Challenges Towards The Adoption Of International Public Sector Accounting Standards: ***The Case Of Foreign Charities Based In Addis Ababa, Ethiopia***

A thesis Submitted to the School of Graduate Studies of Jimma University in Partial Fulfillment of the Requirements for the Award of the Degree of Master of Business Administration (MBA)

By

Tewodros Belachew

Under the Supervision of

Deresse Mersha(Ph.D

And

Mr. Mohammed Sultan

MBA Program, Department Of Management, College Of Business and Economics,

Jimma University, Jimma, Ethiopia, July, 2020

I. ABSTRACT

IPSAS is the international accounting standards applicable to public sectors which include not-for-profit organizations. It provides high-quality, independently produced accounting standards. Charities and Societies in Ethiopia are expected to adopt IPSAS by July 2017. The main objective of this study was to assess the adoption of international Public Sector Accounting standards in Ethiopia, Addis Ababa. Both qualitative and quantitative methods were employed during the research. Survey method was used to gather the opinions of respondents on the issues and challenges of adopting IPSAS in Ethiopia. A self-administered questionnaire was used to collect data from 200 sample organizations whereby either one Finance head or deputy finance head was responded from each organization. Data entry and analysis was done using SPSS version 20 software packages. The result showed that 36(72%) of the respondents strongly agreed on the fact that government policy such as hasty government decisions, lack of policy and lack of clarity (improper definitions) affect the adoption of IPSAS.Moreover, the same number of the respondents strongly believe that shortage of qualified individuals, cost of engaging qualified individuals and lack of enough training materials affect the adoption process. According to the findings, it can be concluded that the adoption of IPSAS is in a promising stage and requires only a refresher trainings, capacity building and strong follow-up by the supervisory bodies. This does not mean that IPSAS is free from challenges. Few experiences of challenges in adopting and implementing IPSAS include; scarcity of highly qualified professionals and trained human resources; lack of proper guidelines from regulatory bodies on the adoption process and increase administrative, compliance or other costs are the key challenges of IPSAS adoption in Ethiopia. AABE has to continue its effort to raise the level of awareness of the foreign charities by organizing familiarization workshops, producing communication materials, etc. regarding the new proclamation to improve the acceptability and implementation of IPSAS.

Key words: IPSAS, Accounting standards, Adoption, challenges, Not-for-profit, Civil society organizations

II. DECLARATION

By my signature below, I declare and affirm that this thesis is my own work. I have followed all ethical principles of scholarship in the preparation, data collection, data analysis and completion of this thesis. All scholarly matter that is included in the thesis has been given recognition through citation. I affirm that I have cited and referenced all sources used in this document. Every effort has been made to avoid plagiarism in the preparation of this thesis.

This thesis is submitted in partial fulfillment of the requirement for a graduate degree from Jimma University, College of Business and Economics. I solemnly declare that this thesis has not been submitted to any other institution anywhere for the award of any academic degree, diploma or certificate.

Name:_______________________________ Signature: _______________________

Date: ______________________________

College/Department: ____

III. CERTIFICATE

This thesis report has been submitted to Jimma University, College of Business and Economics for examination with my approval as a university advisor.

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VI. LIST OF ACRONYMS

AABE	Accounting and Audit Board of Ethiopia
ACCA	Association of Chartered Certified Accountant
ChSA	Charities and Societies Association
CSO	Civil Society Organization
EC	Economic Commission
ECX	Ethiopian Commodity Exchange
ERCA	The Ethiopian Revenues and Customs Authority
FASB	Financial Accounting Standards Board
FER	Federation De Enterprises Romandes
GAAP	Generally Accepted Accounting Principles
IFAC	International Federation of Accountants.
IFRS	International Financial Reporting Standard
IPSAS	International Public Sector Accounting Standard
IPSASB	International Public Sector Accounting Standards Board
MBA	Master of Business Administration
MoFED	Ministry of finance and economic development
NATO	North Atlantic Treaty Organization
NGO	Non-Governmental Organization
OECD	Organization for Economic Co-operation and Development
SORP	Statement of Recommended Practice for Charities
UK	United Kingdom
US	United States

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

In the current economic environment, public sector entities, to overcome the various financial constraints, are forced to consider more alternatives from which to choose the one that can provide a catalyst for increasing economic efficiency and improving the quality of public services provided. These alternatives sometimes involve combinations of public sector entities, found in the literature under the term of transfer of operations / functions, mergers, amalgamations and acquisitions. Combinations are taken to reshape and refocus the operations of the public sector in order to facilitate the government strategies. Thus, since the institutional combinations have a major impact on public sector architecture, their accounting regulation is very important and necessary (INA, 2016).

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 (Sanni, 2017).

It is a public sector equivalent of international financial reporting standards (IFRS) that govern financial accounting in the private business entities, are steadily gaining implementation momentum in public sector accounting over the past 10 years. The IPSASs regulates financial accounting processes of government sectors excluding profit making public firms. Globally, more than 40 government sectors have adopted the revised standards (Zhuquan & Javed, 2018).

International Public Sector Accounting Standards were instituted with the intention of modernizing public sector financial reporting. Issued and revised by the International Public Sector Accounting Standards Board (IPSASB), the standards are based on IFRS for application by public sector entities across the world. According to Majid and Adam (2015), the objective of financial reporting is to communicate the financial status of an enterprise for an informed decision making process. Financial information is useful when it is presented in a comparable, verifiable and understandable version. Government entities are obliged to fulfill the stewardship function by publicizing audited comparisons of the actual utilization of the public resources in accordance with the forecasted budget. The process used in the design and implementation of a budget is a measure of its accountability (De Luca and Prather, 2018). IPSAS standards are supported by a strong governance framework, quality principles, and a credible regulatory framework. As such, adoption of the standards enables greater comparability of financial information by organizational stakeholders, motivation by investors to invest in foreign countries, a reduction in the overall cost of capital, improved economic growth and improved allocation of resources by the public institutions. IPSAS governs budgeting of assets and liabilities, revenues, expenditure and encumbrances and obligations on public business entities (Zhuquan & Javed, 2018).

IPSAS standards support the accrual-basis accounting method which means that revenues are reported on the income statements when earned and expenses recorded when used. As such, it is possible to match the budgeted amounts and actual amounts that project when implementing the budget. The standards provide for disclosures that clearly explain the differences between the budgeted and actual amounts (Dissanayake, 2017). This information helps in demonstrating the efficiency and effectiveness of the public entity in management of funds and provision of services. Investors are therefore suited to make informed choices based on the statements. In addition, the government is also positioned to make suitable decisions that are based on resource allocation thus improving transparency and accountability.IPSAS allows for economic analysis by offering information pertaining to attainment and use of resources in accordance to the legally adopted budget, compliance of the entities with instituted legislations; allocation of the resources and outcomes that are related to performance indicators (Christiaens et al, 2015).

IPSAS are the international accounting standards applicable to public sector which include not-for-profit organizations. It 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). Similarly AU (2013) states that, IPSAS aims to improve the quality of general purpose financial reporting by public sector entities.

The adoption of IPSAS is gaining momentum across the world. In 2015, the European Union announced the establishment and adoption of European Public Sector Accounting Standards (EPSAS) based on IPSAS with adoption dates to be determined by the respective countries. However, Australia and New Zealand have already converted from IFRS to IPSAS type standards for the public sector. In Africa, South East Asia and South America, statements of support for IPSAS have also encouraged a trend of adoption across developing countries. The need for greater transparency and accountability in government financial reporting was heightened by the global financial crisis, which reduced the resources that governments had available. In some instances, information contained in cash based financial statements had been insufficient for countries to predict and prevent sovereign liquidity crises. To attract foreign direct investment, countries have initiated financial management reform program, including the adoption of accrual accounting as part of broader reform programs. These factors have encouraged countries across the world to make statements concerning the adoption of standards established on either cash basis IPSAS or accrual basis IPSAS, with various deadlines. Countries have used differing approaches in their adoption of IPSAS and are in different stages of adoption, with some having just started, while others have completed the process. The level of success has varied and is typically measured by the outcomes of the external audit process (ACCA, 2017).

Several nations in South Asia initiated the financial management reforms in the public sector post the 1990s Global Financial Crisis (Sukmadilaga, Pratama, and Mulyani, 2015). The financial incentives offered by IMF and World Bank to fund the changes were conditional on reforms including the acceptance of accrual-based accounting. However, countries such as Nepal and Bangladesh that have already implemented the financial standards in line with the cash-based IPSAS standards are yet submit to the accrual-based reporting.

In India for instance, the government is yet to set a timeline for acceptance of IPSAS standards. In an article published by Ombati and Shukla as cited in Zhuquan, & Javed (2018), the authors observed that although accrual disclosures are made in the country's public financial statements, the dominant method is a cash-based accounting. In Pakistan, most of the cash-based accounting is aligned with cash-based IPSAS framework which is applied by the national government.

Sri Lanka on the other hand initiated a phased strategy to IPSAS implementation such that more than 10 Public Sector Accounting Standards that are equivalent to IPSAS have been issued. However, the standards are not yet mandatory with the implication being that not all public financial statements comply with the guidelines. The government had earlier announced that at least 21-IPSAS compliant standards would be documented for implementation by the close of 2012 but the goal is yet to be achieved (Senarath and Ukwate, cited in Zhuquan & Javed, 2018)

In Nepal, the cash-based public sector financial reporting standards that conform to IPSAS guidelines were adopted for use by all public departments in 2009. The implementation process is ongoing and according to Adhikari et al. (2015), challenges such as lack of trained personnel and low stakeholder engagement have derailed the progress. Notably, the actual benefits of applying accrual accounting can be termed as part of the wider finance reform in the public sector thus serving as a mechanism to offer high quality financial reporting (PWC, 2013). The result is an improvement in operational and service outcomes that contribute to long-term sustainability of public sector financing.

A gap analysis by the World Bank was conducted in eight South Asian nations namely Bangladesh, Afghanistan, Bhutan, India, Maldives, Pakistan, Nepal, Sri lank and Bhutan to compare the use of public sector accounting standards practices to international guidelines. With regards to the accounting function, the authors established that one nation was using the cash-basis IPSAS by the close of 2009 (World Bank, 2011).

Big costs of implementation, shortage of qualified and trained personnel and unavailability of IT-accounting system were disclosed as a challenge in a study conducted in Iraq by Alshujairi, 2014).Atuilik, Adafula, &Asare (2016) complemented this by saying adequate technical capacity in IPSAS lacks in Africa which as a result make adopter not ready for the transition and resist the transition for fear of the unknown.

In Ethiopia until recently, there was no specific national accounting standard charities should follow. There were only a general guidelines for charity and society accounts and reports provisioned on proclamation number 621/2009. Foreign charities were using their own choice of accounting standard. The financial reporting proclamation number 847/2014 was issued to establish a sound, transparent, and understandable financial reporting system applicable to entities in both private and public sectors. Charities and other non-governmental organizations (NGOs) increasingly work internationally and get grants from governments, private donors and international foundations which are increasingly taking a global approach to their work. They face a multiplicity of international grant regimes and there is growing recognition of the need to improve the transparency and accountability of NGOs.Ethiopia adopted IPSAS as issued by the International Public Sector Accounting Standards Board (IPSASB). A three phase transition over a period of three years was outlined for reporting entities**.** (Dawit, 2017)

PHASE 1: July, 2017-Is the date for adoption of IFRS by Significant Public Interest Entities; Financial Institutions and public enterprises owned by Federal or Regional Governments

PHASE 2: July 2018 –Is the date for adoption of IPSAS by Other Public Interest Entities (ECX member companies and reporting entities that meet PIE quantitative thresholds) and IPSAs for Charities and Societies.

PHASE 3: July 2019 –Is the date for adoption of IFRS for Small and Medium-sized Entities.

Accordingly, Charities and Societies in Ethiopia are expected to adopt IPSAS by July, 2018 and will statutorily be required to issue IPSAS based financial statements for the year ending July, 2019.Though the benefit outweighs the challenges, IPSAS adoption and implementation is not expected to be free from problem. Implementation is beyond an accounting exercise and requires system change. (Dawit, 2017)

AABE (2016) listed enough public awareness, cost of implementation, education for the accounting professionals and management and the synchronization of IPSAS with the existing laws among the expected challenges in Ethiopia. Thus, it is appealing to assess issues that charities perceive that would hinder full enjoyment of IPSAS.

For the purpose of this study, terms like charity, not-for-profit, non-governmental organizations are used interchangeably to refer to the charity sector.

1.2. Background of the Organization/Study Area

Somewhat modern civil associations began to emerge in Ethiopia during the 1930s as a factor of urbanization and economic development. A law meant to recognize and codify these groups was passed in 1960. Civil society entities in general, however, were slow to take root under the empire and then severely restricted during the Derg period (1974–91). During the last decade and a half of Emperor Haile Selassie's reign, professional groups such as the Chamber of Commerce and National Bar Association formed, played somewhat credible roles, and enjoyed relative autonomy. That autonomy completely evaporated under Mengistu's long reign of terror, however, and virtually all these organizations effectively became tools of the state or ceased operations entirely. Many of those remaining in existence lost credibility, professionalism, and, ultimately, much claim to legitimacy. NGOs themselves—both national and international—began to appear around 1960, when neither the various self-help groups found in all levels of Ethiopian society nor the government were able to meet the growing demands of the population. The then current efforts of the emperor to "modernize" the national education system had resulted in a more widespread awareness that his government was failing to provide what people needed for advancement and development. NGOs began in a small way to help fill the perceived void. International NGOs trace their Ethiopian roots to the catastrophic famine crises of 1973–74 and 1984–85.The NGOs of those years were overwhelmingly focused on emergency relief operations and were largely foreign entities. (Jefrry, 2000)

By 1995, the government provided *Guidelines for NGO Operations* to classify groups and provide guidance on the priority areas for NGO programming. The license for charities and societies were issued by the ministry of Interior Affairs since 1991–1995. The 1995 Proclamation no 4/1995 which was to decide the authority of the executives had been improved to the Proclamation No. 47/2006 and gave power to Ministry of Justice to register and license faith based and non-for- profit non-governmental organizations. In the past 50 years about 3822 charities and societies existed in the country. (Jefrry, 2000).

The emergence of CSOs in Ethiopia was largely related to food aid and rehabilitation programs. NGOs started operating in Ethiopia mainly after the 1974 famine, but they had a much larger presence in Ethiopia after the 1984 drought. The intervention of NGOs at that time was limited to the provision of relief and welfare services, especially food aid. The number of NGOS has immensely increased since then, and their intervention areas have been expanded in the provision of basic services, including education, health and development of infrastructure. A few CSOs were also established to work on human rights, civic education, democracy and conflict issues. Moreover, NGOs working on development and service delivery have largely adopted the rights-based approach to development with a view to ensuring community ownership and sustainability of development programs. The legal regime which governed the registration and regulation of the sector, on the other hand, was the Civil Code which was enacted during the Imperial regime. Enacted 48 years ago, the law was not compatible with the developments in the sector in the last two to three decades, and could not cater for the new and sector-specific needs of NGOs/CSOs.

Cognizant of these limitations, civil society organizations have persistently been calling for the enactment of a new law which takes into account the specific needs and role of the sector in the country's development and governance. Convinced of the need for a new legal regime, several versions of the draft CSO laws were circulated by the government since 2002 for discussions and comments by civil society. Organizations such as the then CRDA, Action Aid Ethiopia,Forum for Social Studies and InterAfrica Group have made significant contributions in this endeavor by facilitating the study and compilation of global best practices on the registration and regulation of CSOs, and even going to the extent of presenting alternative draft CSO laws. On the other hand, since 2005, the government has been expressing its views on the meaning of civil society, the role of NGOs in development and good governance, and issues of transparency and accountability in the sector. These views were echoed in internal party documents, election debates and discussions with actors in the sector. The prevailing position among government circles tried to make a dichotomy between NGOs and CSOs, and characterized NGOs as entities which are established by a few individuals and hence lacking constituency. NGOs were also portrayed as dependent on, controlled by and accountable to donors rather than their members. While NGOs could be allowed to engage in development activities, they should not be permitted to engage in areas related to rights and political advocacy, as these should be reserved to purely local civic organizations. The latter, which the government recognizes as genuine civil society organizations, are established and controlled by citizens, and depend on membership contributions rather than foreign aid. Such organizations (also called mass organizations) have broader/mass constituency, and hence have the right to engage in issues related to rights and democratic governance. A corollary of this argument was that CSOs should be allowed to freely operate because they are a genuine manifestation of citizens' constitutional freedom of association, while NGOs would be allowed to work only when the government finds their contributions useful. Hence, the government is entitled to close down NGOs at any time, and they are precluded from appealing to the court from decisions to suspend their operations or cancel their registration. (Task force, 2011)

According to information gathered by the researcher from Charities and Societies Agency (ChSA) on November, 2018, there are about 2779 NGOs in Ethiopia of which 2372 are Local and 407 foreign charities. The foreign charities have originated from different parts of the globe: US, Canada, UK, different European countries, Asia, Africa and Australia. Alongside their operation, such organizations financially monitor their operation based on selected accounting standards.

1.3. Statement of the Problem

According to the professional conversation on the benefits of adopting IPSAS, in the recent past, there has been much focus on adoption of International Public Sector Accounting Standard (IPSAS) by governments. IPSAS were prepared by the International Public Sector Accounting Standards Board (IPSASB), an independent standard-setting body within the International Federation of Accountants (IFAC).This initiative was part of the board's strategy for the development of comprehensive high quality financial reporting standards for use by public sector entities around the world. It is anticipated that the application of the requirements of IPSASs will enhance the accountability and transparency of the financial reports prepared by governments and their agencies.

Nevertheless there exists some laws such as the financial reporting proclamation prepared by ministry of finance and economic development (MoFED) do require the acceptance of general accounting principles and auditing standards (Report on observance of Standards and Codes (ROSC, 2011).

In summary IPSASs enables comprehensive financial reporting that provides relevant information for economic analysis, decision-taking and policy making. With all these benefits of adopting IPSASs, there should be a stampede towards adoption of these standards by public sector entities across Africa. However, Ethiopia, until recently, did not adopt an International requirement for compliance with accounting and auditing standards. There were no requirement for compliance with accounting and auditing standards both in the Commercial Code 1960, Public Enterprises Proclamation and other laws and regulations for financial service sector (banks, insurance companies), corporate sector, state-owned enterprises and nongovernmental organizations. (Yichilal,2015)

Some laws such as the financial reporting proclamation prepared by (MoFED) and Public Enterprises Proclamation no 25/1992 require compliance with generally accepted accounting principles and generally accepted auditing standards, but these provisions are not defined. The financial reporting requirements of nongovernmental organizations are contained in the General Guidelines for the Implementation of the National Policy on Disaster Prevention and Management. There is no guidance for NGOs on the standards to be used in preparation and auditing of their financial statements in the General Guidelines (Report on observance of Standards and Codes (ROSC, 2011).

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 unclear in this article is it doesn’t answer the question ‘What are these acceptable standards? (Fikre, 2014)

From this it can be explained that, Ethiopia as a developing country does not have both organized local financial reporting standards and IPSAS till 2014.

Mhaka, 2017 as cited in Sanni (2017) 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 underutilization 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 may be resolved. (Sanni, 2017)

In spite of the numerous studies about the Adoption of International Accounting Standards by developed and industrialized countries around the world, less attention has been given to developing countries. Virtually, articles and books about the adoption of accounting standards by developing countries in general and Ethiopia in particular are very limited. To the best of my knowledge there is only one investigator who tried to analyze the perception of foreign charitable organization and another one on the benefits and challenges of the adoption of IPSAS.However both studies were conducted at the early stage before real challenges were faced and on limited samples. In order to ease the adoption of IFRS and IPSAS, the Ethiopian government has issued two proclamations, establishment of Institution of Accounting and Auditing Board of Ethiopia(AABE) 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.

Subsequently, AABE, conducted familiarization workshops and capacity building trainings for implementers very recently. (Sanni, 2017)
Therefore, the researcher believes it is justifiable to undertake further investigation and analysis before its full blown implementation by multiple actors.

To this end the study aimed at identifying the challenges of adopting IPSAS for Charitable organizations and mainly intended to investigate the crucial factors influencing the adoption of IPSAS.

Thus, the study seeks to address the following basic research questions:

1. What is the extent of IPSAS adoption by foreign charities operating in Ethiopia?
2. What are the institutional factors that affect adoption of IPSAS in Ethiopia?
3. What are the external factors that affect the adoption of IPSAS?

1.4. Objectives of the study

1.4.1 General objective

The main objective of this study was to assess the challenges in the adoption of international Public Sector Accounting standards in Ethiopia.

1.4.2 Specific objectives

1. To investigate the level of IPSAS adoption by foreign charities operating in Ethiopia.

2. To identify Institutional factors that affect the adoption of IPSAS.
3. To examine the external factors affecting the adoption of IPSAS.

1.5 Significance of the study

The purpose of this study was principally to identify the challenges of IPSAS adoption and investigate the critical factors that affect the adoption of IPSAS in Ethiopia and then provide the possible recommendations. Hence, it will contribute an important input for policy makers to set standards and/ or adopt IPSAS. This study would also assist Ethiopian accounting practitioners and academicians to equip themselves with latest international reporting standards around the globe. Organizations participated in this study and other similar organizations are believed to be impacted by the result because the study result would reveal critical factors influencing IPSAS adoption, the benefits and challenge of its adoption so as to minimize challenges and exploit opportunities that it has for them. To the best of the researcher's knowledge, published research or journal article is limited on this issue particularly in case of Ethiopia. Hence, this paper will fill this huge literature gap and will serve as a baseline for future researchers.

1.6. Scope and Limitation

The study assessed the issues related to the adoption of IPSAS specifically on Foreign Charities working in Ethiopia. The researcher believes that it would be much more comprehensible if appropriate detail of investigation was conducted in all foreign charities to have a full overview of the adoption of IPSAS in Ethiopia and draw genuine results. However, as most of the head offices of foreign charities are based in Addis Ababa, certain compromises had to be made to delimit the study on foreign charities operating in Addis Ababa using a survey. The researcher also believes that such study would be able to clearly depict the status of charitable organization if it covers both local and international NGOs.

1.7. Organization of the study

This study was organized in to five chapters. The first chapter is about general introduction which includes the back ground of the study, back ground of the organization or study area, the problem statement, the purpose and significance of the study among others. The second chapter presents the review of related literature in this chapter both theoretical review and empirical evidences are presented. In the third chapter, research methodology and design of the study are addressed. More specifically, methods of data collection, variables used and data analysis, target population and methods of data analysis are stated. Results and discussions were presented in Chapter Four. Chapter Five involves recommendations and Conclusions of the study.

CHAPTER TWO

LITERATURE REVIEW

2.1. Theoretical review

2.1.1.The practice of Accounting in nonprofit organizations

Fund Accounting

The purpose of using fund accounting is it allows a nonprofit to manage the diverse streams of revenue that they receive and to monitor the restrictions often attached to that revenue. By breaking up an entity's finances into appropriate funds, fund accounting enables organizations to keep the revenues that it receives in the proper categories and prevents those revenues from being spent on inappropriate expenses. Each fund will have its own revenue and expense report, its own excess or deficiency calculation and its own balance sheet. Fund accounting identifies revenue sources in order to provide transparency for the organization. By using fund accounting methods, a nonprofit can generate financial statements that show how funding is being spent and prove the revenue is being used for its specific purpose. When implemented properly, fund accounting can identify key areas of strength and weakness. (Joseph, 2017)

The Financial Accounting Standards Board (FASB) has issued new rules for nonprofit which went into effect December, 2017. The new rules simplify the treatment of net assets. Under the new rules the Statement of Financial Position will only have two classes of "Net Assets" — net assets with donor restrictions and net assets without donor restrictions. If a nonprofit wants to be compliant with GAAP and FASB 116/117, all of their funds must be grouped into two categories of net assets: (1) without donor restrictions and (2) net assets with donor restrictions, which replace the three former categories of unrestricted, temporarily restricted and permanently restricted net assets. A fund accounting system groups funds into either net assets without donor restrictions or net assets with donor restrictions. Nonprofits use this to satisfy GAAP and FASB

116/117 requirements and generate reports that break down net assets on the IRS Form 990. (Joseph, 2017)

2.1.2. The Need for High-Quality and Timely Accrual-Based Financial Reporting in the Public Sector

A key issue for public sector financial reporting is that many governments still adhere to the cash basis of accounting, and therefore provide minimal disclosures relative to what the public, banks, investors, and credit providers generally expect of the private sector. Given the prominence of banks and private sector investors in holding government debt, it is of no surprise that there is a growing demand for the same level of financial transparency and accountability from the public sector as is expected from the private sector. Current cash-based accounting systems, which operate in many countries, may provide inappropriate incentives for decision makers. For example, cash-based reporting systems would promote an obvious decision about whether to offer wage increases to government workers today, or whether to offer them increased pension benefits that they can access at a future date. A cash-based system, which does not require pension liabilities to be recorded and reported, will provide incentives for politicians to opt for the latter. No cash is exchanged today—that is, there is no increase in reported spending, and hence no pressure to raise debt—when the decision is made to offer increased pension benefits. However, an accrual-based accounting system that requires pension liabilities to be reported will promote more careful analysis, and could result in an alternative decision to be made when factors such as the government's financial position, net worth, and long-term sustainability are able to be considered. Accrual-based accounting standards ensure greater transparency and accountability in public sector finances as well as better monitoring of government debt and liabilities. (IFAC, 2014)

2.1.3. Framework and reporting entity

2.1.3.1 Conceptual Framework

A number of authors (CFG, 2012; Kevin Simpkins Advisory Services Ltd, 2006; NFPSAC, 2009) have cited a need for principles, rather than templates to guide NPOs' financial reporting. This suggests the need for a framework to guide these principles, and Conceptual Frameworks have been developed by the IASB. At present, the IASB is revising its Conceptual Framework and the IPSASB is also developing its Conceptual Framework with Exposure Drafts (EDs) issued for four parts. This sub-section highlights the two main issues that are of concern to NPOs from the current IASB Conceptual Framework. It is not primarily a synopsis or comparison of the different conceptual framework projects underway, but it is quoted to analyze:

a) The objectives of financial reporting; and

b) The users of financial reports (and their needs).

a) Objectives of financial reporting

The IASB's Conceptual Framework (OB2) states “the primary objective of financial reporting is to provide financial information about the reporting entity that is useful to users in making decisions about providing resources to the entity”. This single objective of decision-usefulness represented a change for the IASB and its user countries which had previously held a dual objective of stewardship/accountability alongside decision-usefulness.

It is likely that, when users do seek information to make decisions about providing resources to the entity (decision-usefulness) they will also focus on social aims rather than merely economic decision making (Davies, 2012). Again, this is more closely covered in the IPSASB Conceptual Framework and does not appear in the IASB Conceptual Framework.

b) Users

The IASB (2008, 2013c) when setting standards considers a narrow range of users, while the IPSASB (2013b) considers service recipients and resource providers.

2.1.3.2 Reporting entity

The reporting entity is a basic premise of financial reporting. In this respect, IFRS 10-12 and IPSAS 6-8 (recently updated to reflect changes in the relevant IFRS) seek to clarify the reporting entity in relation to for-profit and public sector entities respectively. The IASB's and FASB's Conceptual Framework project issued an ED on this matter in 2010 (IASB, 2013c).

The IASB/FASB ED stated that reporting entities are a “circumscribed area of economic activities” and recognizes that most single legal entities have the potential to be reporting entities, unless they lack barriers to distinguish their economic activity from another entity. The single biggest difficulty in NPOs is defining that economic boundary (PBE Working Group, 2012). This is because the majority of entities in the NPO sector are unincorporated (for example, Sanders, O’Brien, Tennant, Sokolowski, & Salamon, as cited by Crawfored,etal 2014), therefore defining those entities’ boundaries is even more difficult than if the boundaries related solely to legal entities. Further, the lack of ownership equity is also an issue (Kevin Simpkins Advisory Services Ltd, 2006; NFPSAC, 2009).

The existence of items held in trust further complicates the reporting entity definition.

In the not-for-profit sector items in trust may include physical items (as in a museum) or monetary amounts held in a variety of special trust accounts. Defining the reporting entity to provide adequate accounting for these trust funds requires further guidance in reporting standards (Davies, 2012; NFPSAC, 2009)

If an entity does control another entity, it must consolidate that entity’s accounts. Yet, in the not-for-profit sector, it has been found this does not often occur, as consolidation is perceived as expensive and difficult and there may be limited users for the consolidated GPFR that is produced.

2.1.4. Elements of financial statements

In this sub-section, the core accounting elements are considered and specific issues that arise in the not for- profit sector compared to IFRS and IPSAS.

2.1.4.1 Revenue recognition

Key revenue streams in the not-for-profit sector are donations, grants and contracts and other contributions. Many of these items are non-exchange revenue, that is, funds received where the donor does not expect to personally receive goods or services of equal value in return (Rossouw, 2007).

Non exchange revenue is not considered in IFRS, although guidance is provided in IPSAS23. IPSAS23 reflects the complex nature of this area, as shown in the discussions in the IPSASB Conceptual Framework Exposure Drafts on elements. In particular, the distinction between exchange and non-exchange revenue which at first appears quite simple, is not necessarily so. For example, sponsorship funds (potentially a non-exchange transaction) may include an exchange element (such as the necessity to provide access to staff or programmes). Torres and Pina (2003) highlight the uncertainty in the receipt of pledges and bequests, but typically entities recognize these only once they are received.

Another difficulty is in the area of valuing and recognising donated items/services (guidance is also offered in IPSAS Revenue from Non-Exchange Transactions). In particular, reliability has been prioritized over relevance of information about donated time, leading to few NPOs reporting such inputs, even though volunteers are ‘absolutely essential’ to many NPOs (Cordery & Narraway, 2010).

2.1.4.2 Expenses

Neither IFRS, nor IPSAS have clear guidance on reporting of fundraising, which means that some entities choose to report fundraising income net of expenses and others, gross (NFPSAC, 2009). NPOs’ fundraising practices also mean that there are wide variances in what expenses legitimately form part of the cost of fundraising or the programme-spending ratio; furthermore, many do not gather the information needed to calculate these ratios. The Charities SORP in the UK (Charity Commission 2005) prohibits “netting off” so fundraising expenses must be shown in full, but only where incurred directly by the charity (fundraising by external supporters’ groups is shown purely as a net donation).The cost of fundraising, an issue of international NPO sector concern, is therefore unable to be calculated effectively and "it is difficult for donors to know just how much of their donations are being spent on charitable purposes"

2.1.4.3 Assets

There is an assumption in this report that accrual accounting will be required for at least larger NPOs and therefore that assets will need to be valued and disclosed. IFRS defines an asset as "a resource controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise" (IASB, 2008). This focuses on the cash generating unit and the economic benefit to be derived from assets, and is at odds to the reason for holding assets in the not for-profit sector, as assets held by NPOs are most likely to be held for their service potential On the contrary, the IPSASB Exposure recognizes the service potential of an asset proposing to define it as "a resource, with the ability to provide an inflow of service potential or economic benefits that an entity presently controls, and which arises from a past event". This would allow preparers to value an asset at a 'value in use' rather than an 'open market' value when assets are used for a purpose other than their best purpose. Nevertheless, under IFRS such a decision creates both disclosure and valuation problems. (Bradbury & Baskerville, 2008; Davies, 2012; NFPSAC, 2009; Rossouw, 2007 as Cited in Crawford etal(2014).

2.1.4.4 Liabilities

In relation to liabilities in general, and specific issues already raised in the revenue and assets subsections, fair presentation continues to challenge NPOs, particularly how long a potential liability needs to be tracked and the ability to identify when an item ceases to be a liability

Guidance on liability definition is required, specifically in relation to unearned revenue. This is because some items may be liabilities or equity (see below) (NFPSAC, 2009). For example, restricted funds may represent a liability (and the restriction may be imposed, either by an external party due to an endowment, or by conditions defined by the NPO itself when soliciting funds); but such funds may also represent residual equity. Another example is concessionary loans provided by, for example, members to the entity. These may be liabilities in one period, but if the member decides to forgive the debt, they would become equity. (CFG, 2012; NFPSAC, 2009).

2.1.4.5 Equity and Funds

The accounting equation is problematic as the residual, equity, is unlikely to relate to the governors who have no claim on it, and is seldom paid directly to beneficiaries even if it arguably held on their behalf.

Residual equity typically does not return to members of an NPO (in the case of a charity this would usually be illegal). Where a charity is wound up, the assets are typically transferred to another charity, so neither the main donors, nor the current beneficiaries may be the residual equity holders (Davies, 2012; NFPSAC, 2009).

2.1.5. Regulatory and Financial Reporting Frameworks for Charities

Some examples of charities' regulatory and financial reporting framework in different countries are reviewed below.

United States: The primary charity regulator in the US at federal level is the Inland Revenue Service (IRS). The accounting standard setter in the US is FASB. FASB provided and amended in 2016 its Accounting Standard Codification 958 for Not-for-profit entities. The FASB Accounting Standards Codification is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. US persistently wants to keep its GAAP. However, IASB and the FASB are now working on a joint project following the Norwalk Agreement to develop an improved common conceptual framework that provides a sound foundation for developing future accounting standards (FASB, 2016; Crawford et al, 2014).

Canada: The Canada Revenue Agency (CRA) registers and regulates charities in Canada.

Charities in Canada can be registered private or public. Accounting standards for not-for profits controlled by government is set by the Public Sector Accounting Board whereas standards for the private sector, including private sector not-for-profits is set by the Accounting Standards Board (ACSB). The not-for-profit accounting in Canada is derived from Canada's 4400 series of the Handbook and is aligned with Canadian GAAP (Irvine,Ryan, & McGregor-Lowndes, 2010).

Switzerland: Charitable organizations that are supported by donations from public authorities in Switzerland are regulated by Swiss GAAP FER 216 for their accounting. Swiss GAAP complements the legal accounting provision. Compliant with the IFRS and IPSAS, FER Conceptual Framework 7.15 considers the annual financial reporting to include financial statements such as balance sheet, profit and loss statement, appendix along with financial report (Meyer, Ferrar, &Zoebeli, 2012).

United Kingdom: UK company law and charity law govern charities in England. The Statement of Recommended Practice for Charities (the SORP) issued by the Charity Commission and the Office of the Scottish Charity Regulator sets out how charities are expected to apply the relevant accounting standard to their particular activities and transactions, and explains how charities should present and disclose their activities and funds within their accounts. It provides a framework for charities to explain what they aim to do, how they go about it and what they achieve. Both company and charity law do not allow the use of IFRS for reporting rather allow Financial Reporting Standards applicable in the UK. SORP recommends to prepare accounts on the accruals basis to give a true and fair view of a charity's financial position and financial activities (Charities Commission, 2014).

Australia: The Australian Charities and Not-for-profits Commission regulates charities under the ACNC Act (Artiach et al, 2016). Australia has issued Australian Charities Commission Regulation 2016 to regulate charities and non-for-profit organization. Charities have an ongoing obligation to report each reporting period based on Australian Accounting Standards. The Australian Accounting Standard Board makes the Accounting Standards in line with IFRS. Charities report by submitting an Annual Information Statement and an annual financial report (Gilchrist, 2017).

South Africa : South African Accounting Standards Board (ASB) is the national public entity develops and maintain financial reporting standards for the public sector called 'generally recognized accounting practice' (GRAP) which were initially based on IPSAS(Crawford et al, 2014).

Accounting standards for private and public sector is different in South Africa. SAICA is in charge of private sector standards while IFRS is used for all listed companies and public entities (Prather-Kinsey, 2006).

There are no major bodies, in South Africa, that issue accounting standards for NPOs. Not-for-profit organizations submit narrative reports of their activities in the prescribed manner together with their financial statements for the financial year which are prepared with the standard of generally acceptable accounting practices (Crawford et al, 2014).

The common General Purpose Financial Reports produced by charities include balance sheet, income and expenditure statement and statement of cash flows. Financial reporting standards and requirements vary by country which creates heterogeneity in financial reporting (Brusca& Condor, 2002).

Thus, IPSAS are created with an aim to promote harmonization and comparability of international accounting, as well as to improve the reliability and transparency of public accounts (Bellanca&Vandernoot, 2014).

Hong Kong

As with all the countries surveyed, Hong Kong charities enjoy a tax-exempt status (under Sec. 88, of the Inland Revenue Ordinance, Cap 112) and donors receive some tax relief as well. Any donation to approved charities that are over HK$100, to a total of up to 10% of the donor's net income, are allowed as a deduction. There is currently no body that controls charities or monitors their financial accounts. Annual financial reports are to be prepared in accordance with generally accepted accounting principles and standards established by the Hog Kong Society of Accountants, along with separate externally audited financial statements for individual public appeals as required for a public subscription permit. The new scheme is a step to provide transparency and accountability for donors' money but no provisions have yet been made within HK accounting standards for charitable reporting. (Carolyn, 2015)

New Zealand

NZ's charity sector, while small by international standards, is nevertheless significant, with

25,279 charities registered with NZ's Charities Commission. The Commission was established in 2005 as the main regulatory body for charities, offering voluntary registration. The Commission has wide-ranging responsibilities, and operates in a joint arrangement with NZ's Inland Revenue Department to grant tax-exempt status to charities. (Helen & Chritine, 2013)

2.1.4.Adoption and Implementation of IPSASs

High-quality and timely accrual-based financial reporting in the public sector can be achieved through the adoption of globally-accepted, high-quality reporting standards developed specifically for the public sector, i.e., IPSASs. The adoption of IPSASs by governments worldwide will improve the quality of financial information reported by public entities, which is critical for investors, taxpayers, and the general public to understand the full impact of decisions made by governments with respect to their financial performance, financial position, and cash flows. Global adoption of these standards will facilitate the comparability of such information on a global basis and assist in internal management decisions in resource allocation (planning and budgeting), monitoring, and accountability. Furthermore, as a universal set of public sector accounting standards, IPSASs would also provide better information regarding systemic risks associated with government liabilities. Additionally, financial reporting using IPSASs supports the ability to conduct high-quality audits of governments' financial statements, as they provide a solid foundation and suitable criteria upon which auditors (in most cases, public sector auditors and supreme audit institutions) can undertake their work. The adoption of IPSASs would represent a significant step forward in achieving the financial transparency of national governments worldwide.

While the application of IPSASs alone would not solve the problems highlighted by the sovereign debt crisis, the appropriate use of financial information rendered from such standards would assist public officials and other groups in assessing the implications of fiscal decisions proposed or made by government. Indeed, it can be argued that without better reporting and enhanced transparency and accountability, the problems highlighted by the current sovereign debt crisis will never be truly and adequately resolved. (IFAC, 2014)

2.1.5. Public Interest

Governments have a responsibility to enact legislation, formulate and implement policy, and deliver products and services to their citizens. The decisions made and actions taken in fulfilling these ambitions should be undertaken in the public interest. Indeed, there is political accountability on the part of governments to ensure that they do act in the public interest. Governments have coercive powers to tax. Monies raised through taxation are allocated to spending, both recurrent (e.g., paying wages to public sector employees) and capital (e.g., spending on major infrastructure projects, such as roads and railways), for the benefit of the country and its citizens. This responsibility obliges governments to discharge their accountability by demonstrating the manner in which they have effectively and efficiently used the resources at their disposal. Additionally, where governments have shortfalls between amounts raised through taxation and amounts outlaid as government spending, they raise funds through debt markets. Where this is done, governments have a public interest obligation to market participants—investors and potential investors—to provide timely, reliable, and detailed information of their financial performance and positions—in the same way that listed companies have obligations to equity market participants. However, without robust, transparent, and accountable arrangements for financial reporting and financial management, it is not possible to reliably assess whether decision making by governments has been in the public interest. Furthermore, it is unlikely that governments will be able to adequately discharge their accountability, and provide the standard of information required by investors, without being able to publicly report and disclose high-quality financial information. It is, itself, a major public interest concern that strong financial reporting and financial management arrangements are not in place in many countries around the world. (IFAC, 2014)

The implications of not having appropriate systems in place include:

- A potential failure by government to deliver services and products in the most effective and efficient manner, and in a way that maximizes sustainable social benefit;
- making decisions to invest, or not invest, today in projects and programs that result in foregone potential benefits, and which represent an opportunity cost where citizens in the future will pay for the mismanagement of today; and
- Poor decision making that may be, at best, made with a short-term focus or, at worst, made in the self-interest of politicians and public servants who have incentives to operate in a particular fashion.

2.1.6. The Context of Public Finance Management

IFAC supports a whole system approach to public sector financial management, and recognizes the critical importance of the foundations of the system—stakeholder consultation, the demand for services and projects, and governance—which, along with the key process elements, aims to deliver public, community, and individual value as part of the overall objective to deliver sustainable social benefit. (IFAC, 2014)

The adoption of IPSASs and the preparation of full accrual-based financial statements alone will not enhance the transparency and accountability of governments. IFAC recognizes that to enhance public sector financial management, governments must implement the necessary institutional arrangements to support transparency and accountability, including measures such as:

- The preparation and delivery of high-quality and timely accrual-based financial reporting for the public sector. As systems develop, governments should aim to have information publicly available on at least a monthly basis;
- The publication, in a timely manner—no longer than within six months from the end of the reporting period—of independently audited financial statements for the public sector;
- The preparation and publication of public sector budgets and appropriations on the same basis; that is, on an accrual basis and in a timely manner;

- Full transparency—preparation and publication—of all financial reporting (position and performance), budgets, and appropriations in a sufficiently appropriate amount of time ahead of elections;
- Established, well-defined, and publicly available principles for fiscal management and control, with full transparency (publication in a timely manner) to demonstrate that principles are being followed.

2.1.7. Momentum in adoption globally

The increased focus on public sector financial management has created increasing demands for high-quality standards and for guidance on how to adopt and implement such standards. Over the past 5 years there has been an increasing interest in the IPSASs and a strong trend towards their adoption; this trend is anticipated to continue.

Currently over 80 jurisdictions have either adopted or have processes in place to adopt IPSASs, directly or indirectly, including the government of New Zealand, South Asian countries like Thailand, Indonesia and Malaysia, African countries such as Nigeria, and South Africa, Latin and South American countries such as Peru and Brazil and some European countries, Switzerland, Austria, Lithuania and Estonia among them. A number of international organizations have also adopted IPSASs, for example, the United Nations Systems, the Organization for Economic Co-operation and Development (OECD) and Interpol.

The European Commission (EC) report issued during 2013 considered the suitability of IPSASs for the member states of the European Union and described the standards as an “indisputable reference” in the development of European Public Sector Accounting Standards (EPSASs). A recent paper issued by the Federation of European Accountants (FEE) highlighted the importance of a single set of high quality principle-based standards, noting that this could greatly contribute to stability and sustainability of public finance – accruals-based accounting standards ensure completeness and reliability of information; harmonized public sector accounting standards enhance comparability. (IFAC 2014)

FEE noted that Europe needs foreign investors and since sovereign debt is traded on global markets, these standards should ideally be international - the only international public sector standards are IPSAS's. Making European public sector information more accessible and understandable should facilitate investment and benefit Europe. Sound public sector financial information will also better contribute to effective and robust public sector financial management.

2.2. Empirical Literature review

Grossi&Soverchia (2011) studied European Commission Adoption of IPSAS to Reform Financial Reporting. Their study highlighted the modernization of the European Commission (EC) accounting system using IPSAS and accrual accounting as a foundation. It used semi-structured interviews with officials and traced key decisive moments, routes and outcomes of events within the implementation stage of the reform emphasizing on the consolidation of annual accounts. The article examined how the EU consolidation process has evolved over time; the drivers behind the reform and the new consolidation approach. It concluded that the hybrid approach used by EU is appreciated and all the benefits and limits of the IPSAS approach to consolidation in a supranational public organization is showed.

Ijeoma and Oghoghomeh, (2014) in their study examined the expectations, benefits and challenges of adoption of International Public Sector Accounting Standards (IPSAS) in Nigeria. Primary source of data was employed to generate the data. The findings of the study showed that, adoption of IPSAS is expected to increase the level of accountability and transparency; enhance comparability and international best practices; provide more meaningful information for decision makers and improve the quality of the financial reporting system in public sector of Nigeria. The study concluded that the adoption of IPSAS in Nigeria is expected to influence operating procedures, reporting practices thereby strengthening good governance and relations with the government and the governed.

Charity Commission, 2014 presented a cost benefit analysis of IPSAS adoption in Zimbabwe. The study compared the existing cash accounting basis with the proposed IPSAS based accounting reporting. The study used a review approach to make the contrast by inspecting major publications and documentary materials. Adoption of IPSAS in Zimbabwe would change the basis for financial reporting from non IPSAS cash to full accrual IPSAS as a result facilitates the reconciliation between budgeted and actual results. The study concluded that IPSAS adoption improves the quality of financial reports and assists the government in managing both domestic and external debt and also improve donor confidence in the country as IPSAS encourages transparency and comparability.

The study by Tanjeh, (2016) sought to investigate the factors influencing the acceptance of government accounting reforms in general and IPSAS in particular in Cameroon. A survey; the Ordinary Least Squares (OLS) and Ordered Logistics Estimation techniques used. The main findings of the study revealed that the determining factors of IPSAS acceptance in Cameroon are knowledge and awareness, institutional organization, staff training and recruitment, management information system, qualification, sex, implementation cost, political support, and age. The paper finished up proposing a careful study of these factors by the government for IPSAS acceptance to happen.

Atuilik, Adafula, &Asare, (2016) analyzed the Benefits and Challenges in Transitioning to IPSAS in Africa in their study. Their study also assessed the methods for tackling the challenges to enjoy full benefits of IPSAS and reporting regime. The study explained the fundamental principles underlying IPSAS, followed by a discussion of the benefits and challenges while transitioning to IPSAS in general, and by African governments in particular. Cash and accrual IPSAS are examined and the status of IPSAS adoption by African countries discussed. The study concluded by recommending approach to African governments and a guide for effective transition to IPSAS.

Mohammed HuweishAllawiAlshujairi studied about Government Accounting System Reform and the Adoption of IPSAS in Iraq in 2014. His research investigated the needs of reforming the government accounting system in Iraq as a developing country through the adoption of an accrual accounting based on IPSAS. It explored the reasons; requirements; challenges and factors which support adoption of accrual basis accounting based on IPSAS mainly focusing Iraq's central government. The research uses qualitative methodology through a questionnaire.

The study disclosed that reform through the adoption of an accrual accounting based on IPSAS is inevitable to Iraq's government accounting. IPSAS rewards such as (meeting requirements of international financial organizations or sponsors and providing financial position and performance, assuring a better financial integrity, being more efficient to make use of the knowledge of IPSASB, improving accountability and transparency for resources, being a benchmark for evaluating and improving government accounting, enhancing (inter)national comparability of financial information of the Iraqi government with other governments, facilitating the consolidation of financial statements better than the present accounting system and improving public financial management) are reasons for its adoption in Iraq. The anticipated challenged during adoption includes big costs of implementation, shortage of qualified and professional accountants, and poor IT accounting system; shortage of trained human resources being the biggest one.

Another study conducted in Brazil to assess the advantages of the Implementation of IPSAS in Brazilian Public Accounting: Analysis of the perception was conducted by Diniz et al (2015). A questionnaire elaborated based on five theoretical approaches was used for the study. The key results of the study showed that the research participants agreed that the implementation of the IPSAS is viable. By the same token, the cost-benefit analysis of IPSAS implementation proved that the application of the IPSAS exceeds the investments made. It was also evidenced that, the state should be responsible for the training of staff and application of IPSAS. However, the responsible body for interpreting the standards, the international entities or the local institutions involved in the process are not well defined yet. It was verified that Brazil is adapting and accepting the new changes to be implemented in the public system. Nevertheless, the updating of its concepts and the confrontation of new challenges for the new phase of Public Accounting invites resistance.

In 2016, the Financial Accounting Standards Board (FASB) issued Phase 1 of new guidance on financial reporting requirements for nonprofit organizations – *ASU 2016 -14, Presentation of Financial Statements of Not-for Profit Entities*. This project began taking shape after FASB formed its Not-for-Profit Advisory Committee (NAC) back in 2009, partially in response to practitioners' frustration with the lack of fungibility and the amount of restricted money in many of the nonprofit organization revenue streams. The new standards, which are effective for annual financial statements beginning after December 15, 2017, and for interim periods within the fiscal year beginning after December 15, 2018, will challenge nonprofit organizations to present their financial statements in a more conventional and transparent way. As a result, donors, grantors, creditors, and other financial statement users and stakeholders should find it easier to assess a nonprofit's resources and the changes to its resources. Many experts believe the new guidelines will also provide more clarity within nonprofit organizations for those who must sift through financials for management and governance purposes. "While the current not-for-profit financial reporting model held up well for more than 20 years, stakeholders expressed concerns about the complexity, insufficient transparency, and limited usefulness of certain aspects of the model," observed FASB Chair Russell Golden, when the new guidance was issued on August 18 of last year. Golden added at the time that the new guidance would simplify and improve "the face of the financial statements" and enhance the disclosures in the notes. As a result, nonprofit organizations should be better able to communicate their financial performance and condition to their stakeholders. A wide variety of non-profit organizations will be affected by the new FASB rules including public charities, foundations, colleges, universities, health care providers, religious organizations, trade associations and cultural institutions, among others.

The key provisions of the new standards include:

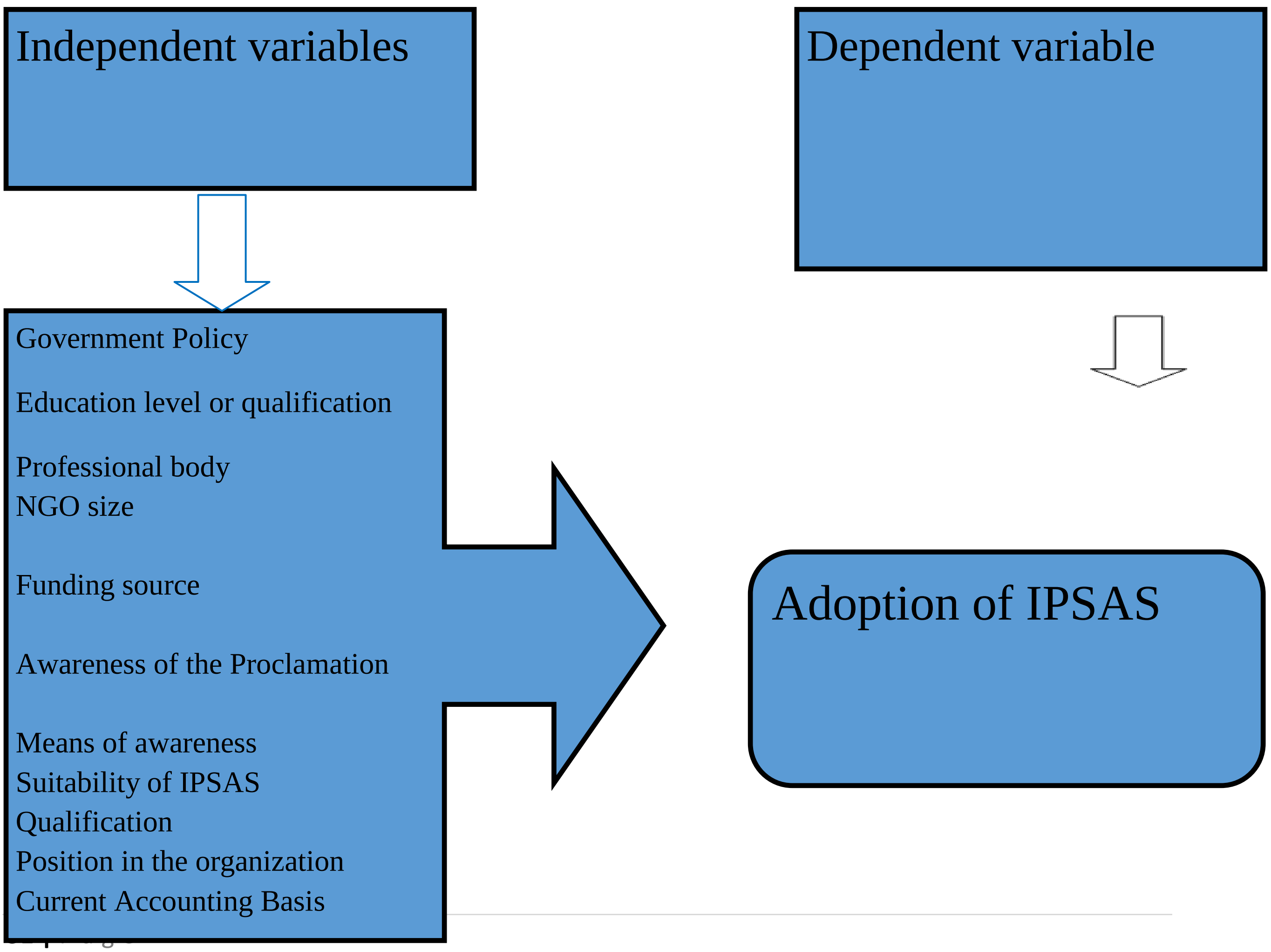
- Simplified net asset classes,
- Updates to the presentation of investment returns, functional expense, and cash flows from operating activities, and the addition of liquidity and available resource information.

Again, the standards are effective for annual financial statements beginning after December 15, 2017, and for interim periods within the fiscal year beginning after December 15, 2018. For some of the new provisions, organizations can implement certain changes during current year reporting without triggering early adoption. This phased approach may be preferable to ease the burden of transition and will allow the nonprofit organization some flexibility in determining the best presentation for their financial statement users.

2.3. Gap in the Existing Literature

As it can be seen from the empirical literature review above, there are a number of studies regarding IPSAS adoption or implementation in other countries mainly focusing on public sector other than Charitable organizations. Conversely, there is no empirical study conducted in charitable organizations in Ethiopia after the implementation of IPSAS. They focused mostly on Perceived benefits and challenges. Thus, the current study addresses this gap and assesses the real challenges of IPSAS adoption and implementation in foreign charities operating in Ethiopia.

2.4. Conceptual framework



CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Research Design

The purpose of this study was to identify challenges of adopting IPSAS by foreign charities in Ethiopia. This chapter provides a discussion on the research methods and procedures that were adopted in this study. It also discusses the research design especially with respect to the choice of design. It also discussed the population of study, sample and sampling techniques; data collection method, as well as data analysis and presentation method that are employed in the study and highlights the sources of information for the research. This research captures the issues and challenges faced by charitable organizations based in Addis Ababa in the process of adopting IPSAS.

3.2. Data Source & Collection Methods:

Foreign Charities operating in Ethiopia were considered as a source of data for analysis. The primary data was collected through the use of self-administered questionnaires from the Finance Heads or other relevant personnel (Deputy Finance heads) of the selected foreign charities, since Finance heads are expected to be knowledgeable of the subject matter, the current status, the stand of the organization and are also believed to be part of the decision making authority of the organization.

Their point of view on the matter is considered vital as they voice out their organization's stand. After identifying the sample respondents, the questionnaire was delivered through mixed method, email, postal address and in person to the respective organizations.

3.3. Target Population & Method of Sampling:

The population targeted by the study were the Charities operating in Ethiopia. According to the document collected from ChSA on November, 2019, the total number of Charities operating in Ethiopia is 2741. From this, foreign charities registered in different parts of the world and also in Ethiopia are 415 of which 173 are from US, 39 GOs from United Kingdom, 23 are from Germany, 17 from Canada, 11 from Netherlands, 8 from Italy, 71 are from other European countries, 17 from Asia and Australia and 8 from Africa. While the remaining 48 charities' country of origin is not specified in the data held at the ChSA, 361 charities have their head office in Addis Ababa and 46 are located in other regions. The total number of countries where these charities are originated are 35.

Table 1.Number of NGOs vs. Country of Origin

S/N	Country of Origin	Total Number of Foreign Charities
1	USA	173
2	Canada	17
3	UK	39
4	Germany	23
5	Netherlands	11
6	Italy	8
7	Other European Countries	71
8	Africa	8
9	Asia and Australia	17
10	Unspecified Country of	48

origin	
Total	***415***

Source: Federal Charities and Society Association of Ethiopia

Sample size was determined Using Cochran's Sample Size Formula. The Cochran formula allows us to calculate an ideal sample size given a desired level of precision, desired confidence level, and the estimated proportion of the attribute present in the population. Cochran's formula is considered especially appropriate in situations with large populations. A sample of any given size provides more information about a smaller population than a larger one, so there's a 'correction' through which the number given by Cochran's formula can be reduced if the whole population is relatively small. In this case, since the source population is relatively smaller (415), we need to adjust the sample size by using sample Size modification formula.

The Cochran formula is:

$$n_0 = \frac{Z^2 pq}{e^2}$$

Where:

- e is the desired level of precision (i.e. the margin of error),
- p is the (estimated) proportion of the population which has the attribute in question,
- q is 1 – p.

The z-value is found in a Z table.

Since we don't have much information on the subject to begin with, we assume that half of the organizations are already adopting IPSAS in their organization. So p = 0.5. By taking 95% confidence and at least 5 percent precision. A 95 % confidence level gives us Z values of 1.96, per the normal tables, so we get

((1.96)2 (0.5) (0.5)) / (0.05)2 = 385.

So a random sample of 385 respondents in our target population should be enough to give us the confidence levels we need. However, since the total population under consideration is small, we adjust the sample size by using a modification formula.

$$n = \frac{n_0}{1 + \frac{(n_0 - 1)}{N}}$$

Here n_0 is Cochran's sample size recommendation, N is the population size, and n is the new, adjusted sample size. Accordingly, new Sample size will be
385 / (1+ (384 / 415)) = 199≈200.

To achieve the maximum level of responses, all 415 organizations were approached but the first 200 samples were considered in the analysis.

The questionnaire has four parts which looks into Respondents' Information; Current Accounting Practice of each sample charity; Awareness and Preparedness in Adopting IPSAS and Expected Challenges to be faced in the Adoption of IPSAS.

3.4 Description of variables

3.4.1 Dependent variable

In this study the dependent variable is the adoption of IPSAS. Respondents will be asked whether or not they have adopted IPSAS (started the process of adoption) by their organization or not. If they adopted or started the adoption process, then it will be considered as yes and subsequently given a code "0". However if they did not adopt or else did not start the process, it will be considered as no and coded as "1"

3.4.2 Independent variables

A study conducted by Meseker W/Hawariat entitled "assessment of the perception of foreign charities in Addis Ababa on the benefits and challenges of adopting international public sector accounting standards (IPSAS) in Ethiopia" identified factors such as lack of experience(Education status), Lack of proper regulatory bodies(Policy) as some of the challenges in adopting IPSAS by charities. (Meseker, 2017)

Furthermore, the accounting and audit board of Ethiopia also underlined that Potential knowledge shortfall, Accounting Education and training, Limited Training Resources, Tax system effect, Legal system effect and Enforcement and Compliance mechanism as some of the practical challenges while adopting IPSAS. (Dawit, 2017)

In line with these studies this study focused on investigating the mix of variables of the above and other similar literatures reviewed.

Accordingly,

- Government policies[Lack of policy ,Hasty government decisions, improper IPSAS definitions] ,
- Education level (qualification)[There is shortage of qualified and accredited educational institution for Accounting Programs, Cost of engaging qualified/professional accountants, Non-availability of training materials to understand the processes of adoption,] ,
- Professional body[Lack of qualified and professional accountants, Lack of readiness on the part of the professional bodies/organizations and entities, Improper monitoring of Continuous Professional Development, There is lack of coherence between professional bodies and standard setting bodies thereby making adoption of the standard difficult.]
- Size of the organization as an Independent variables to be associated with IPSAS adoption[Serious lack of financial resources, Undervaluation of majority of the organizations by regulatory body]
- Funding source

Table2. Classification of Variable, symbol and means of measurement

S/N	Type of Variable		Symbol	Means of measurement
	Dependent	Independent		
1	Adoption of IPSAS		AdopIPSAS	Yes or No responses.
2		Government Policy	GovP	Likert scale
3		Professional Body	PB	Likert scale
4		Size of the NGO	NGOS	Likert scale
5		Awareness of the Proclamation	Procawarness	Likert scale
6		Means of awareness	meansawarness	Likert scale
7		Is IPSAS well suited	IPSASsuited	Likert scale
8		Qualification	Qualification	Likert scale
9		Position in the organization	OrgPos	Likert scale
10		Current Accounting standard	CurrentSTD	Likert scale
11		Current Accounting Basis	Basis	Likert scale
12		Funding source	Funding	Likert scale

3.5. Research Hypothesis

The following testable research hypotheses are developed to be tested.

Ho: Size of an organization has significant effect on the adoption of IPSAS

H1: Size of an organization has no significant effect on the adoption of IPSAS.

Ho: Government Policy has significant effect on the adoption of IPSAS by Foreign charities.

H1: Government Policy has no significant effect on the adoption of IPSAS by Foreign charities.

H0: The education Level/ Qualification has impact on the adoption of IPSAS by charitable organizations.

H1: The education Level/ Qualification has no significant impact on the adoption of IPSAS by charitable organizations.

Ho: Professional Bodies have significant relation with the adoption of IPSAS by charities.

H1: Professional Bodies have no significant relation with the adoption of IPSAS by charities.

Ho: Funding source has effect on the adoption of IPSAS.

H1: Funding source has no significant effect on the adoption of IPSAS.

3.6. Method of data Analysis and Presenting the Outcome:

Data analysis method

In this study, mainly closed-ended questions were developed based on the reviewed literatures conducted by other researchers in the past about adoption of IPSAS in various countries. The collected data was analyzed through descriptive and inferential statistics using Statistical Package for the Social Scientists (SPSS). Data entry was done using SPSS version 20 with double checking of all records. Further data cleaning and consistency check was done before data analysis. Using descriptive statistics, the study examined the frequency distribution of responses and confidence intervals around estimates. Initially Bivariable analysis was done and then multivariable modeling using binary logistic regression was executed to explain the relationships between one dependent variable i.e. Adoption of IPSAS on a binary scale (yes=0; no=1) and independent variables or predictors for the overall data. The stepwise Forward Binary Logistic regression (LR) method was chosen in order to exclude the insignificant predictors or variables. Hence, the research model can be specified as follows.

Log Odds of Adopting IPSAS = $\beta o + \beta 1GovP + \beta 2EduL + \beta 3PB + \beta 4NGOS + \beta 5$ Procawarness + $\beta 6$ meansawarness + $\beta 7$IPSASsuited + $\beta 8$Qualification + $\beta 9$ CurrentSTD + $\beta 10$ Basis + $\beta 11$ Funding

Where by

GovP: Government Policy

EduL: Education level or qualification

PB: Professional body

NGOS: NGO size

Awareness of the Proclamation: Procawarness

Means of awareness: meansawarness

Is IPSAS well suited: IPSASsuited

Qualification: Qualification

Position in the organization:OrgPos

Current Accounting standard: CurrentSTD

Current Accounting Basis: Basis

Funding Source: Funding

CHAPTER FOUR:

RESULT AND DISCUSSION

3.1. Result

A. Back ground information about the respondents and the organizations

A total of 200 International NGOs operating in Ethiopia were investigated and all of them responded to the questionnaires. One Hundred Sixty (80%) of the questionnaires were completed by the finance heads of the organizations and Three (6%) by deputy finance heads and the remaining Twenty Eight (14%) completed by other individuals. Sixty Percent (60%) of the respondents hold Masters Degree whereas the remaining 40% were degree holders. Majority (50%) of the respondents served between 5-10 Years in the sector and only 6% of the respondents served for more than 20 years.

Table 3: Frequency distribution of Socio Economic characteristics of study sample

S/N	Variable/Factor	Frequency	Percent
1	**Education background**		
	BA/BSC	80	40
	MSC/MBA/MA	120	60
2	**Position of the respondent in the organization**		
	Finance head	160	80
	Deputy finance head	12	6
	Other	28	14
3	**Duration of service (experience) in the sector**		
	<5years	20	10
	5-10	100	50
	10-15	20	10
	15-20	48	24
	>20	12	6
4	**Funding source**		
	Own fund	44	22
	Individuals	32	16
	International donors	124	62

Source: Questionnaire Survey collected from INGO operating in Ethiopia, January 2019

B. Current Accounting Practice of the organizations

All of the organizations assessed are currently using US based Generally accepted Accounting principle (GAAP) partly or completely and 156 out of 200 respondents(78%) use modified cash based accounting whereas 32(16%) of the respondents are using accrual basis and the remaining 12 (6%) have been using Modified accrual accounting.

Table 4: Frequency distribution factors related to current accounting practice in INGOs based in Addis Ababa, January, 2019

S/N	Variable/Factor	Frequency	Percent
1	**Current Accounting Standard**		
	US GAAP	200	100
2	**Current Accounting Basis**		
	Modified Cash Basis	156	78
	Accrual Basis	32	16
	Modified Accrual	12	6

Source: Questionnaire Survey collected from INGO operating in Ethiopia, January 2019

C. Adoption of IPSAS and associated factors

140(70%) of the organization reportedly are currently on the process of adopting IPSAS meaning they got relevant personnel trained or they already started the conversion process. All of them claimed they have been implementing because it is a mandatory proclamation. 168(84%) of the respondents are aware of the proclamation either through media (10%), Seminar/training (74%) or other means (16%).All of the respondents think IPSAS is needed for the INGOs out of which 148(74%) think it is well suited standard to apply in the development sector particularly for international NGOs.

144(72%) of the respondents strongly agreed on the fact that government policy such as hasty government decisions, lack of policy and lack of clarity(improper definitions) affect the adoption of IPSAS.

144(72%) of the respondents strongly believe that shortage of qualified individuals, cost of engaging qualified individuals and lack of enough training materials affect the adoption process.

152(76%) of the respondents agree that the size of the organization affects the adoption process where as 20(10%) of the respondents remained neutral.

Table 5: Frequency distribution factors related to the adoption of IPSAS and associated factors in INGOs based in Addis Ababa, January, 2019

S/N	Variable/Factor	Frequency	Percent
1	**Awareness of the proclamation**		
	Yes	168	84
	No	32	16
2	**Means of awareness**		
	Media	20	10
	Seminar or training	148	74
	Other	32	16
3	**Is IPSAS well suited**		
	Yes	148	74
	No	32	16
	I don't know	20	10
4	**In the Process of transition to IPSAS**		
	Yes	140	70
	No	60	30
5	**Effect of Government Policy**		
	Strongly Agree	144	72
	Agree	24	12
	Neutral	32	16
6	**Qualification**		
	Strongly agree	144	72
	Agree	56	28
7	**Professional body**		
	Strongly Agree	48	24
	Agree	152	76
8	**NGO size**		
	Strongly Agree	28	14
	Agree	152	76
	Neutral	20	10

Source: Questionnaire Survey collected from INGO operating in Ethiopia, January 2019

D. Model Test

Before a model is relied upon to draw conclusions or predict future outcomes, we should check, as far as possible, that the model we have assumed is correctly specified. That is, that the data do not conflict with assumptions made by the model. For binary outcomes logistic regression is the most popular modelling approach. On the table below, the P-values are above 0.05, indicating no evidence of poor fit. This is good, since here we know the model is indeed correctly specified.

Table 6. Hosmer and Lemeshow Test

Step	Chi-square	df	Sig.
1	.000	1	0.9

E. Bivariate Analysis

Table 6 below shows results of separately regressing adoption status of IPSAS (Yes/No) on each explanatory variable relating to socioeconomic, current accounting practice and status of IPSAS adoption in INGOs Operating in Ethiopia. Accordingly, all the factors that scored P value less than or equal to 0.2 in bivariable analysis were taken in to Multivariable analysis for further assessment. Three variables (Education background, Do you think that IPSAS is well suited? and Effect of Professional Bodies on IPSAS adoption) scored P≤0.2.

Although position of the respondents in the organization has not been statistically significant, there still exists variation among finance managers and other positions regarding belief to the importance of IPSAS adoption by contributing to the 56% of responses that complemented the adoption of IPSAS. Finance heads are 1.7 times more likely in favor of adopting IPSAS as compared to other professionals in the organization [AOR=1.7(95%CI=0.3-9.04)].The study also revealed that there is no difference regarding the adoption of IPSAS between the organizations that have been using Modified cash basis and modified Accrual basis of accounting [AOR=1(95%CI=0.0-2.1)] .

Those respondents who thought IPSAS is well suited to be implemented in an NGO sector are 9.4 times more likely to Adopt IPSAS as compared to those who have no idea about the suitability.[AOR 9.4(95%CI=9.4-9.5)]

Those respondents who strongly agree that qualification of a professionals affects the adoption process of IPSAS by INGOs are 5.5 time more likely to adopt IPSAS as compared to those who strongly disagreed on the effect of qualification.[AOR=5.5(95%CI=0.04-0.76)].

Table 7. Association of socioeconomic factors, Current Accounting Practices and IPSAS related factors with the adoption of IPSAS in INGO based in Addis Ababa, January, 2019

Explanatory Variable	Adoption (%)	Frequency	P-Value	AOR	95% C.I.	
	Yes	No			Lower	Upper
Position in the Organization			**0.8**			
Other	32(8%)	12(6)		1		
Finance Head	56(56(age))	48(24)	0.5	1.7	0.33	9.04
Deputy Finance Head	12(6%)	0(0)	0.9	1.2	0.00	7.01
Education background			**0.02**			
MA/MSC	96(48(age))	24(12)		1		
BA degree	44(22(age))	36(18)	0.06		0.08	1.07
Basis of Accounting			**1.00**			
Modified Accrual	12(6)	0		1		
Accrual basis	32(16)	0	0.9	0.0	0.0	2.4
Modified cash	96(48)	15(30)	1.0	1.0	0.0	2.1
Proclamation awareness			**0.9**			
No	0	0		1		
Yes	200(100)	0	0.9	8.07	0.9	2.5

Do you think It is well suited			**0.16**			
I don't know	4(2)	16(8)		1		
Yes	104(52)	44(22)	0.05	9.4	9.4	9.5
No	32(16)	0	0.9	6.46	0.0	6.2
Government Policy			**1**			
Neutral	0	32(16)		1		
Strongly Agree	116(58)	28(14)	0.9	6.69	0	2.5
Agree	24(12)	0	0.9	2.6	0	2.7
Qualification			**.5**			
Agree	24(12(age))	32(16)		0.7		
Strongly Agree	116(58)	28(14)	0.01	5.5	1.4	21.1
Professional Body			**0.00**			
Agree	120(60)	32(16)		1		
Strongly Agree	20(10)	28(14)	0.01	0.19	0.048	0.76
Size of the NGO			**1.00**			
Neutral	20(10)	0		1		
Strongly Agree	0	28(14)	0.9	0.0	0.6	2.8
Agree	120	32	0.9	0	0.0	2.8

Source: Questionnaire Survey collected from INGO operating in Ethiopia, January 2019.

F. Multivariable analysis

After adjusting variables for other factors in the model, only two of them Suitability of IPSAS and effect of Professional body (Lack of qualified and professional accountants, lack of readiness on the part of organizations and entities and lack of coherence between regulatory bodies and standard setting bodies) are found to be statistically significant on adoption of IPSAS. Those who said yes to the suitability of IPSAS to the INGO sector are 21 times more likely to adopt IPSAS as compared to those who have no idea about it.[AOR=21(95% CI=1.8-240)].

On the other hand the odds of adopting IPSAS is less by 87% for those who are less convinced(Just agree) about the effect of Presence of Professional bodies as compared to those who strongly believe about its effect on IPSAS.[AOR=0.13(95% CI=0.06-0.29)].

Table 8. Association of different covariates with IPSAS adoption status after controlling for other factors

Explanatory Variable	**Adoption Frequency ((age))**		**P-Value**	**AOR**	**95 % C.I.**	
	Yes	**No**			**Lower**	**Upper**
Do you think It is well suited			**0.05**			
I don't know	4(2)	16(8)		1		
Yes	104(52)	44(22)	0.01	21	1.8	240
No	32(16)	0	0.9	6	0.0	
Professional Body			**0.01**			
Strongly Agree	120(60)	32(16)		1		
Agree	20(10)	28(14)	0.01	0.13	0.06	0.29

Source: Questionnaire Survey collected from INGO operating in Ethiopia, January 2019

3.2. Discussion

As to the best knowledge and ability, this study is the first reported study about the adoption of IPSAS by INGOS in Ethiopia after the familiarization of the standard by the Accounting and audit board of Ethiopia. The study addresses 200 INGOs operating in Ethiopia to reach in a most acceptable conclusion.

The study assumed that more than half of the respondents to start the adoption process. However the study results indicated that more than half (70%) of the respondents have already started the conversion process despite the existence of several factors such as big costs of implementation, shortage of qualified and trained personnel and unavailability of IT-accounting system and lack of adequate technical capacity

This result is by far greater when compared with the study conducted by Miskir (2017) which revealed only 12% of the organizations assessed were ready to adopt the standard were by all of them readied to adopt because of the consequence of obligatory requirement from Ethiopian government Regardless of the reason, the new study revealed such a significant step towards the adoption process.

The study also disclosed that majority (84%) of the respondents are aware of the new proclamation regarding the International Public sector Accounting standard.

The study also depicted that 74% of the respondents believe that IPSAS is well suited for the adoption by the International NGOs.Howerver another study conducted two years ago in Ethiopia revealed an opposing result where by 81% of the respondents think IPSAS adoption is not feasible for several reasons.

Almost all of the respondents believed adoption of IPSAS is of benefit. This result is in congruence to the result identified by a study conducted by Miskir (2017) that indicated rating of respondents to the benefit items distributed in the upper half of the Likert scale with the least mean of 3.86 (S.D=0.727), the maximum mean of 4.29 (S.D=0.561) and a grand mean of 4.11 (S.D=0.785). This means that the respondents showed agreement or strong agreement for all the items.

On another study commissioned by CCAB, 64% of the respondents agreed that not-for-profit sector should follow internationally converged financial reporting standards.

Furthermore, the study revealed that 72% of the respondents in the study strongly agreed that lack of Experience (qualification) affect the adoption process. And yet more than 76 % of the respondents also agreed that professional bodies would affect the adoption process. In line with this result, study conducted previously to assess the level of perception on the challenges towards the adoption of IPSAS revealed more related findings revealing experience in adopting and implementing IPSAS (M=4.38, S.D=0.669); lack of proper guidelines from regulatory bodies on the adoption process (M=4.38, S.D=0.669) and increase administrative, compliance or other costs (M=4.43, S.D=0.598) as a challenges.

16% of the respondents who failed to start the adoption process, mentioned lack of information as a reason. Likewise, other similar studies revealed that the lack of knowledge base about IPSAS in the organizations and also in the country as a challenge to adoption which is due to the fact that IPSAS is new in Ethiopia were also rated moderately by respondents. Mesker (2017)

Chapter Five.

Conclusion and Recommendation

5.1. Summary of the Major Findings

According to the findings, the adoption of IPSAS is in a promising stage and requires few additional steps such as a refresher trainings, capacity building and regular follow-up by the supervisory bodies since the adoption process is a multifaceted change management process and requires coordinated plan and massive sensitization to those who remained to adopt yet.

As several researches indicated, IPSAS presents several benefits, transparency and accountability being the main ones. In addition to these benefits: improved efficiency, enhanced internal control, comparability, understandability and credibility leads to better resource management, better interpretation and acceptability of the financial report by the concerned bodies. This does not mean that IPSAS is free from challenges.

Few experiences of challenges in adopting and implementing IPSAS include; scarcity of highly qualified professionals and trained human resources; lack of proper guidelines from regulatory bodies on the adoption process and increase administrative, compliance or other costs are the key challenges of IPSAS adoption in Ethiopia. IPSAS is a new concept in Ethiopia and having the required technical expertise to apply and decipher IPSAS and exercise appropriate financial control is essential.

Many developing countries have in recent years announced their intention to adopt IPSAS standards. This report indicated that Ethiopia is one of the African countries that are comparatively on the right track to complete the process successfully and seamlessly.

The study assessed the challenges towards the adoption of IPSAS in foreign charities operating in Ethiopia. So far almost all investigated INGOs have been using the US GAAP and majority are willing to move to IPSAS in order to abide by the requirement of the governing body.

Accounting practices resulting from different standards which do not synchronize fully will require the foreign charities either converge to or use IPSAS alongside their own standard to respect the law of the land and also the law of their country of origin. Given the road map encompasses transition period and there are good number of NGOS using modified Cash based and accrual basis of accounting, the conversion process is expected to be accomplished without major impediments.

5.2. Major Findings and Conclusions

The study revealed that 70% of the respondents are currently on the process of adopting IPSAS. 36(72%) of the respondents strongly agreed on the fact that *government policy* such as hasty government decisions, lack of policy and lack of clarity(improper definitions) affect the adoption of IPSAS.Moreover,the same number of the respondents strongly believe that *shortage of qualified individuals*, *cost of engaging qualified individuals* and *lack of enough training materials* affect the adoption process. According to this study, though the benefits of IPSAS are acknowledged in the literature, some foreign charities in Ethiopia do not seem to recognize the fact that the benefits of IPSAS outweigh its challenges. The reason mentioned for this was lack of knowledge by foreign charities or lack of awareness regarding what might happen during IPSAS adoption as they have not started adoption yet.

5.3. Recommendation

The regulatory body should focus on reducing the possible challenges such as shortage of qualified personnel, lack of enough training materials, and cost of implementation to adopt IPSAS as early as possible so as to standardize and strengthen the financial reporting system of the NGO sector. This will help them in order to align with the financial reporting standards used internationally.

Even though IPSAS implementation is a mandatory requirement, Ethiopia lacks resources to implement IPSAS properly. An authoritative body for accounting leading the implementation of IPSAS need to establish professional bodies to ensure the quality and adoption of the process.

Furthermore, AABE has to continue its effort to raise the level of awareness of the foreign charities by organizing familiarization workshops, producing communication materials, preparing repeated capacity building trainings, etc. regarding the new proclamation to improve the acceptability and implementation of IPSAS

Furthermore, the charities should also proactively monitor and support the sector in the implementation of the new standard and assist them in overcoming the specific challenges faced by the NGOs.

The Accounting and Audit Board of Ethiopia shall need to amend the timeframe set on the road map of adoption considering the level of readiness by the foreign Charities and also give the necessary technical support to the foreign charities.

5.4. Limitations of the Study

The study assessed the issues related to the adoption of IPSAS specifically on Foreign Charities working in Ethiopia. The researcher believes that it would be much more comprehensible if appropriate detail of investigation was conducted in all foreign charities to have a full overview of the adoption of IPSAS in Ethiopia and draw genuine results. However, such limitation was partially addressed by taking at least one respondents from each country of origin.

5.5. Future research

Based on the lesson learnt and challenges faced, the researcher would like to recommend future researchers to make a more comprehensive study addressing both local and International NGOs.The researcher would also like suggest another similar study by the end of the current road map set by AABE to clearly analyze pros and cons of the new reporting standard.

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Appendix (Annex):

Survey Questionnaire

JIMMA UNIVERSITY, ABH CAMPUS, COLLEGE OF BUSINESS AND ECONOMICS ADDIS ABABA, November, 2019

Dear respondent,

Ethiopia adopted the international public sector accounting standards as of 2017, and subsequently the Accounting and Audit Board of Ethiopia introduced a road map of implementation to Charities and Societies. It is believed that some have already started implementation, others are on the way and few might have never started.

This research entitled "Assessment of challenges towards the implementation of IPSAS by Foreign Charities based in Addis Ababa" aimed at identifying some of the challenges faced by selected charitable organizations.

The lead investigator, Mr. Tewodros Belachew will be undertaking the research as a partial fulfillment of the MBA.

The target respondents of these questionnaires are heads of financial departments or delegates in selected foreign charities. Please give due attention to respond. The response you give is considered to be the reflection of your organization's position. Respondents will not be identified either by name or position. Your feedback will be treated as confidential at any stage of the research and it will be used purely for academic purpose only.

I thank you for your valuable response, time and support. Please do not hesitate to contact the researcher, if you require further information about the research or have any question about the items in this questionnaire.

Yours sincerely;

Tewodros Belachew

Email: tewodros_belachew@yahoo.com

Telephone: +251911534655

INSTRUCTION: PLEASE TICK IN THE BOX FOR YOUR CHOICE

PART ONE – Respondents' Information

1.Your Position in the organization (if the position name is different from below consider the equivalent)

A. Finance Head☐ B. Deputy Finance Head ☐ C. Other ☐

2. Educational Background

A. Diploma ☐ B. BA/BSC Degree ☐ C. MSc/MBA/MA ☐ D. Other ☐

3. How long have you been working on charities financial management?

A. Less than 5 Years ☐ B. 5-10 Years ☐ C. 10-15 Years ☐ D. 15-20 Years ☐

E. Over 20 Years ☐

4. Name of the organization you are working____

PART TWO – Current Accounting Practice

FOR QUESTIONS #6, #11, #13 and #14 YOU CAN SELECT MORE THAN ONE CHOICE

5. What is your organization's main source of funding?

A. Organization's own fund ☐ B. Individuals ☐ C. Foreign Government (like embassies) ☐

D. International donors ☐ E. United Nations (UN) Agencies ☐ F. Other ☐

6. Which accounting standard does your organization use currently?

A. National GAAP of the country which the organization is inAORporated (US GAAP, etc.) ☐

B. Specific accounting standards applicable to charities in the country of origin ☐

C. International Financial Reporting Standards (IFRS) applied in full☐

D. IPSAS and IFRS Mixed ☐

E. International Public Sector Accounting Standards (IPSAS)☐

Other, please specify ____________________________________

7. Which basis of accounting does your organization follow currently?

A. Cash basis ☐ B. Modified cash basis ☐ C. Accrual basis ☐ D. Modified Accrual ☐

PART THREE: Awareness and Preparedness in Adopting IPSAS

8. Is your organization aware of proclamation No. 847/2014 dated December 5, 2014

About IPSAS adoption for public sector as of fiscal year 2017?

A. Yes ☐ B. No ☐

9. If your answer is "Yes", how did your organization come to be aware of the

Proclamation?

A. Media ☐ B. Formal Education ☐ C. Seminar or Training ☐

D. Self-reading ☐ E. Other ___________________________

10. If your answer is "No", what do you think is the reason to miss the information?

A. It is not well publicized ☐ B.It does not concern us ☐ C. I don't know ☐

D. Other _______________________

11. Do you believe that there is a need for specific accounting standard for charities?

A. Yes ☐ B. No ☐ C. I don't know☐

12. Do you think IPSAS is well-suited for charities /address specific issues of charities?

A. Yes ☐ B. No ☐ C. I don't know☐

13. Has your organization adopted or on the process of adopting and implementing IPSAS in your accounting system?

A. Yes ☐

B. No☐

14. If "Yes", why? (You can select more than one choice)

A. Obligatory requirement by government ☐

B. It is in line with existing practice in HQ☐

C. Better accounting quality (High-quality standards) D. Donor pressure☐

E. Goes in line with the existing practice by the organization☐ F. Other_________

15. If "**No**", why? (You can select more than one choice)

A. We don't know that we need to start adopting it ☐

B. We don't have the required resources (HR, IT and time) ☐

C. It is not compatible with the system at HQ ☐

D. Other, please specify ☐

16. If you had a choice would your organization chose otherwise?

A. Yes ☐ B. No I don't know ☐

PART Four: Envisaged Challenges to be faced in the Adoption of IPSAS

Please kindly tick your option in the spaces provided below.

A: **AGREE** **SA:** **STRONGLY AGREE**

D: **DISAGREE** **SD:** **STRONGLY DISAGREE**

N: **NEUTRAL**

	SA	A	N	D	SD
Section A: Government Policies as a factor that affect the level of adoption of IPSAS					
Hasty government decisions affects adopting IPSAS					
Lack of Policy Affects the adoption					
Improper definition(lack of Clarity) affects the adoption of IPSAS					
Section B: Qualification as a factor that affect the level of adoption of IPSAS					
There is shortage of qualified and accredited educational institution for Accounting Programs.					
Lack of coherence between educational programmes and professional programmes.					
Cost of engaging qualified/professional accountants					
Non-availability of training materials to understand the processes of adoption					
Section C: Professional bodies as factors that affects the level of adoption of IPSAS					
Lack of qualified and professional accountants that properly understands the processes of adoption of IPSAS					
Lack of readiness on the part of organizations and entities for the implementation of IPSAS					
There is lack of coherence between regulatory bodies and standard setting bodies thereby making adoption of the standard difficult.					
Section D: Size of the NGO as a factor that affect the level of adoption of IPSAS					
Undervaluation of majority of the NGOs due to not being publicly accountable affects adopting IPSAS.					
Serious lack of financial resources within an organization to boost the organization standards and capacity.					

THANK YOU!!