

The Effect of Implementing International Public Sector Accounting Standards on the Financial Reporting and Internal Control Systems in United Nations Agencies

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Abstract

United Nations agencies had exerted significant efforts, costs and time in converting their accounting system from UNSAS to IPSAS compliant. This research aims to conduct a thorough analysis of the IPSAS implementation impact on the financial reporting and internal control system in the UN agencies. Significant cost and time exerted to complete such conversion and implementation is a key issue to the executive management of the United Nations agencies, their governing bodies, and their member states. The research provided an independent evaluation of the implementation process and results achieved in each agency. Likert scale survey was used in this study to measure the benefits derived by IPSAS according to the respondent's point of view. The analysis of the responses of the participants showed that IPSAS implementation improved the financial reporting of the UN agencies and brought them in line with globally recognized standards and made their financial statements understandable by all stakeholders and comparable among each other. In addition, the implementation of IPSAS led to a better internal control system for the UN agencies.

Keywords

IPSAS, Financial Reporting, Internal Control, Accounting Standards and United Nations.

1. Introduction

The United Nations decision to move from United Nations System Accounting Standards (UNSAS) to International Public Sector Accounting Standards (IPSAS) had raised many questions and remained controversial matter for long time. Several in-depth reviews and analytical studies tried to answer the question if moving to IPSAS was justifiable and successful, meaning the change had achieved its stated objectives of improving the financial reporting and internal control systems. This study aimed to respond to this controversial matter.

1.1 Importance of the Research

In 1991, the United Nations (UN) agencies adopted a unique accounting standard called United Nations System Accounting Standards (UNSAS) that aimed to meet the accounting and reporting needs of the United Nations agencies. However, this unique set of accounting standards negatively affects the understandability and acceptability of the UN financial reports. In 2006, the UN General Assembly adopted a resolution to adopt International Public Sector Accounting Standards (IPSAS) by all UN agencies. This decision came after major scandals accusing the UN agencies of inaccurate and incomplete reporting of their activities. The first agency to implement IPSAS was World

Food Programme (WFP) in 2008, while the last agency was the Food and Agriculture Organization (FAO) as of end 2014. In between, 23 agencies had implemented IPSAS successfully. The United Nations General Assembly decision to implement IPSAS to improve the financial reporting of the UN and strengthen the internal control environment was fully aware of the cost significant implication and the disruption of regular work to the UN Secretariat and the UN specialized agencies. While several assessments are undertaken by different UN bodies to assess the success level of each UN agency in the IPSAS implementation, there is no comprehensive and deep analysis to give a complete picture of the impact of IPSAS implementation, and, more importantly, the lessons learned from such major projects can be drawn from similar UN-wide projects. We believe that hence all UN agencies had implemented IPSAS, and this is the perfect time to make an in-depth analysis and study of the impact of IPSAS implementation in comparison to the sought objectives.

1.2 Research Problem

The UN agencies had exerted significant efforts, costs and time in converting their accounting system from UNSAS to IPSAS compliant. The research problem is to explore in an objective, scientific, and analytical manner if conversion to IPSAS had achieved its two planned targets, namely improving their financial reporting and strengthening their internal control system. The significant costs and time exerted to complete such conversion and implementation is a key issue to the executive management of the UN agencies, their governing bodies, and their member states.

1.3 Purpose of the Research

All UN agencies had declared the successful implementation of IPSAS and converted their accounting standards from UNSAS to IPSAS. However, there is a deep internal discussion with the UN agencies and the donor community of the real impact of the IPSAS implementation, and if the sought target had been actually achieved. The research aims to conduct a thorough analysis on the impact of IPSAS implementation of the financial reporting and internal control system in the UN agencies.

1.4 Research Hypothesis

The research hypothesis is that IPSAS implementation had improved the financial reporting of the UN agencies and brought them in line with globally recognized standards and made their financial statement understandable by all stakeholders and comparable among each other. In addition, the implementation of IPSAS had led to a better internal control system for the UN agencies.

H1: IPSAS implementation had improved the financial reporting of the UN agencies.

H2: IPSAS implementation had led to a better internal control system for the UN agencies.

1.5 Research Questions

This study sought to answer the following research questions:

1. What are the benefits derived from the adoption of IPSAS?
2. What are the challenges of implementing IPSAS?

2. Literature Review

Several fragmented studies and analysis made by various UN agencies and the joint inspection unit of the UN. However, this academic research focused on the disclosure elements in the financial statements of some UN agencies in relation to project accounting in the aftermath of the oil for food scandal that hit the UN in 2003. So far, there is no independent and compressive academic research, which analyzes the impact of IPSAS implementation on all UN agencies. International Public Sector Accounting Standards (IPSAS) is the centerpiece of the “global revolution in government accounting” (Heald 2003). “In response to calls for greater government financial accountability and transparency. IPSAS refers to the recommendations made by the IPSAS Board under the auspices of the International Federation of Accountants. IPSAS is accepted for accounting for funds provided under World Bank programs. Developing countries urged to adopt IPSAS by international organizations, which provide financial assistance to developing countries. Other countries, regardless of their political and economic systems, are encouraged to harmonize their national standards with IPSAS” (Chan 2006). IPSAS are a set of accounting standards issued by the IPSAS Board for use by public sector entities around the world in the preparation of financial statements. The International Accounting Standards Board (IASB) bases these standards on International Financial Reporting Standards (IFRS)

issued. IPSAS is based on a full accrual accounting, which is now the accepted best practice worldwide. The result will be timely and accurate reporting of costs related to the use of capital assets and employee benefits that will result in better information for results-based management. In comparison to IFRS, IPSAS is preferred for the United Nations system organizations as IPSAS is developed for the public sector and thus better reflect the non-commercial nature of the activities of the United Nations system organizations. According to the current United Nations secretariat report in 2013, there are 32 accrual basis IPSAS standards. If a standard does not exist in a particular area, the Organization is encouraged to look to pronouncements of the International Accounting Standards Board (IASB) including International Financial Reporting Standards (IFRS) for relevant guidance. Standard setting bodies develop the IFRS and other guidance standards. In fact, only few studies have investigated the effect of IPSAS on the financial reporting and internal control system, this section will focus in depth on previous research studies on IPSAS.

Laswad F and Redmayne N.B (2015) Examined the views of the preparers of NZ public sector reports regarding the users of public sector reports and the usefulness for users of each financial statement, the suitability of the reporting framework for the public sector, the benefits and costs of reporting, and whether financial statements prepared by public sector entities are used in internal management decision-making. A survey instrument was developed for this study containing questions relating to the perceived use of public sector reports, the reporting framework, the costs, and benefits of reporting and whether financial reports are used in management decision making. The study found that; Management is viewed as the primary user of public sector financial reports, the income statement is viewed as the most important financial statement and NZ IFRS modified for public benefit entities is currently still seen, by the participants in this study, as the best financial reporting framework for the public sector in NZ. Agasisti et al. (2015) in their study titled *Accrual accounting in Italian universities: a technical perspective* examined the impact of full accrual accounting on the Italian public universities and how some technical accounting problems typical of the public sector (recognition and valuation issues) have been addressed and the role of IPSAS in helping to overcome these technical accounting issues. a technical analysis was carried out on the financial reports of a sample of universities; the sample was composed of six universities that adopted accrual accounting voluntarily. The analysis shows that IPSASs do not provide the expected support when organizations have to adopt accrual accounting to the public sector. Alesani et al. (2012) explored the drivers and reasons for public sector organizations' accounting reforms, Reviewed and evaluated the adoption of IPSAS by WFP. And analyzed the accounting reform that happened at WFP. an exploratory case study has been done and review of official documents, records of official speeches by people involved in the change, and participatory observations. The study concluded that WFP successfully achieved its intended accounting reform with the full implementation of IPSAS in 2008 and the change from UNSAS to IPSAS meant major changes to the information reported in WFP financial statements. Biondi (2016) analyzed some representational concerns raised by its application of a balance sheet accounting approach to the public administration, pointing to consolidation perimeter, current value measurement of assets and liabilities and the case of public-private partnerships through developing a theoretical analysis of the accounting system developed and applied to the WGA (Whole of government accounts) by HM Treasury in the UK. It throws light on representational issues raised by the adoption and adaptation of IFRS that are originally designed and issued for the private sector. According to the study analysis, the balance sheet approach that is adopted by UK public sector accounting and the IPSAS is inconsistent with economic, organizational and institutional features that are specific to the public sector. It may, therefore, involve an inappropriate and misleading accounting representation. Abushamsieh et al. (2012) examined the extent to which Palestine has developed its governmental financial information system and analysis the most important factors underlying financial transparency, for the purpose of the study an analytical methodology is applied, using Lüder's Financial Management Reform Process Model (2001). The study found that Oman and Bahrain need to take further steps to develop their financial reporting systems. Jordan Palestine and Egypt – are seeking to develop their financial reporting systems. They are still using the modified cash basis of accounting, but Jordan plans to adopt the accrual basis. Tudor (2010) analyzed the specific issue of financial reporting under the IPSAS, in order to determine the extent to which the national accounting system has absorbed the foresight of the IPSAS concerning the financial statements. a theoretical description and an empirical evidence for the similarities and dissimilarities between the Romanian accounting referential and IPSAS has been done. The results of the research show a high degree of correspondence between two analyzed sets of regulations, concerning the financial statements, but further developments are needed to be done, in line to characterize the whole Romanian regulations harmony with IPSAS.

3. Research Design and Method

For this study, a quantitative approach along with a descriptive survey design was used. The survey obtained and collected information from the study sample. For the aim of this research, after checking the objectives of the study, a descriptive research design had been chosen, because it would conclusively describe the perceptions and state-of-the-art of the chosen population for the study.

3.1 Research population and sample

An online questionnaire was used as the instrument for the survey, the biggest advantages of the online questionnaires were their less time consuming and less effort to gather the information and analyses the responses. 134 surveys were distributed to various UN agencies staff. Therefore, 107 surveys were legitimate for this study. 107 usable surveys were returned. Twenty-seven additional surveys were returned that were not considered usable. the unusable surveys were either blank or only partially complete with considerable part of the survey blank. With 107 returned and usable surveys out of 134, the response rate was 79.85%. Of the 134 surveys, 53 were returned from WFP, 30 were returned from FAO, and the rest were returned from other UN agencies. The survey consisted of three main sections of 22 questions, the first section is demographic questions for survey respondents of four questions, the second section is The Benefits of Adopting IPSAS of nine questions, and the third section is The Challenges of implementing IPSAS of nine questions. The study obtained data using a gathering technique. A survey research method was used to process the research questions, using the questionnaire as the main instrument. Survey data was thus gathered using pre-determined questions that were sent to the respondents using an online survey by emails. The questionnaire was the main research instrument in this study, with the aim to obtain as much related information as possible from the respondents. the questionnaire consisted of three parts, the first part consisted of four questions about the demographic factors such as Academic qualification – Degrees and Diplomas, Professional qualification in accounting and finance and years of experience, part two and three have nine questions each of a total of 18 questions, the survey has a total of 22 questions. the first part was concerned about the benefits of implementing International public sector accounting standards and the effect of IPSAS in the Internal control system and financial reporting in all UN agencies, the second part was concerned about the challenges of implementing IPSAS in all UN agencies according to the respondent's perception.

3.2 Data Analysis

The collected responses had to be screened out, sorted, grouped and assembled in accordance with the question numbers and the relevant UN agency. The summarization of the collected information was done mainly based on questions of each part of the survey and quasi-statistics classifications. SPSS and Data analysis tool of Microsoft Excel were used in this study to enter, process and show the data using tables and figures. The study used a percentage of total response analysis to show the extent of which the respondent perception about the questions of the survey and the benefits derived from the transition to IPSAS and challenges facing IPSAS implementation. The demographic factors were shown using figures and graphics techniques. Tables and figures used to show the number of respondents to each question and their perception to the survey questions, Radar chart was used to show the overall respondent perception for benefits and challenges of IPSAS implementation and to highlight the strengths and weak points of IPSAS implementation according to the respondent's perception.

Table 1 below shows the percentages of responses of the survey questions on benefits and challenges of IPSAS implementation. Table 2 below shows that the Median for the benefits of IPSAS implementation is equal to 4 which means more than the average of the survey respondents agree with the benefits of IPSAS implementation that were included in the survey. also, Table 3 below shows that the Median for the challenges of IPSAS implementation is equal to between 3 and 4 which means more than the average of the survey respondents agree with the challenges of IPSAS implementation that were included in the survey. Tables 1,2 and 3 are based on the authors field survey 2018.

Table 1. Percentages of responses of the survey questions on benefits and challenges of IPSAS implementation

Question	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Improved assets and liabilities management	45%	47%	6%	2%	0%
Improved decision making	38%	42%	18%	2%	0%
Improved consistency and comparability	43%	48%	8%	1%	0%
Enhanced Transparency	43%	44%	13%	0%	0%
Accurate financial position	42%	50%	7%	1%	0%
Improved Accountability	32%	43%	23%	2%	0%
Improved Disclosure	31%	60%	8%	1%	0%

Improved Internal Control system	27%	49%	18%	6%	0%
Improved Financial Reporting	35%	52%	10%	3%	0%
Lack of adequate resources	8%	46%	25%	21%	1%
Cost of implementation	7%	43%	29%	19%	2%
Lack of staff motivation	14%	35%	22%	25%	4%
Inadequate financial information system	3%	40%	20%	30%	7%
Increased time and resources need	8%	56%	20%	14%	2%
Resistance to change	15%	36%	26%	20%	3%
Lack of qualified personnel	10%	36%	23%	27%	4%
Complexity of accrual accounting	3%	41%	21%	28%	7%
Lack of top management support	4%	30%	27%	34%	5%

Table 2. Descriptive statistics for the benefits of IPSAS implementation

	N	Range	Minimum	Maximum	Mean		Std. Deviation	Variance
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Statistic
Q1	96	3	2	5	4.38	.071	.700	.489
Q2	96	3	2	5	4.20	.082	.803	.645
Q3	96	3	2	5	4.35	.069	.680	.463
Q4	96	2	3	5	4.34	.069	.678	.460
Q5	96	3	2	5	4.34	.068	.662	.438
Q6	96	3	2	5	4.08	.082	.804	.646
Q7	96	3	2	5	4.21	.064	.631	.398
Q8	96	3	2	5	3.98	.088	.858	.736
Q9	96	3	2	5	4.21	.075	.739	.546

Table 3. Descriptive statistics for the challenges of IPSAS implementation

	N Statistic	Range Statistic	Minimum Statistic	Maximum Statistic	Mean		Standrd Deviation Statistic	Variance Statistic
					Statistic	Std. Error		
Q10	95	4	1	5	3.42	.098	.952	.906
Q11	95	4	1	5	3.34	.097	.941	.885
Q12	95	4	1	5	3.27	.115	1.125	1.265
Q13	95	4	1	5	3.07	.109	1.064	1.133
Q14	95	4	1	5	3.58	.088	.858	.736
Q15	95	4	1	5	3.39	.106	1.034	1.070
Q16	95	4	1	5	3.21	.112	1.091	1.189
Q17	95	4	1	5	3.07	.109	1.064	1.133
Q18	95	4	1	5	2.98	.104	1.010	1.021

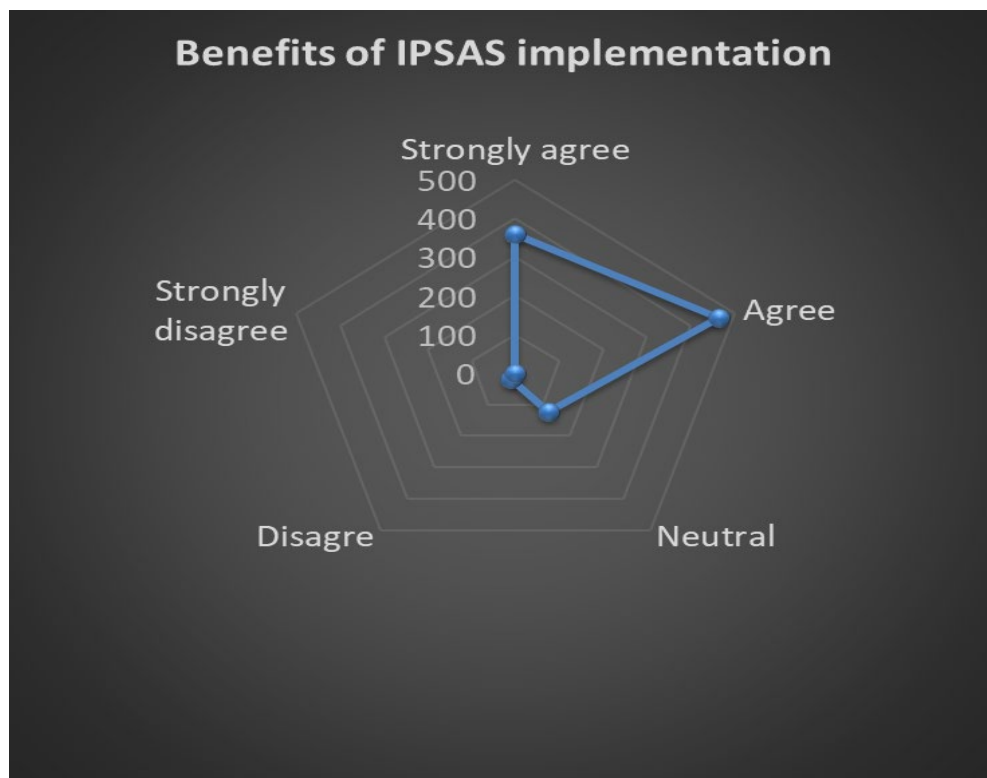


Figure 1. Radar chart shows a summary of responses to the Benefits of IPSAS implementation
Source: Authors, field survey 2018

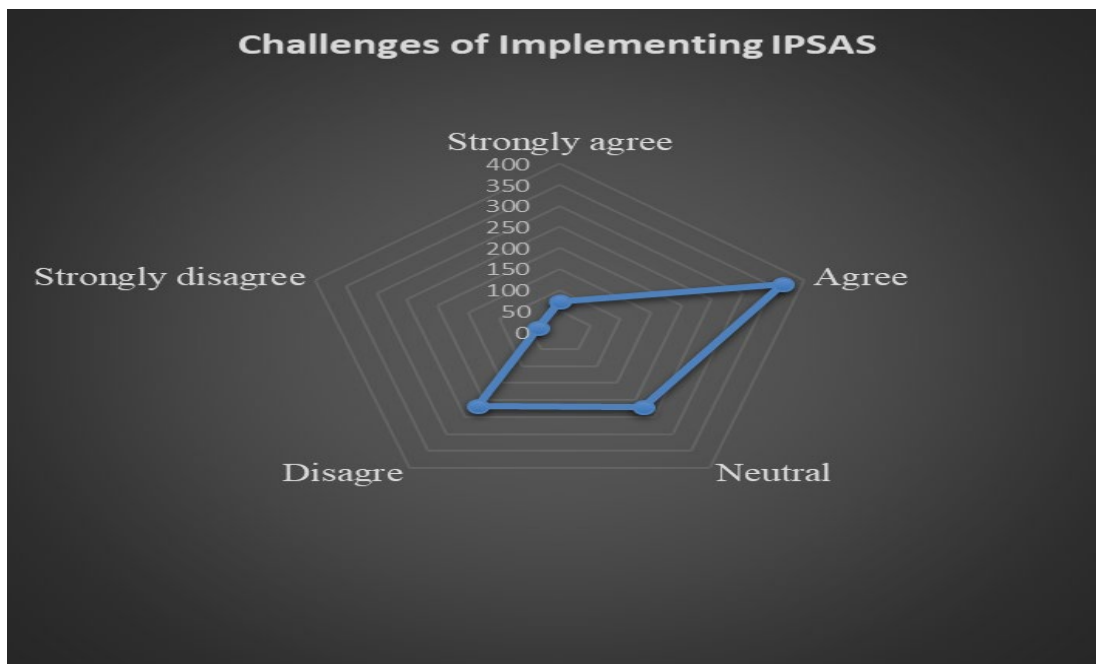


Figure 2. Radar chart shows a summary of responses to the Challenges of Implementing IPSAS.
Source: Authors, field survey 2018

4. Discussion and Conclusion

This study examined the benefits and challenges of adopting the IPSAS in the United Nation agencies. The study examined the benefits of adopting the system. From the findings of the study, it was observed that the adoption of IPSAS increased the level of accountability and transparency in the United Nation agencies. It was found that the adoption of IPSAS enhanced comparability. Also, it was indicated that adoption of IPSAS based standards will enable the provision of more meaningful information for decision makers and improve the quality of financial reporting and internal control system in the United Nation agencies.

All UN agencies had declared the successful implementation of IPSAS and converted their accounting standards from UNSAS to IPSAS. However, there is a deep internal discussion in the United Nations agencies and the donor community of the real impact of the IPSAS implementation and if the sought target had been achieved. The research aimed to conduct a thorough analysis of the impact of IPSAS implementation on the financial reporting and internal control system in the United Nations agencies. The research provided an independent evaluation of the implementation process and results achieved in each concerned agency. The research also provided an overall view of the first-ever UN-wide project, however, implemented individually by each United Nations agency separately using its own financial resources. A survey was used to collect information from a sample United Nation employee, the analysis of the responses of the participants showed that IPSAS implementation had improved the financial reporting of the UN agencies and brought them in line with globally recognized standards and made their financial statement understandable by all stakeholders and comparable among each other. In addition, the implementation of IPSAS had led to a better internal control system for the United Nations agencies. In fact, strengthening the internal control system covers all aspects of the internal control system. The main benefits derived from the implementation of the International Public Sector Accounting Standards include enhanced transparency, improved consistency and comparability of financial information, enhanced decision making, reduced and better management of expenditure as well as improved asset and liabilities management.

On the other hand, the survey respondents believed that there are many challenges facing IPSAS implementation that should be taken into consideration, the costs and risks associated with the implementation and adoption of IPSAS should not be underrated, there are some challenges facing the implementation of IPSAS such as the cost of introduction and Implementation of IPSAS, availability of qualified accountants, obvious complexities, incompetent accounting systems and resistance to change. Hence, we conclude that the adoption of IPSAS in the United Nation agencies improved the financial reporting and internal control system.

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Biographies

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