The global adoption of International Public Sector Accounting Standards (IPSAS): The case of IPSAS - benefits and challenges

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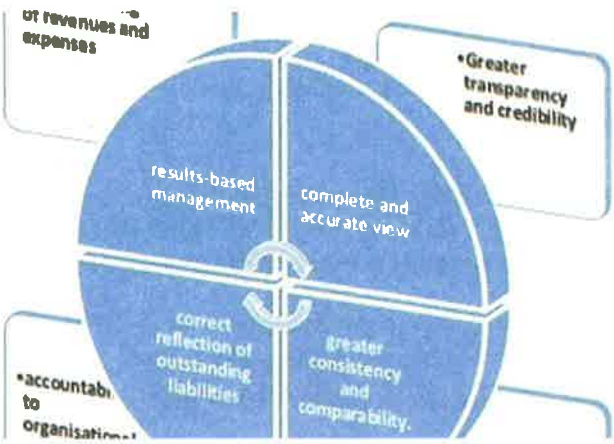
Reporting entities around the world including governments and other public sector organizations often apply financial reporting standards to guide the preparation of their financial statements. Some organizations apply reporting standards developed by national standard setters (Epstein 2009) and others adopt reporting standards developed by international standards setting bodies (Booth and Cocks 1990). This paper discusses the arguments for and against financial reporting standards and assesses the global adoption of International Public Sector Accounting Standards (IPSAS).

Reporting standards prescribe the accounting treatment for financial transactions and the minimum disclosure requirements regarding those financial transactions. According to Elliot and Jamie (2012) reporting standards are important because they objectively define accounting numbers which often form the basis for contractual entitlements in corporate organizations. Hail et al. (2010a) argued that high quality reporting



standards lead to improved financial reporting which improves the quality of financial information and ultimately leads to improvement in corporate decision making. The application of reporting standards have been claimed to have several benefits.

Bryane (2005) noted that the observance of standards help to improve economic policy making through the enhancement of transparency which ultimately lead to improved governance. Additionally, accounting standards establish a body of theory and practice that guide the resolution of accounting issues in controversy (Larson and Holstrum, 1973). Hail et al. (2010a) argue that reporting standards help to reduce confusing variations in the methods used to prepare financial statements.

Reporting standards also oblige reporting entities to disclose critical issues in the financial statements that will lead to better understanding of the financial information than reporting entities would otherwise be willing to do (Jahangir Ali, Ahmed and Henry, 2004). Compared to legislation, standards are a less rigid alternative to enforcing uniformity in the practice of accounting (Meeks and Swann, 2009). Elliot and Jamie (2012) maintain that reporting standards enhance the comparability of financial statements among firms, forces management to be disciplined and bring credibility to the accounting profession. Accounting standards are however not without challenges.

Standards represent a preference for selected methods in place of others which may have some merits. The selected methods may be inappropriate in some circumstances (Hail et al. 2010a). The standards setting process have the tendency of being subjected to lobbying thereby tending to serve the interest of lobbyists (Elliot and Jamie, 2012; Larson, 1997). Georgiou (2005) argued that the real user groups are often not actually involved to a larger extent in the standards setting process. Elliot and Jamie (2012) argue that there could be standards overload.

Owing to the limitations outlined, Pearcy (1982) argued that professional judgment is preferred to standards in certain cases. On balance, the case for the application of accounting standards seems stronger. Several countries have set up accounting standards setting bodies to spearhead the development of standards and others are adopting standards developed by international accounting setting bodies (Roje, Vašiček and Vašiček, 2010). Many governments and other public sector organisations have adopted the International Public Sector Accounting Standards (IPSAS) developed by the International Public Sector Accounting Standards Board (IPSASB) (Chan, 2003; Monfardini, 2010). The remaining part of the discussion assesses the global adoption of IPSAS by public sector organizations.

Financial statements that comply with IPSAS enhance public accountability. According to IPSASB (IFAC, 2009) IPSAS are high quality global financial reporting standards for use by public sector entities around the world, and are meant to serve the public interest by requiring the presentation and disclosure of financial transactions in a comprehensive and consistent fashion to enhance transparency and the accountable management of public resources. Müller-Marqués Berger and Ernst & Young (2012, p.7) explain that IPSAS regulate "the recognition, measurement, presentation and disclosure requirements in relation to transactions and events in general purpose financial statements". Chan (2003) and Tickell (2010) reported that the call for increased accountability has led many governments and NGOs around the world to adopt IPSAS. A few developed countries such as Australia, Canada, New Zealand, United Kingdom and United States of America have adopted and are implementing the accrual basis IPSAS or have issued standards that are consistent with accrual basis IPSAS (Pina Vicente and Torres, 2003). Some other countries such as Liberia, Cyprus, Nepal, The Gambia to mention but a few have adopted the Cash Basis IPSAS which require financial statements to focus mainly on reporting the receipts and payments of cash and cash equivalents by government (IPSASB, 2010 November). Chan (2003) asserts further that accounting policies of governments that have not yet adopted IPSAS are significantly influenced by IPSAS. Anderson (2009) and Torres (2004) demonstrated that IPSAS compliant financial statements improve transparency and accountability. According to Chan (2003, p.16) "the most significant development in government accounting in recent history is the development of IPSAS" which he argued, has brought significant benefits by way of improving the financial reporting systems of governments, raising the prestige of government accountants, and facilitating the mobility of private sector accountants into government.

Some scholars have admitted that the implementation of IPSAS is a challenging project (Lapsley Mussari and Paulsson, 2009; Nistor, Deaconu, Cirstea and Filip, 2009). Tickell (2010) in supporting this position noted that the successful implementation of accrual basis IPSAS is predicated on factors such as the level of skill of available accounting personnel, rate of labor turnover, and the level of investment in technological and capital equipment in public sector organizations. He therefore advised that, governments and institutions with different levels of endowments in these resources must approach IPSAS implementation differently to ensure success. Michael and Bates (2003) suggested that there is the need for public scrutiny of government financial management programmes, and a critical need for grassroots participation in the development of standards in order to ensure successful adoption of standards. It can therefore be concluded that to successfully implement IPSAS, governments must develop a framework for implementation and invest in building capacity among the personnel that will be responsible for implementation. Government must as well build strong institutions and systems to facilitate the process of implementation.

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