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Abstract

Purpose: The paper makes a cost benefit analysis of IPSAS adoption in Zimbabwe. It compares the existing cash accounting basis and the proposed IPSAS based accounting reporting.

Methodology: To make a cost benefit comparison the paper employed a predominantly review approach. It is an analysis of discourse within a range of archival evidence and is based on an examination of major publications and documentary materials emanating from major professional accounting bodies (relating reporting, regulations conferences and training education) and major NGOs’ success stories of IPSAS adoption.

Practical Implications: the paper recommends that professional bodies, regulators and the government should work together to forestall IPSAS adoption challenges to facilitate smooth adoption, implementation and monitoring phases of IPSAS in Zimbabwe.

Key words: IPSAS, regulatory framework, quality government financial reporting

1. Introduction

The current paper extends the debate on the relationship between adoption of accounting standards and the resulting quality of financial reporting to the public sector. It is a comparative study of the existing non-standardized cash accounting basis and the proposed IPSAS adoption in Zimbabwe, specifically perceived costs and benefits accruing from IPSAS adoption. Zimbabwe’s public sector accounting is divided into three sections i.e. appropriation accounts, fund accounts and state enterprises. (Comptroller and Auditor General report, 2009). Appropriation accounts are accounted for using the cash basis, Fund accounts using the accruals basis and state entities using International Financial Reporting Standards (henceforth IFRS). This paper targets the appropriation accounts and the fund accounts which are currently accounted for using the general cash and accruals basis. The recent thrust towards adoption of International Public Sector Accounting Standards (henceforth IPSAS) has prompted the extension of the predominantly private sector research to the public sector of Zimbabwe.

Previously, myriad research has evaluated the relationship between accounting standards (IFRS) adoption and the quality of financial reporting (Bath et al, 2008; Prather- Kinsey, 2008; Jacob, 2008; Lin, Riccard and Wang, 2012; Palea, 2013). Other scholars have also linked the adoption of IFRSs to the existence of incentives i.e. the existence of incentives to adopt accounting standards has a positive relationship with quality of financial reporting (Hans et al, 2008; Rudy and Madu, 2008; Ball et al 2000; Chi et al 2010). The theoretical reasoning behind these studies being that, since accounting standards prescribe a particular way of measuring and disclosing an economic phenomenon, they restrict alternative treatments available to managers (manipulative treatments) hence improving quality of financial reporting. This view is supported by Brown (2011) as he lists the benefits accruing to adoption of IFRSs and the resulting

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improvement in quality financial reports. However the debate was never exhausted as there are critics to this notion. Jeanjean and Stolowy (2008) in their analysis of adoption of IFRSs and quality of financial reports in France, Australia and UK realized that the pervasiveness of earnings management did not decline after IFRS adoption. Empirical studies have however focused on the private sector with very little to nothing mentioned on the public sector a view asserted by Nkundabanyanga et al (2013) in their evaluation of the public sector in Uganda specifically the Ministry of Water and environment. The study assesses the relationship between perceived compliance with government accounting standards, the legal framework and the quality of financial reporting. Zimbabwe adopted the International Accounting Standards (IAS) (now International Financial Reporting Standards (IFRS)) in 1993 and operationalised into law in 1996. It also agreed to take up any future accounting standards either new, revised or a completely new set of reporting standards and has since proposed to legislation instant adoption without a cumbersome legislating process (IFRS foundation, 2013). The private sector corporations use full IFRSs and the Small to Medium Entities use IFRSs for SMEs (Zimbabwe IFRS profile, 2013). International public Sector accounting Standards (henceforth IPSAS) are yet to be operationalised The current paper is a cost benefit analysis of adopting IPSAS in Zimbabwe .It analyses the status quo prior to adoption and the perceived benefits from the proposed adoption. The aim of this paper is to lobby for a non resistance transition from non standardized government accounting to standardized, IPSAS based government financial reporting. It explores the benefits of using IPSAS as compared to the current cash and accruals bases.

Zimbabwe Public Sector Accounting Reporting

The Zimbabwean economy was identified as hyperinflationary in November 2008 ( Public Accountants and Auditors Board, (PAAB), 2008) with exorbitant government debt levels of US $7.26 billion (Zimbabwe national budget statements 2009). The sovereign debt crisis underlined the need for governments to clearly demonstrate their financial stability and for more rigorous and more transparent reporting of fiscal data,(Directive 2011/85 EU).The public sector of Zimbabwe is the highest employing vehicle in Zimbabwe with approximately 40% of the Zimbabwean working population gainfully employed therein. It is also entrusted as the steward of public funds for the smooth provision of services such as education, national defence, public healthcare and law enforcements to the general public. It is against this pivotal role of the public sector that the adoption of accounting standards in government accounting is expected to increase accountability and stewardship of public resources. The Comptroller and Auditor-General (CAG) reports for the years 2009 to 2010 indicate that Zimbabwe’s appropriation accounts, fund accounts and the state enterprises were given a disclaimer of opinion (CAG reports 2009 to 2010). The 2009 audited financial statements were only presented to the house of parliament in 2011 i.e. two years later which is a violation of the conceptual framework 2010’s fundamental and enhancing qualitative characteristic of useful information, “relevance and timeliness” (IPSAS framework 2012) and a contradiction of the decision usefulness theory (Staubus 1999).In 2011 the appropriation accounts had various violations of the treasury instruments by Ministries for example , unvouched expenditure ,inadequate /lack of asset registers, failure to follow proper tender procedures, improper revenue accounting, fraudulent activities and wasteful expenditure ( CAG report(2011). By 2012 still some accounts for as far back as 2005 were still outstanding for audit e.g. (National Handicraft centre from 2005 to 2011, Health professions authority from 2009 to 2011, State procurement Board from 2008 to 2011) (CAG report, 2012). All these financial mishaps conflict with the primary objective of government financial reporting i.e. being publicly accountable and to enable users to assess that accountability (Government Accounting Standards Board (henceforth GASB) concept statement 1. It is against this backdrop that the current paper analyses and advocates for adoption and mandatory compliance with IPSAS in government accounting reporting as a way of improving both quality and accountability.
2. Literature Review

IPSAS Overview

Government financial reporting in Africa has been characterized with general cash based and accrual based accounting practices with the exception of South Africa, Uganda, Ghana, Zambia and Gambia among others which have successfully adopted the cash based IPSAS and transitioning to accrual based IPSAS or both (World Bank, 2007). The International Federation of Accountants (IFAC) Public Sector Committee (PSC) in 1997 initiated a program for developing and disseminating IPSAS. By the end of 2002 the PSC had promulgated 20 IPSAS by adapting them from IFRSs for the private sector. The second phase of the PSC and its successor the IPSASB commenced in 2002 to 2008 which introduced 6 IPSAS on specifically public sector issues, 6 IFRS based IPSAS and 1 cash based IPSAS (IPSASB, 2011c). Henceforth the Board started on the conceptual framework for the public sector an ongoing process to date whilst at the same time releasing pronouncements on IPSAS, (2013 Handbook of international Public sector accounting pronouncements). The adoption of IPSAS worldwide has been spearheaded by the World Bank Public Finance Management Reform programs (Price Waterhouse Coopers (PWC), 2013). The World Bank, (2007) and (PWC 2013) posit that IPSAS adoption improves transparency and comparability of government financial reports which influences the quality of government financial reports.

Costs and Benefits of IPSAS Adoption

The adoption of IPSAS in government financial reporting has its expected benefits including, transparency, convergence with IFRSs, comparability, flexibility and ultimately improved quality of financial reports. IPSAS also converge with IFRSs which improves quality of financial reports. Although IPSAS are for the public sector and IFRSs are for the private sector there is greater convergence between IFRSs and IPSAS , “if a transaction is the same in public sector and private sector the accounting should be the same”(IPSASB, 2013, 17). This makes IPSAS more reliable as quality indicators since IFRSs are known for high quality financial reporting (Jacob and Madu, 2008).Although there is convergence between IFRS and IPSAS there is also a demarcation between them which makes IPSAS compatible for government reporting. IFRSs are primarily aimed at the private (for-profit) sector, where commercial transactions are presumed to take place subject to market conditions (in particular, there is a presumption that entities generally will not enter into transactions where one party receives less value than the other (non-exchange transactions) with an unrelated third party). While the focus of IFRS is to provide investors, lenders and other users of the financial statements with information about the entity’s financial performance and financial position to help those users make investment and credit decisions; IPSAS financial statements are designed to provide information about how an entity has utilized its resources, and about the cost of service delivery (Earnest and Young, 2013).

IPSAS encourage the use of the same accounting policies and estimates i.e. consistency in reporting and comparability (IFAC 2003). This view was supported by Adhikari and Mellemvik, (2010) who also added that adoption of IPSAS earns World Bank and International Monetary Fund trust. The issue of transparency and comparability is viewed as a means of ensuring state stewardship,(UNIDO,2006). Okoliebouh (2013) 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 (ICPAZ 2012). This makes strategic plans and reports more meaningful and supports economic efficiency of the public sector (ILO, 2006). Okolieboh, (2013) sites that IPSAS convergence with IFRSs brings with it a perceived prestige and respect which makes financial statements relevant for decision making purposes. This is in line with the IPSAS framework, (2010)’s objective of financial reporting, i.e. to provide information to the users of financial statements about the use of allocated resources. The general theory of decision usefulness in accounting is therefore enhanced by the adoption of IPSAS. (Staubus 1999).The adoption of IPSAS leads to more comprehensive information prepared and disclosed which encourages stewardship and accountability (UN, 2006) Transparency and comparability enhances the quality of financial reports facilitating decision usefulness for the users of...
IPSAS were also prepared in a flexible manner that allows flexibility in transition. Despite advocating for accrual based accounting standards the IPSASB promulgated cash based IPSAS together with the 32 accrual based IPSAS. (Okolieaboh, 2013). This flexibility makes the transitional process from general cash based procedures to cash based IPSAS, then accrual based IPSAS e.g. Nigeria’s two phase implementation strategy, cash based IPSAS by 2014 and accrual based IPSAS 2016. (KPMG, 2013).

However, Nkundabanyanga et al, (2013) holds that the adoption of accounting standards alone cannot solely influence the quality of financial reports but that in conjunction with the strength of the regulatory framework and other institutional mechanisms standards can have a cumulative effect on quality of financial reports. IPSAS adoption has its benefits but costs are also inevitable, both financial and non financial costs.

The challenges of IPSAS adoption in Zimbabwe should be identified and addressed for the economy to benefit fully from the adoption and implementation. Previous studies in IFRS adoption have indicated that any accounting transition is bound to be characterized with challenges (Alp and Ustundag, 2009): potential knowledge shortfall,(Irvine and Lucas,2006):education and training,(Li and Meeks,2006):Legal systems effect and (Martins,2011): enforcement and compliance mechanisms.

extensive awareness of the transitional plan to IPSAS and its implications to the preparers and users of financial statements (regulators , citizenry, educators and other stakeholders) has to be effectively coordinated and communicated to avoid resistance to change .Senior management and politicians may resist change hence efficient change management strategies may be required in the transitional stages (PWC, 2009).strategies could include raising awareness on the potential impact of the conversion, identifying regulatory synergies to be derived as well as the temporal effects of transition on the financial position and performance of the government.

Financial conversion costs will definitely be incurred. Statutory bodies and regulators require funding to implement IPSAS. training costs will be largely incurred. Professional Accountants, regulators, accounting lecturers, and preparers of financial statements are all required to work together to ensure a smooth transition process. Training resources for such a large group is likely to require huge financial outlay consultancy costs, also IT and ERP implementation costs will be incurred, (Irvine and Lucas, 2006)(PWC, 2009).

Accrual based accounting is more complex and requires greater technical expertise and increased professional judgment on e.g. financial instruments, employee benefits and property valuations (Okolieaboh 2013). Zimbabwe may face the practical implementation challenge since implementation requires professional accountants’ auditors and regulators who may be in short supply in the public sector, (Martins, 2011) this view was also pointed by UN, (2006) in their adoption analysis in their organization.

Amendments to existing laws may be required in the implementation process. The public sector accounting in Zimbabwe is mainly governed by the Public Finance Management Act [chapter 22:19]. Provisions of the Act and the IPSAS may conflict materially requiring the regulators to converge the Act and the IPSAS for smooth transition.(Li and Meeks, 2006)

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

Financial Statements:

Under the non IPSAS cash basis the financial statements basically comprised of the cash flow statement. IPSAS adoption leads to enhanced disclosures which promote transparency. Financial statements under IPSAS comprise of statement of financial performance, Statement of financial position, Statement of changes in equity, Statement of cash flows and Notes. Under IPSAS the net assets /equity is known which encourages comparability, unlike under the non IPSAS cash basis where it is unknown.
Obligation and Expenses:

The current system expenses commitments to disburse money in future periods. IPSAS stipulates that expenses should be recorded when a product or service is delivered.

Unexpended Advances:

Cash advances will not be expensed immediately but only when the underlying goal or service is acquired.

Staff Benefits:

The accrued benefits will not only be recorded when the employee benefit is actually disbursed but will accrue as the employee earns the benefit.

Property Plant and Equipment:

The cash basis expenses the cost of PPE and the costs incurred in bringing the asset to its intended use. Under IPSAS accounting the purchase cost is and any cost incurred in bringing asst to use are capitalized and spread over the asset’s useful life. The asset can be recorded at its market value. This encourages the maintenance of the assets register. Military equipment will also be capitalized and shown under PPE rather than being expensed.

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.

Adopted from (ICPAZ, 2012)
4. Impact of IPSAS Adoption

The Impact of IPSAS Adoption on Accounting Would Include:

(1) Full recognition of liabilities for employee benefit obligations such as After Service Health Insurance (ASHI) and other accruing compensatory benefits, e.g. annual leave and repatriation grants;
(2) Recognition and depreciation of capital assets such as buildings, vehicles, furniture and equipment;
(3) Recognition of expenses on the basis of the delivery principle, which is more restrictive than the current obligation principle. Under the delivery principle, expenditure is recognized on the basis of goods and services received. As a result, during the initial period of IPSAS adoption, there would be a decrease in reported expenditure, in particular the reported expenditure under technical cooperation activities.
(4) Changed basis for recognition of revenue from certain voluntary contributions and exchange transactions. As a consequence of (c) above, the support cost income attributable to the operational budget would be reduced in the initial period of IPSAS application;
(5) Valuation of inventories;
(6) Change in structure and content of financial reports at all levels (Organization and donor reporting);
(7) Annual, rather than biennial, audit of the financial statements.
(8) Compliance with IPSAS accounting and reporting requirements would necessitate an in-depth analysis of the changes required to existing financial systems. In particular, recording of detailed information on capital assets and depreciation, inventories, employee benefits and expenditure recognition would need to be incorporated in the system. In this regard the possible options of modification, upgrading of the existing system or sourcing a viable alternative would be considered.

Impact on Budgeting and Funding

Adoption of IPSAS would change the basis for financial reporting from non IPSAS cash accounting to IPSAS based cash accounting and accrual, and later full accrual IPSAS only. This facilitates the reconciliation between budgeted and actual results, it would be necessary to align the budget preparation to full accrual. The enhancement of existing capacity allowing reporting and comparison of budget against actual results would also allow for improvement in results-based budgeting.

5. Conclusion

This paper concludes that IPSAS adoption improves the quality of financial reports and assists the government in managing both domestic and external debt. Adoption will also improve donor confidence in the country as IPSAS encourages transparency and comparability.

6. Recommendations

I recommend that the government should carry out the following key factors to facilitate smooth adoption of IPSAS:

- The Ministry of Finance together with the CAG’s department and the PAAB should have joint developments in the interpretation of IPSAS.
- Extensive and comprehensive management training should be carried out so that management can also train their respective subordinates.
- The government should develop policies and processes to support IPSAS adoption and a regulatory framework to enforce compliance.
Adequate funds should be availed for training, research IT procurement and ERP Implementation

Cultivate an appropriate cultural approach to excite participants and reduce change exasperations.

Put in place a robust audit process which means the CAG department should be fully empowered.

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