

IMPLEMENTATION OF INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS): VARIABLES AND CHALLENGES, ADVANTAGES AND DISADVANTAGES

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ABSTRACT: *International Public Sector Accounting Standards (IPSAS) are developed by the International Public Sector Accounting Board (IPSAB) and aim to harmonize international accounting in the public sector. Although the adoption of IPSAS is considered a necessary condition for the harmonization of accounting systems in the public sector and for meeting the needs of transparency, comparability and completeness of financial information, the degree of adoption of these international standards is still quite low. Therefore, this article aims to analyze the IPSAS adoption process in terms of challenges, advantages and disadvantages.*

KEY WORDS: *IPSAS, advantages, disadvantages, challenges, public sector accounting, transparency.*

JEL CLASSIFICATIONS: *M41, H83.*

1. INTRODUCTION

International Public Sector Accounting Standards (IPSAS) are "the public sector equivalent of International Financial Reporting Standards (IFRS), which apply to the private sector and are developed by the International Public Sector Accounting Board (IPSAB)" (Chima, 2021). The adoption of IPSAS is usually seen as "a step towards improving the quality of public financial information, accountability and transparency" (Castañeda-Rodríguez, 2022).

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IPSASB recognises the significant benefits of obtaining consistent and comparable financial information across jurisdictions' and 'encourages the adoption of IPSAS and the harmonisation of national requirements with IPSAS (IPSASB, 2022).

The need to implement IPSAS provides for political desire and support, as well as the harmonisation of public sector accounting.

The latter "includes the desire to compare financial information, facilitate the consolidation of financial statements and improve credibility" (Schmidhuber, et. al., 2020).

The research methodology used is qualitative analysis through documentation. Thus, research papers and relevant and current articles related to the chosen topic have been identified and analyzed.

The basic objectives of the research are the review of the literature on International Accounting Standards for the Public Sector and the analysis of the process of adopting these standards through the prism of examining the key factors, challenges, advantages and disadvantages of implementing these standards. In order to initiate and substantiate the research paper, the global adoption status of IPSAS for December 31, 2021 was analyzed.

The main research questions are correlated with its objectives:

- What is the overall IPSAS adoption status in the current period?
- How is the ipsas adoption process going?
- What are the key factors and challenges that countries face in the ipsas adoption process?
- What are the advantages and disadvantages of adopting IPSAS?

2. CURRENT STATE OF THE RESEARCH

In the literature, International Public Sector Accounting Standards (IPSAS) are often described as "neutral and rational calculations that improve transparency and accountability in resource management and allow poor nations such as Nigeria to attract international capital" (Bakre, 2022). The adoption of IPSAS is seen by many scholars and practitioners of public financial management as a "necessary condition for the harmonization of public sector accounting systems and for meeting the needs for transparency, comparability and completeness of financial information (Schmidhuber et al., 2020). In this context, Rechka et al. argue that the International Public Sector Accounting Standards (IPSAS) represent "a significant leap forward in the process of reforming public accounting" (Rechka, et al. 2022).

However, "the problems that arise in the context of adopting a common language through IPSAS are multiple and it will not be easy to prove their usefulness, advantages and disadvantages of using them" (Crețu, et al., 2011), therefore, "the implementation and usefulness of IPSAS is still a hotly debated topic". In this context, Castañeda-Rodríguez (Castañeda-Rodríguez, 2022) argues that "there are many governments around the world in a race to implement International Public Sector Accounting Standards (IPSAS) with the hope of improving state intervention, efficiency, comparability, transparency and accountability, but with uncertainty about meeting these objectives".

It is important to note that, "the adoption of international accounting standards for the public sector has increased since the 2019 Report, which until then "had lower levels of full adoption" (IFAC, 2022).

Regarding this, Crişmaru et al. argue that "even if there are examples of good practice in the application of IPSAS at the level of public institutions around the world, however, the degree of implementation is still low" (Crişmaru & Hlaciuc, 2021). In other words, although the implementation of IPSAS has been successful over the last three years, it has not reached the expected level.

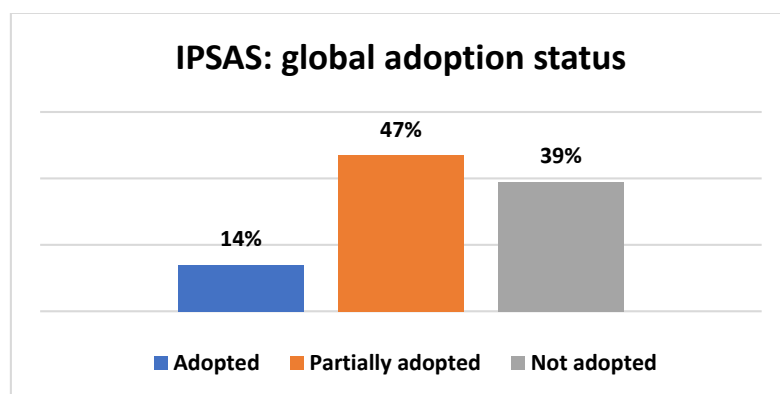
Currently, while several difficulties are known that "raise concerns about the usefulness of implementing IPSAS and accounting for commitments in the public sector to improve transparency and accountability" (Castañeda-Rodríguez, 2022), their implementation is persuasively encouraged.

3. ANALYSES AND RESULTS

3.1. Ipsas Global Adoption Status Analysis

Since IFAC issued the International Standards: 2019 Global Status Report in 2019, "IFAC member organizations have continued to make progress in adopting international standards that ultimately support higher economic growth and financial market stability" (IFAC, 2022).

According to the IPSAS Global Adoption Statute of 31.12.2021, the structure of IFAC member organizations, in terms of ipsas adoption, is as follows: 14% adopted IPSAS in full, 47% partially and 39% did not adopt international accounting standards for the public sector (figure no. 1).



Source: Own projection by IFAC-International-Standards-2022-Global-Adoption-Status-Snapshot.pdf, <https://www.ifac.org/system/files/publications/files/IFAC-International-Standards-2022-Global-Adoption-Status-Snapshot.pdf> accessed online at 29.11.2022

Figure 1. IPSAS Global Adoption Status of 31 December 2021

It is important to note that, "the adoption of international accounting standards for the public sector has increased since the 2019 Report, which until then "had lower

levels of full adoption" (IFAC, 2022). Thus, through table no.1, the positive changes and trends of the global adoption state were represented, especially the 35.7% increase in the complete adoption of IPSAS.

Table 1. Changes and trends of the global adoption state

from 31.12. 2022*	Adopted (variation from 2019)	Adopted (#change of jurisdiction over 2019)	Partial Adopted (variation from 2019)	Partial Adopted (#change of jurisdiction over 2019)	Not adopted (variation from 2019)	Not adopted (#change of jurisdiction over 2019)
IPSAS	+35,7%	from 14 to 19	-4,5%	from 67 to 64	+8,2%	from 49 to 53

Source: Own projection by IFAC-International-Standards-2022-Global-Adoption-Status-Snapshot.pdf, <https://www.ifac.org/system/files/publications/files/IFAC-International-Standards-2022-Global-Adoption-Status-Snapshot.pdf> accessed at 29.11.2022

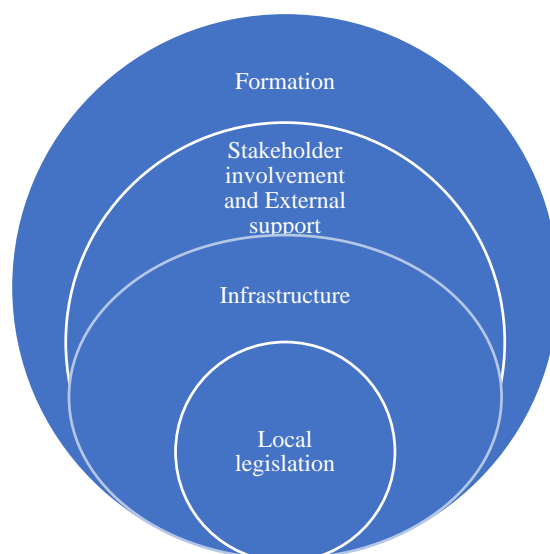
**The fully updated dataset tells a positive story. IFAC welcomed seven new members in five new jurisdictions between 2019 and 2021; these new members and jurisdictions are included in the updated data set for 2021. Therefore, data sets do not compare exactly the same total numbers. In addition, given the increase in the total number of jurisdictions analyzed, in some cases the percentages and number of adoptions change at different rates.*

According to IPSAS (2022) the positive trend of adopting the implementation of IPSAS "was primarily driven by the progress in adoption in Latin American countries, Ecuador Guatemala and Uruguay representing three of the five jurisdictions that move to full adoption". It is also stated that constant access to Spanish translations of International Public Sector Accounting Standards has allowed these countries to adopt the application of IPSAS directly in the law.

3.2. Key success factors in adopting IPSAS

In the key success factors research in implementing international public sector accounting standards Haija et al. (2021) explores key success factors in the adoption of IPSAS: training, local legislation, infrastructure, external support and stakeholder involvement, and recommends exploring the cost-benefit factor in countries that have adopted IPSAS fully. The authors identify that local legislation, followed by infrastructure, are the two most important variables, placing them on the first level, and external support and stakeholder involvement were placed on the second level. It is important to note that, "despite the fact that the training has reached the top of the list, the majority of respondents had training in IPSAS, but perceived the other factors as more important due to the fact that, initially, the implementation of IPSAS requires appropriate legislation and infrastructure".

In relation to the data obtained by Haija et al. (2021) and their explanations we represented through figure no. 2 most important variables to consider in the process of successful implementation of IPSAS.



Source: Own screening by Haija et al., 2021

Figure 2. Key success factors in the implementation of IPSAS

In the article entitled International Public Sector Accounting Standards (IPSAS): A systematic literature review and future research agenda L. Schmidhuber et al. provides some insights into the factors that contribute to the successful implementation of IPSAS and its challenges (Schmidhuber, et al., 2020).

They therefore identify factors such as economic desire and support; the need to harmonise public sector accounting (improving the comparability of financial information, facilitating the consolidation of financial statements, improving credibility); modernisation of accounting systems; international public management reform; monitoring of international standards; legitimisation to improve transparency and financial reporting; efforts to promote the IPSAS accounting profession; combating local government debts and reducing tax risk; cohesion among key stakeholders are factors that promote the implementation of IPSAS and factors such as path dependency; fear of losing the authority of setting standards, the costs of adoption; the divergent interests of accountants and politicians; lack of pressure for change are barriers to the implementation of IPSAS.

In addition, they add that "the modernization of accounting systems and internationalisation have proven to be a history of the adoption of IPSAS." Under these circumstances, the authors conclude that "the transition to IPSAS is a challenge; it takes time and it's expensive".

3.3. Implementation challenges

Haija and his collaborators (2021) state that "the implementation of IPSAS faces many challenges, such as resistance to change, poor IT infrastructure, poor accounting practices and, in general, the failure of accounting information systems."

The authors identified that the competence of government employees and their low level of openness to accepting IPSAS recommendations were the main drawbacks in the Indonesian context. Also important is the remark made by them, namely that "the absence of fertile ground for legislation that could support IPSAS minimises the quality of reports by governments".

Also, Polzer et al. identify challenges in the implementation of IPSAS, namely, divergent national traditions, implementation costs or the preservation of sovereignty. The authors also note that "in some countries, the reluctance to implement IPSAS is quite intense" (Polzer, et al., 2021).

Crîşmaru et al. argue that the degree of implementation of IPSAS is still low due to the challenges involved in implementation. A first challenge identified by them is the training "the adoption of IPSAS requires the understanding, education and involvement of all stakeholders, including political function holders, auditors, accountants, state banks and ministries", and "the staff of public institutions do not have, most of the time, the necessary skills and competences, and the implementation will require a training program for increasing competences and for specialization of staff". After which, they mention the following challenges, namely, the need for changes in the legislation; adopting rules and regulations that must be adapted to the specificities of each country; the long-term process, which requires numerous resources: material, human, informational, financial etc. (Crîşmaru & Hlaciuc, 2021).

The cost, the last aspect that influences the adoption of IPSAS and perhaps the most important in making the decision. "The high cost of ipsas implementation discourages public sector entities from adopting their standards. The cost of IPSAS includes training, employment, consulting, organizational changes, IT investments and other overheads, depending on the activity and nature of the entity" (Miraj et al., 2018).

Beşteliu argues that the main challenges in expanding the application of IPSAS in Romania are the difficulties in understanding and applying certain concepts within IPSAS, selecting ipsas treatments suitable for reflecting certain transactions and events, the differences existing between IPSAS and national regulations and training costs (Beşteliu, 2021).

3.4. Advantages IPSAS

According to IPSASB (2022) 'the adoption of IPSAS by governments will improve both the quality and comparability of financial information reported by public sector entities around the world'.

In this context, Polzer et al. state that 'the claimed benefits to governments of adopting IPSAS include, among other things, increased accountability and transparency, improved decision-making and increased efficiency'.

The application of IPSAS provisions ensures the substantiation and obtaining of qualitative information, on which economic decisions can be based (Crîşmaru & Hlaciuc, 2021). The application of IPSAS has several advantages, among which we find (Beşteliu, 2021): "they are considered to confer an economic and financial vision to governmental and local public entities, ensure the quality and consistency of public financial reports, reflect the transparency and effectiveness of public entities, being

oriented towards a culture of performance, or improve the functioning of internal control and transparency in the public sector, ensure that complete and more consistent information on expenditure and revenue is provided and that more consistent and comparable financial statements are presented over time and between different entities'.

In the International Public Sector Accounting Standards Implementation in the Russian Federation study M. Legenkova (2016) makes the following findings: the use of IPSAS as a basis for establishing a system of national accounting standards and public sector financial statements is a key factor in improving the quality of accounting information; the use of IPSAS as a basis for establishing a system of national accounting standards and public sector financial statements is a key factor in the unification of Russian accounts of public sector organizations; the use of IPSAS as a basis for establishing a system of national accounting standards and public sector financial statements is the key to understanding Russian financial statements for foreign users (Legenkova, 2016). In addition, the author argues that, 'IPSAS could also be useful for future developments in public sector auditing'. Due to these considerations, the author recommends the necessary update of the IPSAS translation and systematic work on the implementation of IPSAS terms in the standards of Russian projects in the public sector, and therefore supports the implementation of IPSAS in other countries.

M. Javed et al. in the article *Analysis of Accounting Reforms in the Public Sector of Pakistan and Adoption of Cash Basis IPSAS* states that "streamlining the accounting system in accordance with "the best practices in the world" will result in consistency and transparency in the financial management of the country, ensure good governance, increase investor confidence and help strengthen the economy" (Javed, et al., 2018).

It is important to note that the authors recommend the transition from the cash accounting system to the accruals accounting system, since "Pakistan has reflected a satisfactory margin after the implementation of the new reforms". However, it should be emphasized that "accrual accounting is not the panacea or the solution to all problems of improving performance but above all a good way to have better information about the cost of the services offered" (Ayachi, 2018).

In the case of Romania, Beșteliu identifies the following advantages of ipsas adaptation: "continuous improvement of the quality of financial statements of public institutions in order to provide relevant, credible information and, at the same time, to ensure comparability between reporting periods, but also between public entities in our country; ensuring a comparable reporting framework at country level for both the private environment and that of public institutions".

As a result of these advantages, the author emphasizes that "in Romania we can talk about a convergence of national norms with international accounting standards for the public sector, rather than about a harmonization or compliance with them".

The conclusion is that "the application of IPSAS standards is considered a genuine revolution, perhaps much more important than that of IFRS standards for economic entities, this is because public institutions will be managed similarly to a private entity, with an accounting of commitments, patrimonial and double-entry" (Ristea, et al., 2010).

3.5. Disadvantages IPSAS

The application of IPSAS represents "a real challenge for administrations: the difficulties arise both from the production of accounting information and from the application of the principles themselves" (Vallat, 2006). In other words, "the accounting system based on IPSAS has its limitations, which can be divided into two categories: content and system" (Țuțuianu, 2016).

A first disadvantage of IPSAS is that "IPSAS standards are complex and difficult to interpret even if they also include comments, having an economic and financial character that does not directly correspond to the legal terminology specific to each country. In addition, governments must also produce their own standards because IPSAS standards do not deal with all specific transactions occurring in the public sector" (Ristea et al., 2010). Another disadvantage mentioned by Ristea and his collaborators is the additional financial cost "once the IPSAS standards are applied, they will have to be audited, which will require additional financial expenses". Of the same opinion is V. Castañeda-Rodríguez who argues that "the implementation of IPSAS is an expensive process in terms of money and time" and that it is difficult to determine whether the adoption of IPSAS is linked to real benefits when the process has been slow and ambiguous (Castañeda-Rodríguez, 2022).

The lack of a unified conceptual framework for IPSAS to define its scenario and implementation procedures can also be added to the disadvantages of IPSAS; lack of a universal chart of accounts for the comparability of information worldwide (Țuțuianu, 2016); resistance to change and lack of better understanding of the significance and operation of the IPSASs tool (Sayed Ahmad & Naseverdine, 2019).

4. CONCLUSIONS

In this article we have conducted an analysis of the IPSAS implementation process through the prism of examining the global adoption status, the key factors, challenges, advantages and disadvantages of implementing these standards. The implementation of IPSAS faces several challenges in the adoption process, such as resistance to change, poor IT infrastructure, poor accounting practices. Regarding the key factors of success in implementation, we have identified that local legislation, infrastructure, cost of implementation, training and external support are the most important variables of the adoption process.

We found that According to the 2019 Report, the adoption of international accounting standards for the public sector has increased in the last 3 years, however the degree of implementation is still low. So, there is still uncertainty about the usability of IPSAS, with the implementation of IPSAS in terms of advantages and disadvantages still being a hotly debated topic.

We believe that the advantages of adopting IPSAS dominate the disadvantages and limits of this accounting system, which by implementing step by step, can be gradually eliminated. Therefore, their implementation is persuasively encouraged.

Certainly, "the future in public accounting implies harmonization with IPSAS" (Crîșmaru & Hlaciuc, 2021).

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