset management through recognition, measurement, valuation and reporting.	4.25	0.628
IPSASs adoption will enhance capacity to measure costs and better expenditure management and will improve value for money expenditure.	4.23	0.647
Adoption of IPSAs will increase the confidence of donor agencies	3.97	0.823
Adoption of IPSASs will improve internal control systems and increase disclosure in accounting reports.	4.02	0.833
with IPSAS accrual basis of accounting proper utilization of public resources will be enhanced.	3.18	0.854

From the above table, respondents were strongly agreed that the adoption of IPSAS will enhance the prediction of future assets and cash-flow needs with mean of 4.53. The majority of the respondents agreed that the adoption of IPSASs lead to transparent decision-making and relationships, honest reporting of resource use and achievements, efficiency of resources, will improve the management and planning of NGO's programmes due to better accounting practices for income and expenditure, commitments, risks and uncertainties and financial reporting, will improve Asset management through recognition, measurement, valuation and reporting, will enhance capacity to measure costs and better expenditure management and improve value for money expenditure, will increase the confidence of donor agencies, will improve internal

control systems and increase disclosure in accounting reports with mean of 4.48, 4.3, 4.23, 4.27, 3.98 and 4.07 respectively.

However, respondents were neutral that the IPSAS implementation will significantly increase effectiveness of carrying out activities to fulfill the organization’s mission, respecting donor intent, maintain ethical standards and using good governance practices and will enhance proper utilization of public resources with mean of 3.18.

In the view of respondents, it shows that the adoption of IPSASs enhance accountability of foreign charity organizations working in Ethiopia.

#### 4.6.2. Transparency in Information Provided in the Financial Reports

The study tried to determine the whether the adoption of IPSASs will enhance the transparency in foreign charities in information provided in the financial reports. The findings indicated under table 4.3,here below

Table 4.3: Transparency in information provided in the financial reports

TRANSPARANCY	Mean	Std. Deviation
IPSAS will Strengthen the support for results-based management through the provision of comprehensive information on costs	4.13	0.747
IPSAS increase the transparency and harmonization of financial reports and statements across the NGOs system	4.33	0.795
The adoption of IPSAS will allow for improvement of consistency and comparability.	4.33	0.629
Information prepared in accordance with IPSAS will provides a basis for evaluating NGOs performance in terms meeting public requirements, Monitoring programme performance with a Budget Monitoring Report and making comparisons across individual NGOs.	3.35	0.755
Financial statements prepared under IPSAS will help NGOs to demonstrate, and users to evaluate, accountability for the use of public funds.	4.07	0.880
With application of IPSAS, there will be openness in transaction NGOs businesses	3.43	0.851



Application of IPSAS in charity organizations will ensure that accounting information is promptly provided for public to assess how the charities are performing	3.98	0.833
IPSASs will enhance comparability of financial report across various periods and other similar organizations using IPSASs in financial reporting	4.60	0.527
Adoption of IPSASs will enhance decision making due to availability of accurate, timely, relevant and reliable financial information	4.32	0.748
IPSASs will improve disclosure and measurement of financial elements hence present true and fair financial position of the organization	4.27	0.800
Comparable information assists the stakeholders in assessing how well their resources should be utilized	4.28	0.885

The above table indicates that respondents strongly agreed that IPSASs will enhance comparability of financial report across various periods and other similar organizations using IPSASs in financial reporting with mean of 4.60 and most of the respondents agreed that IPSAS will strengthen the support for results-based management through the provision of comprehensive information on costs, will increase the transparency and harmonization of financial reports and statements across the NGOs system, will allow for improvement of consistency and comparability, will help NGOs to demonstrate, and users to evaluate, accountability for the use of public funds, will ensure that accounting information is promptly provided for public to assess how the charities are performing, will enhance decision making due to availability of accurate, timely, relevant and reliable financial information, will improve disclosure and measurement of financial elements hence present true and fair financial position of the organization and comparable information assists the stakeholders in assessing how well their resources should be utilized with mean of 4.13, 4.33, 4.33, 4.07, 3.98, 4.32, 4.27 and 4.28 respectively.

However, respondents were neutral with that information prepared in accordance with IPSAS will provides a basis for evaluating NGOs performance in terms meeting public requirements, Monitoring programme performance with a Budget Monitoring Report and making comparisons across individual NGOs and there will be openness in transaction NGOs businesses with mean of 3.35 and 3.43 respectively.

This shows that the adoption of IPSASs enhance transparency through information provided in the financial report of foreign charity organizations and provides better information for decision making.

### 4.6.3. Perception of the standards

The following Table 4.4.shows the stakeholder's perception on benefits of adopting IPSAS in foreign charities working in the country

Table 4.4: Perception of the standard

PERCEPTION OF STAKEHOLDERS	Mean	Std. Deviation
The application of the IPSAS will bring greater comparability of the statements, reduction of possible fraud and increased credibility of information in the management of NGOs.	4.07	0.733
The application of IPSAS will harmonize financial reporting internationally.	4.12	0.585
The application of IPSAs will solve the sever charity/NGO's sector accounting problems.	4.00	0.759
The application of IPSAs will improve the quality of accounting information in Charity organizations.	4.02	0.725
The application of IPSAS will help stakeholders in assessing proper of use of public resources.	3.83	0.847
The application of IPSAS will increase the control of CHSO/INGOs.	4.00	0.736
The application of IPSAS will built the confidence of donor agencies	3.96	0.736
The application of IPSAS will improve the service delivery and value for money of (VFM) expenditure of CHSOs /NGOs.	3.78	0.940
The application of IPSAs will ensure application of international best proactive and internationally comparable.	4.08	0.671

The above table shows that all respondents were positive and confident that the adoption of IPSAS will bring them an advantage with mean ranging 3.78-4.12 respectively.

Regarding the analysis of the perception of stakeholders on the prospects of IPSAS, it clear that most of the respondents were understood the great use IPSAS for foreign charity organizations working in Ethiopia.

#### 4.6.4. Educational and Professional Responsibility

The purpose for questions shown in Table 4.5 was to identify who were the key responsible stakeholders to transmit knowledge for smooth adoption of IPSAS.

Table 4.5 Educational and Professional Responsibility

EDUCATIONAL AND PROFESSIONAL RESPONSIBILITY	Mean	Std. Deviation
The universities, Accounting and Auditing Board of Ethiopia and CHSA, NGOs should work together in development of guideline and provide training on application of the IPSAS.	4.28	0.715
A shared interpretation of the IPSAS needs to be established, on a local base, with the partnership of all institutions involved in the convergence process	4.13	0.623
Do majority of accountants and auditors understand about IPSAS	2.37	1.119
Academic and professional training will speed up the level of IPSAS implementation	4.17	0.615
The adoption of IPSAS requires a high level of education, competence, and expertise to be able to understand, interpret and then make use of the standards	4.20	0.514
There is the intention of revising the accounting curriculum that have not been revised over a number of years to incorporate IFRS, IPSAS and other developments.	4.42	0.720

Accordingly, most of the respondents were agreed that the universities, Accounting and Auditing Board of Ethiopia, Charities and Societies Agency of Ethiopia(CHSA) and NGOs will work together in development of guideline and provide academic and professional training to speed up the level of IPSAS implementation, establish a shared interpretation of the IPSAS on a local base with the partnership of all institutions involved in the convergence process, so that there will be high level of education, competence, and expertise understand, interpret and then make use of the standards and the intention of revising the accounting curriculum that have not been revised over a number of years to incorporate IFRS, IPSAS and other developments with mean of ranging 4.13- 4.42 respectively.. However responders were disagree that majority of accountants and auditors understand about IPSAS with mean of 2.37.

Hence there is a positive relationship between the results obtained and the literature presented, in which the respondents believe that a joint effort is needed among educational institutions, government, Charity Organizations and professionals, so that the standards will provide the anticipated benefits.

#### 4.6.5. Benefits of IPSAS

Table 4.6: The Perception of respondents on prospects of implementing the IPSAS

PROSPECTS OF ADOPTING IPSAS	Mean	Std. Deviation
The effect of IPSAS in NGOs sector of Ethiopia will be positive	4.48	0.504
The adoption of IPSAS will enhance comparability and international best practice	4.22	0.490
The IPSAS will contribute to improve the transparency and reliability of the financial statements	4.03	0.610
The application of the IPSAS can lead to a reduction of illegal activities, especially frauds	3.37	0.581

The above table indicates that respondents agreed that the adoption of IPSAS will have positive effect, will enhance comparability and international best practices, and will contribute to improve the transparency and reliability of the financial statements with mean of 4.48, 4.22 and 4.03 respectively. However respondents were neutral on that the application of the IPSAS can lead to a reduction of illegal activities, especially frauds with mean of 3.37.

This is therefore the analysis of the perception of stakeholder considers that IPSAS will be of great use for public sector accounting and they were optimistic about the implementation of IPSAS. Most respondents believe that the implementation of IPSAS will solve serious problems in public sector accounting, providing an improved quality of accounting information.

#### 4.6.6. Expected challenges while adopting IPSASs

The purpose of question on Table 4.7 was to determine the challenges expected while adopting IPSASs in the foreign charities working in the country.

**Table 4.7 Challenges Adopting IPSAS**

CHALLENGES	Mean	Std. Deviation
Lack of first time detailed practical guidance and training material on adoption of IPSASs.	4.55	0.502
The cost of implementing the standard is a big task as it would involve the cost of training personnel, writing of new accounting manuals, installation of adequate Information and communication technology software.	4.13	0.982
Unavailability of adequate staffs in the market to handle first time implementation of IPSAS.	4.18	1.066
Lack of Wide Participation in the organization, involvement of many teams (procurement, human resources etc.) and collaboration across locations (Head Quarter, Regional Offices, Country Offices etc.) is required for the successful implementation of IPSAS.	3.02	1.242
Lack of an in-depth analysis of gaps between existing business processes, procedures, financial reporting and functionalities and the requirements Of each IPSAS Standard	4.27	0.841
Lack of ongoing and focused training and communication to relevant staff on IPSASs and changes resulting from IPSAS.	4.3	0.83
IPSAS requires high time and resource to implement the system(procedural changes, detailed workflows and instructions, as well as the control framework that strengthen the financial accounting and reporting).	4.13	0.999
Difficult in recognition, measurement and valuation of assets.	4.57	0.533
Delay in amendment to the local accounting standard or CHSA's requirement will not allow NGOs to transit smoothly to IPSAS.	3.98	1.142
Lack of coordination and communication among CHSA, AABEE,INGOs, Audit firms, professional associations in insuring compliance with IPSAS	4.15	1.039
Adopting of IPSAS will create resistance and skepticism to the accounting changes.	2.43	1.294
Lack of proper direction and focus from top management will affect the successful implementation of IPSASs.	4.28	0.846

From the findings in the table above, the respondents were strongly agreed that lack of first time detailed practical guidance and training material on adoption of IPSASs and recognition, measurement and valuation of assets will be the most difficult challenge while adopting IPSASs with a representative mean of 4.55 and 4.57 respectively. The respondents were agree that the cost of implementing the standard would be a big task as it would involve the cost of training personnel, writing of new accounting manuals, installation of adequate Information and communication technology software with mean of 4.13. The respondents also agreed that unavailability of adequate staffs in the market to handle first time implementation of IPSAS, lack of an in-depth analysis of gaps between existing business processes, procedures, financial reporting and functionalities and the requirements Of each IPSAS Standard, lack of ongoing and focused training and communication to relevant staff on IPSASs and changes resulting from IPSAS and IPSAS requires high time and resource to implement the system(procedural changes, detailed workflows and instructions, as well as the control framework that strengthen the financial accounting and reporting) , delay in amendment to the local accounting standard or CHSA's requirement will not allow NGOs to transit smoothly, lack of coordination and communication among CHSA, AABEE,INGOs, Audit firms, professional associations in insuring compliance and lack of proper direction and focus from top management will affect the successful implementation of IPSASs will be the challenges with mean ranging 3.98 - 4.30.

However were neutral and disagree on lack of Wide Participation in the organization, involvement of many teams (procurement, human resources etc.) and collaboration across locations (Head Quarter, Regional Offices, Country Offices etc.) is required for the successful implementation of IPSAS and adopting of IPSAS will create resistance and skepticism to the accounting changes with mean of 3.02 and 2.48 respectively.

## **CHAPTER FIVE:**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1. Introduction**

The study was intended to find Benefits and challenges of adopting the International Public Sector Accounting Standards (IPSASs) in foreign charity organizations working in Ethiopia. It was paying attention on benefits of the adoption of IPSASs and the challenges and measures that will be taken to alleviate the challenges to be encountered as first time adoption of IPSASs. This chapter includes the summary of findings, conclusions and recommendations based on the study findings.

#### **5.2. Summary of Findings**

All respondents agreed that IPSAS requirement for increased disclosure in accounting reports increases the level of accountability in foreign charities working in the country. Moreover the respondents agreed that it improves resource allocation due to identification of full cost of activities and improvement in asset management through recognition, measurement, valuation, reporting of assets and improving internal controls of foreign charities following the adoption of IPSASs.

Moreover, all respondents agreed that the IPSASs accounts are more complete than the cash-based ones on proper utilization of public resources, Also, the information available from IPSAS accounts improve management and decision-making and help organization make more efficient use of resources. The respondents believe that adoption of IPSAS based standards enable the provision of more meaningful information for decision makers and improve quality of financial reporting system due to better accounting practices, prediction of future assets and cash flows, maintaining ethical standard and good governance practice, improve value for money.

The study findings established that majority of the respondents agreed that adoption of IPSASs improve disclosure and measurement of financial elements. Thus full disclosure becomes very important for transparency of foreign charities working in the country. Moreover, the

respondents agreed that IPSASs enhance decision making due to availability of accurate, timely, relevant and reliable financial information. The respondents were also agreed that adoption of IPSASs increase the transparency and harmonization of financial reports across the foreign charities and support for the result-based management through provision of comprehensive information on cost.

The study findings also established that stakeholders considered that IPSASs have great use for foreign charity's accounting. All respondents were strongly positive about benefits of IPSASs in bringing advantage in solving serious problems of foreign charity's accounting system, providing an improved quality of accounting information, proper use of resources, building the confidence of donors and the public at large. In addition respondents have clear awareness that financial statements prepared in the basis of IPSASs are internationally comparable and comparable information assists in assessing how well their resources will be utilized. Hence, the clearer understanding of the IPSASs facilitate the smooth converges and increase the prospects of adopting IPSAS in foreign charities working in Ethiopia.

All respondents were agreed that those who are responsible to transmit knowledge about the implementation of IPSAS were universities, Accounting and Auditing Board of Ethiopia (AABE), Charities and Societies Agency of Ethiopia (CHSA), foreign charities and professional associations. These organizations have the best conditions to conduct the educational process for the adoption of IPSAS and need to exert joint effort so that the standards provide the expected benefits.

Moreover respondents also agreed that academic and professional training speeds up the level of IPSAS implementation and common understanding of the international accounting standards with the partnership of all institutions to be involved in the convergence process. However respondents agreed that there was shortage of competent and qualified professional accountants and auditors in understanding IPSAS

The respondents also revealed that there is a number of challenges facing the adoption of IPSASs key among them being poor recognition, measurement and valuation of assets . Lack of



first time detailed practical guidance and training material on adoption of IPSASs, lack of qualified accountants and training of human resource which is inadequate on practical skills in foreign charity sector were sighted as challenges that hinders the implementation. . Other challenges pointed out are high cost of implementation which constitutes a training personnel, writing of new accounting manual or procedural changes, detailed workflows and instructions as well as the control framework that strengthens the financial accounting and reporting, installation of adequate information and accounting software. Implementation may be also hindered by lack of coordination and communication among CHSA, AABE, Foreign Charities, audit firms, professional associations in insuring compliance to IPSASs. The response also revealed that delay in amendment to the local accounting standard regulations which doesn't allow for smooth transit to IPSAS. Lack of proper direction and focus from top management also affects the successful implementation of IPSASs were also cited as challenges.

The study identified the actions need to be taken to mitigate the above mentioned challenges. The board (AABE) should motivate foreign charities to maintain the date of the transition (the road map that has been already prepared and distributed) ) to IPSAS through active participation of CHSA, foreign charity organizations, audit firms, professional associations, universities and donors. Develop continuous training of all staff involved in the generation, valuation, preparation and reviewing of financial and non-financial reports on IPSASs for accounting and finance personnel. In addition, work closely with concerned organizations in enforcing accounting and auditing standards, and monitoring the accountancy professionals, providing continuous support and work with Universities in Ethiopia to integrate IPSAS modules in accounting and auditing curriculum.

### **5.3 Conclusion**

This study examined the prospects and challenges of adoption of International Public Sector Accounting Standards (IPSASs) in Foreign Charity Organizations working in Ethiopia. From the findings of the study, it was observed that adoption of IPSASs increase the level of accountability and transparency in foreign charities working in Ethiopia. It was also observed that the clearer understanding of the IPSASs with academic and professional training facilitates the smooth converges and speed up the level of IPSAS implementation .

The required IPSAS disclosure in accounting reports increase the level of accountability and improvement in resource allocation , asset management and efficiency and effectiveness of foreign charities. The full adoption of IPSAS is also very important for transparency and harmonization of financial reports across the foreign charities and support for the result-based management. The benefits of the effective implementation of IPSASs depends on the stakeholders perception on the standard. Respondents were believe that the adoption of IPSASs solve serious problems in this area which includes comparability of the statements, reduction of possible fraud and increased credibility of information, providing a better decision-making. Another important result of the analysis was that Accounting and Auditing Board of Ethiopia, Charities and Societies Agency of Ethiopia, foreign charities and professional associations will be responsible for transmitting knowledge about the implementation of IPSAS which indicates institutions are responsible for the training of the standard.

However, the study also concludes that, as first time adoption of IPSASs, there is many challenges which includes poor recognition, measurement and valuation of assets, lack detailed practical guidance. Other challenges is lack of support by top management, problem of changeover from cash accounting to IPSASs and lack of proper guidance on implementation of IPSASs. Other challenges pointed out were high cost of implementation, poor coordination among stakeholders and delay in amendment to the local related regulations.

The measures which needs focus are timely training of all stakeholders to be involved in the preparation of the financial statements; sensitization of the users, a clear conceptual framework and training of the staff on the relevant skills for effective adoption of IPSASs. Continuous support also need to be established to work with Universities in Ethiopia to integrate IPSAS modules.

In view of the results found, the adoption of IPSAS in foreign charity Organizations in Ethiopia will have positive impact on operating procedures and reporting practices and hence strengthen good governance. Adoption of IPSAS will provides useful information for better management and decision and expose to greater public responsibility. Thus making foreign charities more

accountable for the efficiency and effectiveness of their services. The adoption of IPSAS builds trust between the foreign charities and the public in relation to disclosing of economic, financial and other information.

Hence this study has shown that IPSASs adoption help to ensure better financial information disclosure and supports, improvement to accountability, transparency better financial management, better information to Charity organizations in the country and donor and government assistance, better quality and credibility of financial report.

#### **5.4 Recommendations**

As indicated in the conclusion the significant positive effects that come with the adoption of IPSAS. It is highly recommended that foreign charity organizations should adopt IPSASs for better management, accountability and transparency in financial reporting which implies that the Charities and Societies Agency of Ethiopia (CHSA), regulatory and supervisory body of Charities, need to amend the existing financial reporting framework proclamation no 621/2009, regulation No 168/2009 in line with the IPSAS.

The respondents opinion also indicate that the adoption of IPSASs lead to transparency in financial reporting, greater comparability of the statements, reduction in fraud and help Ethiopia to have easy access and read to charity records. Thus the concerned regulatory body such as AABE should encourage the use of IPSAS which help government to attract more donors with big resource into the country.

From the result of the study, the researcher also recommends that government should engage in training of qualified staff to drive the process and also involve external professionals in other countries, funding for training with support of all stakeholders to leverage best practices. All stakeholders including Accounting and Auditing Board of Ethiopia, Charities and Societies Agency of Ethiopia, universities, foreign charity organizations, professional associations, should prepare for transition to IPSAS and work closely with training institutions for intensive IPSAS capacity building program for the needed manpower on IPSAS. It is also recommended that AABE should ensure review of accounting curriculum in institutions/universities to include IPSAS requirements.

## **5.5 Recommendations for Further Study**

The results show the benefits and challenges of adoption of IPSAS in financial reporting of foreign charity organizations working in Ethiopia. The sample was taken from foreign charity organizations and the researcher suggests for future studies on local charity organizations and societies working under supervision of government (CHSA).

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## **Appendix I-List sample organizations**

1. Accounting and Auditing Board of Ethiopia
2. Action Aid Ethiopia (Ethiopia)
3. Charities and Societies Agency of Ethiopia
4. Carter Center (Ethiopia)
5. Care Ethiopia (Ethiopia)
6. Catholic Relief Service (Ethiopia)
7. Cbm (Ethiopia)
8. Child Fund (Ethiopia)
9. Donkey For Development Association (Ethiopia)
10. Ethiopian Evangelical Church Mekane Yesus (Ethiopia)
11. Ethiopian Kale Heywet Church Dev Programme (Ethiopia)
12. Fered Hollos Foundation
13. Facilitator's For Change Ehtiopia (Ethiopia)
14. Family Guidance Ethiopia (Ethiopia)
15. Forum On Street Children Ethiopia (Ethiopia)
16. Goal Ethiopia (Ethiopia)
17. Girarbet Tahadiso Mehiber
18. Handicap International (Ethiopia)
19. Hiv/aids Prevention And Control Office (Ethiopia)
20. Hope Enterprises (Ethiopia)
21. Intra Health International (Ethiopia)
22. Light for the world
23. Luteran World Federation (Ethiopia)
24. Marie Stops International Ethiopia (Ethiopia)
25. Mary Joy Aid Through Development (Ethiopia)
26. Multi-purpose Community Development Project  
(Ethiopia)
27. Norwegian Church Aid (Ethiopia)
28. Oxfam
29. Orbis-Ethiopia

30. Pro Pride (Ethiopia)
31. Professional Alliance For Development Ethiopia  
(Ethiopia)
32. The Task Force for Global Health
33. Save The Children (Ethiopia)
34. Water Aid (Ethiopia)
35. World Vision International Ethiopia (Ethiopia)



## LETTER OF INTRODUCTION

Sanni Juhar Halid

Addis Ababa University

Cell: 251-911-42-36-69

Email: sjhalid@gmail.com

**Dear Respondent,**

I am a Student pursuing a postgraduate degree at the **College of Business and Economics, Department of Management, Addis Ababa University**

The title of my study: **Executive Master of Business Administration (EMBA)**

You will find a number of questions about financial reporting proclamation # 847/2014, **the adoption of International Public Sector Accounting Standards (IPSAS)**.

The focus of the survey is aimed to provide a better understanding of the above proclamation with detail examining of expectations, benefits and challenges of adopting IPSAS for foreign charity organizations working in Ethiopia and the Charities and Societies Agency of Ethiopia (CHSA) that governs and control the activities and the amount of funds of Charity organizations based on Proclamation No.621/2009 , regulation No.168/2009

I would appreciate if you could spare a few minutes of your time to tick the appropriate box or fill in the blanks in the attached list of questions to the best of your knowledge. Your

participation is essential to this study and will enhance knowledge of IPSAS in our country.

The information you provide will only be used for academic purposes.

Thank you in advance.

Yours sincerely,

Sanni Juhar

## **QUESTIONNAIRE**

### **PART ONE**

- 1) Indicate your sex a) Male  b) Female
  
- 2) Position in the Organization / Station
  - a) Junior  b) Supervisory  c) Middle mgt  d) Top mgt
  
- 3) Indicate your professional area.
  - a) Accountants  b) Auditor  c) Advisor  d) Others , specify \_\_\_\_\_
  
- 4) Academic qualification
  - a) Graduate (Masters / PhD)  b) Diploma  c) Undergraduate  d) Certificate
  
- 5) Indicate the length of your work experience.
  - a) Less than 5 years  b) 6-10 years  c) 11-15 years  d) over 15 years
  
- 6) Thinking about the form of your organization's financial reporting with which you are most frequently involved, are the financial reports normally prepared as:

- a) Cash-based receipts and payments accounts: [ ]
- b) Accruals accounts: [ ]
- c) I don't know: [ ]
- d) Other (please specify \_\_\_\_\_)

7) Which of the following financial reporting frameworks currently determine how financial reports are prepared?

- a) Requirements set by Charities and Societies Agency, proclamation no 621/2009, regulation No.168/2009 [ ]
- b) Requirements set by a funders/ donors [ ]
- c) both a and b [ ]
- d) Other (please specify)\_\_\_\_\_

8) What do you see as the strengths or limitations in preparing financial reports on the basis of regulations of Charities and Societies Agency of Ethiopia , proclamation no 621/2009?

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9) The Ethiopian government has issued two proclamations. Establishment of Institution of "ACCOUNTING AND AUDITING BOARD OF ETHIOPIA" and "FINANCIAL REPORTING PROCLAMATION No. 847/2014" . Does your organization know the above proclamation?

a) Yes [ ] b) No [ ] c) I don't know [ ]

**PART TWO**

**INSTRUCTIONS:** Please rate how strongly you agree or disagree with each of the following statements by placing a check mark in the appropriate box.

**Key: 1. Strongly disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree**

**PART A. Accountability**

	ACCOUNTABILITY	1	2	3	4	5
1	The adoption of IPSASs will improve the management and planning of NGO's programmes due to better accounting practices for income and expenditure, commitments, risks and uncertainties and financial reporting					
2	IPSAS will enhance the prediction of future assets and cash-flow needs					
3	The implementation of IPSAS can lead to transparent decision-making and relationships, honest reporting of					

	resource use and achievements, efficiency of resources					
4	The implementation of IPSAS will significantly increase effectiveness of carrying out activities to fulfill the organization's mission, respecting donor intent, maintain ethical standards and using good governance practices.					
5	Adoption of IPSASs will improve Asset management through recognition, measurement, valuation and reporting					
6	IPSASs adoption will enhance capacity to measure costs and better expenditure management and will improve value for money expenditure.					
7	Adoption of IPSAs will increase the confidence of donor agencies					
8	Adoption of IPSASs will improve internal control systems and increase disclosure in accounting reports.					
9	with IPSAS accrual basis of accounting proper utilization of public resources will be enhanced					

**PART B. Transparency in information provided in the financial reports**

	TRANSPARANCY	1	2	3	4	5
1	IPSAS will Strengthen the support for results-based management through the provision of comprehensive information on costs					
2	IPSAS increase the transparency and harmonization of financial reports and statements across the Foreign Charty's system					
3	The adoption of IPSAS will allow for improvement of consistency and comparability.					
4	Information prepared in accordance with IPSAS will provides a basis for evaluating Foreign Charities performance in terms meeting public requirements, Monitoring programme					



	performance with a Budget Monitoring Report and making comparisons across individual Foreign Charities.					
5	Financial statements prepared under IPSAS will help Foreign Charities to demonstrate, and users to evaluate, accountability for the use of public funds.					
6	With application of IPSAS, there will be openness in transaction Foreign Charities businesses					
7	Application of IPSAS in charity organizations will ensure that accounting information is promptly provided for public to assess how the charities are performing					
8	IPSASs will enhance comparability of financial report across various periods and other similar organizations using IPSASs in financial reporting					
9	Adoption of IPSASs will enhance decision making due to availability of accurate, timely, relevant and reliable financial information					
10	IPSASs will improve disclosure and measurement of financial elements hence present true and fair financial position of the organization					
11	Comparable information assists the stakeholders in assessing how well their resources should be utilized					

**PART C. Perception of stakeholders on the standard**

	PERCEPTION OF STAKEHOLDERS	1	2	3	4	5
1	The application of the IPSAS will bring greater comparability of the statements, reduction of possible fraud and increased credibility of information in the management of Foreign Charities.					
2	The application of IPSAS will harmonize financial reporting					

	internationally.					
3	The application of IPSAs will solve the sever charity/NGO's sector accounting problems.					
4	The application of IPSAs will improve the quality of accounting information in Charity organizations.					
5	The application of IPSAS will help stakeholders in assessing proper of use of public resources.					
6	The application of IPSAS will increase the control of CHSO/Foreign Charities.					
7	The application of IPSAS will built the confidence of donor agencies					
8	The application of IPSAS will improve the service delivery and value for money of (VFM) expenditure of CHSOs /Foreign Charities.					
9	The application of IPSAs will ensure application of international best proactive and internationally comparable.					

**PART D. Educational and Professional Responsibility**

	EDUCATIONAL AND PROFESSIONAL RESPONSIBILITY	1	2	3	4	5
1	The universities, Accounting and Auditing Board of Ethiopia and CHSA, Foreign Charities should work together in development of guideline and provide training on application of the IPSAS.					
2	A shared interpretation of the IPSAS needs to be established, on a local base, with the partnership of all institutions involved in the convergence process					
3	Do majority of accountants and auditors understand about IPSAS					

4	Academic and professional training will speed up the level of IPSAS implementation					
5	The adoption of IPSAS requires a high level of education, competence, and expertise to be able to understand, interpret and then make use of the standards					
6	There is the intention of revising the accounting curriculum that have not been revised over a number of years to incorporate IFRS, IPSAS and other developments.					

### **PART THREE - Prospects of adopting IPSAS**

	PROSPECTS OF ADOPTING IPSAS	1	2	3	4	5
1	The effect of IPSAS in Foreign Charities sector of Ethiopia will be positive					
2	The adoption of IPSAS will enhance comparability and international best practice					
3	The IPSAS will contribute to improve the transparency and reliability of the financial statements					
4	The application of the IPSAS can lead to a reduction of illegal activities, especially frauds					

## **PART FOUR**

To what extent do you agree with the following statements on the challenges expected in adopting IPSASs in your organization.

Use scale of 1 to 5 where **1 - strongly disagree, 2 - disagree, 3 - Neutral 4 - agree and 5 - strongly agree**

	CHALLENGES	1	2	3	4	5
1	Lack of first time detailed practical guidance and training material on adoption of IPSASs.					

2	The cost of implementing the standard is a big task as it would involve the cost of training personnel, writing of new accounting manuals, installation of adequate Information and communication technology software.					
3	Unavailability of adequate staffs in the market to handle first time implementation of IPSAS.					
4	Lack of Qualified Accountant in the Foreign Charties Sector and government agencies to carry out the implementation of IPSAS.					
5	Lack of Wide Participation in the organization, involvement of many teams (procurement, human resources etc.) and collaboration across locations (Head Quarter, Regional Offices, Country Offices etc.) is required for the successful implementation of IPSAS.					
6	Lack of an in-depth analysis of gaps between existing business processes, procedures, financial reporting and functionalities and the requirements Of each IPSAS Standard					
7	Poor means of communication, training and documentation on awareness creation on the transition to IPSAS.					
8	Lack of ongoing and focused training and communication to relevant staff on IPSASs and changes resulting from IPSAS.					
9	IPSAS requires high time and resource to implement the system(procedural changes, detailed workflows and instructions, as well as the control framework that strengthen the financial accounting and reporting).					
10	Difficult in recognition, measurement and valuation of assets.					
11	Delay in amendment to the local accounting standard or CHSA's requirement will not allow Foreign Charities to transit smoothly to IPSAS.					
12	Lack of coordination and communication among CHSA,					

	AABEE, Foreign Charities, Audit firms, professional associations in insuring compliance with IPSAS					
13	Adopting of IPSAS will create resistance and skepticism to the accounting changes.					
14	Lack of proper direction and focus from top management will affect the successful implementation of IPSASs .					

15. List any other challenges expected as first time implementation of IPSASs.

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16. List any measures that will be taken by the organization to mitigate the challenges above.

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**THANK YOU FOR YOUR PARTICIPATION.**