



**An analysis on the impact of full application/implementation of  
IPSAS on financial performance in local authorities in Zimbabwe.**

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**Supervisor: Dr.O. Muvingi**

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## **DEDICATION**

I would like to dedicate this work to my late mother Margaret Ndlovu for the childhood motivation that she gave for me to be where I am. I would like to say to her continue to rest in power for you fought a good battle, “Makarwa kurwa kwakanaka”

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## **ABSTRACT**

The study ought to analyse the impact of IPSAS adoption on financial performance of local authorities. Four objectives have been identified as follows: to determine the state of adoption of IPSAS in public sector, to assess the effect of IPSAS adoption on financial performance of local authorities, to examine the reasons to link the accrual accounting legislation to IPSAS as well as to determine reasons not to adopt accrual accounting in the public sector. The study used a descriptive research design in form of a survey. The research adopted the deductive approach as it seeks mainly to explore challenges and benefits of IPSAS adoption in the context of public sector. Since it was a quantitative approach, a close ended questionnaire was developed from the objectives of the study. With a target population of 1228 vendors, a sample size of 291 was used. Regression analysis was used to test the cause and effect relationship between the adoption of IPSAS and financial performance. Key results of the study showed that adoption of IPSAS is at a certain stage in the public sector as they have a transition phase. Main reasons why adoption of IPSAS is key were: to facilitate the consolidation of financial statements ( $M = 4.38$ ). Respondents also agreed to a greater extent that IPSAS improves comparability in public or private institutions ( $M = 4.31$ ) as well as enhancing both national and international comparability of financial information ( $M = 4.28$ ). A regression model was used to test the cause and effect relationship between IPSAS adoption and public sector financial performance. The researcher recommends training of users for a clean transition of the accounting reforms from cash basis to accrual based as well as total buy in from the government officials and key people in decision making of local authorities. Despite access limitation, the research was a success. The researcher therefore recommended that a further research be carried out in SADC countries as well as other African countries who have already adopted IPSAS or those aspiring to. Other researchers may consider using the same variables of this study to test whether IPSAS adoption yields a positive influence on financial performance.

### **Key words**

IPSAS; local authorities, accounting reform

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## **ABBREVIATIONS**

**IPSAS**- International Public Sector Accounting Standards

**GAAP**-Generally Accepted Accounting Practice

**GASB**- Government Accounting Standards Board

**IPSASB**- International Public Sector Accounting Standards Board

**RPGs** – Recommended Practice Guidelines

**IFAC** – International Federation of Accountants

**IFRS**- International Financial Reporting Standards

**NPFM**- New Public Financial Management

**RDT** – Resource Dependency Theory

**LGA**- Local Government Agencies

**IT** – Information Technology

## **CHAPTER ONE**

### **INTRODUCTION AND BACKGROUND OF THE STUDY**

#### **1.0 Introduction**

In recent times, countries of the world have set standards of financial reporting in their individual nations. Cross-border transactions have brought about ever increasing international trade, commerce and increased collaboration among countries of the world (Ijeoma & Oghobomeh, 2014). Due to this development, there is a greater need for increased uniformity, comparability and transparency in the standards guiding financial statement of public entities, so that such statements would remain relevant and convene the same information to users across the world.. This chapter includes a brief background to the study, statement of the problem, research objectives and questions, theoretical framework and the significance of the study. Also to be discussed in this proposal are the expected research limitations, research methodology and a brief on literature review on the key research variables.

#### **1.1 Background to the study**

IPSASs 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. These standards are to be applied by central government, local government, and controlled entities with non-market activities. IPSASs are widely considered best accounting practice for public sector organizations, as they improve the quality of financial reporting.

International Public Sector Accounting Standards (IPSAS) are the public sector equivalent of International Financial Reporting Standards (IFRS). IFRS have been credited with providing a more transparent and accurate financial overview of listed companies around the world, using accruals accounting as opposed to cash accounting. The move towards using IPSAS in the public sector has the potential to radically change the practice of accounting and financial reporting in the sector, just as IFRS have accomplished with listed companies.

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. Further afield, 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 programmes, including the adoption of accrual accounting as part of broader reform programmes.

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.

According to a research carried out by Barth et al (2006) Firms applying IPSAS generally exhibit higher accounting quality than when they previously applied domestic GAAP. The research carried out by Nkundabanyanga et al,(2013) also indicated that accounting standards and legal framework are all positively and significantly associated with the quality of financial reporting, providing evidence of the effect of accounting standards and legal framework on the quality of financial reporting in Uganda. On the other hand, Jeanjean and Stolowey (2008) asserted that the adoption of accounting standards does not improve the quality of financial reporting, which means the debate is in exhaustive. The current study extends the debate to Zimbabwean local municipalities, as a government institution which operates under the Ministry of Finance and is mainly funded by government and donors. Local authorities use the cash basis of accounting in preparing its financial reports.

Auditor General's report (2009) gave a qualified opinion concerning City Of Harare's financial statements and the basis for qualifying the opinion was encompassed around the



company not complying with the qualitative characteristics of financial reports. The framework for the preparation and presentation of financial statements (2010) states that for financial statements to be useful to their users, they have to meet both fundamental and enhancing qualitative characteristics to reinforce the quality of financial statements. Among the basis of qualifying the opinion was the company's financial information not being verifiable. In 2011, vouchers in support of the payments that were being done could not be produced and without the supporting documentation, it was difficult to determine the legitimacy and accuracy of the expenditure figures disclosed in the financial statements. An amount of \$1 560 000 was not reflected in the financial statements of City of Harare as expenditure for a certain exercise they had conducted, (2011 Audit report).

Failure to provide relevant information to the Auditor General who acts as a public representative reflects non-compliance to the qualitative characteristics of a good and reliable set of financial statements. Local authorities are facing financial problems since the donors are not persuaded to donate in it due to the fact that financial statements are not reflecting their true and faithful representation it purports to present. The donors vest their decisions in the financial statements together with the auditor's report for them to donate their funds.

(Annual General Meeting minutes, January 2012) IPSAS 17 property plant and equipment stipulates that tangible assets must be recorded at cost less accumulated depreciated and accumulated impairment loss. The Municipalities record assets at the cost of purchase each financial year so as to comply with the cash basis of presenting financial statements. According to the Auditor General report( 2010),City of Harare failed to submit their financial reports on time. The framework for the preparation and presentation of financial statements (2010) states that for financial statements to be useful to their users, they have to be timely. Failing to submit the accounts on time affected the progress of audits and subsequent production of the annual report as said by the comptroller and auditor general in his report. This study therefore aims at drawing evaluative conclusions on whether the adoption of international public sector accounting standards enhances quality of financial statements.

### **Zimbabwe Public Sector Accounting Reporting**

The Zimbabwean economy was identified as hyperinflationary in November 2008 ( Public Accountants and Auditors Board, (PAAB), 2008) with exorbitant government debt levels of US \$7, 26 billion (Zimbabwe national budget statements 2009). The sovereign debt crisis

underlined the need for governments to clearly demonstrate their financial stability and for more rigorous and more transparent reporting of fiscal data, (Directive 2011/85 EU). The public sector of Zimbabwe is the highest employing vehicle in Zimbabwe with approximately 40% of the Zimbabwean working population gainfully employed therein. It is also entrusted as the steward of public funds for the smooth provision of services such as education, national defence, public healthcare and law enforcements to the general public. It is against this pivotal role of the public sector that the adoption of accounting standards in government accounting is expected to increase accountability and stewardship of public resources.

The Comptroller and Auditor-General (CAG) reports for the years 2009 to 2010 indicate that Zimbabwe's appropriation accounts, fund accounts and the state enterprises were given a disclaimer of opinion (CAG reports 2009 to 2010). The 2009 audited financial statements were only presented to the house of parliament in 2011 that is two years later which is a violation of the conceptual framework 2010's fundamental and enhancing qualitative characteristic of useful information, "relevance and timeliness" (IPSAS framework 2012) and a contradiction of the decision usefulness theory (Staubus 1999). In 2011 the appropriation accounts had various violations of the treasury instruments by Ministries for example , unvouched expenditure , inadequate /lack of asset registers, failure to follow proper tender procedures, improper revenue accounting, fraudulent activities and wasteful expenditure ( CAG report(2011). By 2012 still some accounts for as far back as 2005 were still outstanding for audit for instance (National Handicraft centre from 2005 to 2011, Health professions authority from 2009 to 2011, State procurement Board from 2008 to 2011) (CAG report, 2012). All these financial mishaps conflict with the primary objective of government financial reporting i.e. being publicly accountable and to enable users to assess that accountability (Government Accounting Standards Board (henceforth GASB) concept statement. It is against this backdrop that the current study analyses adoption and mandatory compliance with IPSAS in government accounting reporting as a way of improving both quality and accountability.

## **1.2 Problem statement**

The statement of research problem identified in this study are, firstly, the poor budget implementation and lack of accountability in the financial reporting of Zimbabwean public

sector under the cash basis regime (Ibanuchuka & James, 2014). Secondly, according to Transparency International 2014, Zimbabwe was ranked 156 out of 174 countries on corruption perception index on public sector transparency and accountability. Lastly, there exist various economic crises in many developing countries in Africa and Zimbabwe inclusive. There is a high government debt levels at various sector; therefore, there is need for high quality financial reporting in order to manage government finances carefully.

### **1.3 Research objective**

1. To determine the state of adoption of IPSAS in public sector.
2. To assess the effect of IPSAS adoption on financial performance of local authorities
3. To examine the reasons to link the accrual accounting legislation to IPSAS
4. To determine reasons not to adopt accrual accounting in the public sector.

### **1.4 Research questions**

1. What is the state of IPSAS adoption in public sector in Zimbabwe?
2. Does the adoption of IPSAS affect financial performance of local authorities in Zimbabwe?
3. What are the reasons to link the accrual accounting legislation to IPSAS?
4. What are the reasons not to adopt accrual accounting in the public sector?

### **1.5 Hypothesis statement**

H0: There is a positive relationship between IPSAS adoption and financial performance of local authorities.

H1: There is a negative relationship between IPSAS adoption and financial performance of local authorities.

### **1.6 Delimitations**

The study focused on the effect of IPSAS on financial performance in public sector. The study targeted 33 Local authorities in Zimbabwe during the period of 2015 - 2019 and the targeted respondents to the questionnaires were the Local authorities' accounting departments, management and the internal audit departments.

### **1.7 Limitations of the study**

**Confidentiality** -The researcher's access to confidential information useful to carry out the report was limited. However, this limitation was negotiated with management and absolute assurance was provided that findings would be used for academic purposes only.

Finally, the study was quantitative which creates a limitation on the results as no qualitative feedback could be used to support the study.

### **1.8 Justification of the study**

Past studies on this topic mainly concentrated on the impact of IPSAS adoption on quality reporting and accountability in general. However, this research has taken into account on the corruption, credibility and governance as part of accountability in public sector .Further this study shows how the adoption of IPSAS in financial reporting will result in the financial statements showing the financial position and financial performance and the impact of IPSAS implementation on relevance ,reliability and comparability of financial statements whereas past literature identified how the adoption of IPSAS results in quality reporting in municipality. Furthermore, past studies has been carried out in ministries from general accountants in public sectors, but this study focused on local authorities as a public sector case study as the researcher observed that very few researches has been carried out in local authorities. This research lays a foundation for future scholars who are eager to do more research on the impact of IPSAS on reporting pleasant in public sectors. This study will also help to bridge the gap between the previous research and the current research.

### **1.9 Assumptions**

- Information collected was accurate, relevant and reliable.
- There was enough co-operation and participation from the respondents.
- The findings of the research are a true representative of the whole population.
- Respondents gave truthful responses adequate to make reasonable references.
- All the respondents have adequate knowledge with the concept of International Public Sector Accounting Standards.

### **1.10 Chapter summary**

This chapter looked at the introduction to the research topic, background of the study, statement of the problem, research questions, and delimitation of the study, justification of the research, limitations of the study, how the full application/implementation of IPSAS will affect financial performance of local authorities, and the assumptions to be made and definition of key words. The next chapter looks at the related literature to the research.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

Government financial reporting in Africa has been characterized with general cash based and accrual based accounting practices with the exception of South Africa, Uganda, Ghana, Zambia and Gambia among others which have successfully adopted the cash based IPSAS and transitioning to accrual based IPSAS or both,( world bank, 2007 ). The adoption of IPSAS worldwide has been spearheaded by the World Bank Public Finance Management Reform programs (Price Waterhouse Coopers (PWC), 2013). The World Bank, (2007) and (PWC 2013) posit that IPSAS adoption improves transparency and comparability of government financial reports which influences the quality of government financial reports. This chapter will help to identify the existing gap on the impact of International Public Sector Accounting Standards and reporting quality. In general, the study analyzed the existing empirical research in the area of IPSAS in public sector, summarizing the review and identifying the gap in literature.

#### **2.1 International Public Sector Accounting Standards (IPSASs)**

International Public Sector Accounting Standards (IPSASs) refers to the accounting standards which are applied in the preparation of general purpose financial reports of public sector entities including Central Government, Local Government Authorities and Public Sector Organisations. General purpose financial reports are financial reports intended to meet the information needs of users who are unable to require the preparation of financial reports tailored to meet their specific information needs. IPSASs are developed and issued by the International Public Sector Accounting Standards Board (IPSASB), which is an independent standard setting board operating under the International Federation of Accountants (IFAC), (IPSASB, 2017).

IPSAB is an independent standard setting body working under the support of the IFAC. The objective of IPSASB is to serve the public interest by developing and issuing high-quality accounting standards and other relevant publications for use by public sector entities around the world in the preparation of general purpose financial reports across the public sector organisations, and to enhance the quality, comparability and transparency of public sector financial reporting by providing better information for public sector financial management and decision making. Some of the publications which are issued by IPSASB are IPSASs, Recommended Practice Guidelines (RPGs), research reports and studies that provide information which contributes to the body of knowledge about public sector financial reporting issues and current developments in public sector accounting and reporting system (IPSASB, 2017).

### **2.1.1 Types of IPSASs**

The IPSASB develops IPSASs which apply to the accrual basis of accounting and IPSASs which apply to the cash basis of accounting. According to IFAC, Cash basis of accounting is the basis of accounting that recognises transactions and other events only when cash is received or paid, since it measures the financial results for a period as the difference between cash receipts and cash payments. The most commonly documents which are produced by this basis of accounting are Cash flows statements and Cash balances which come from the cash book (IFAC, 2008). Accrual basis of accounting is the system of accounting in which transactions and other events are recognised only when they occur and not only when cash or cash equivalents is received or paid. This means the transactions and other events are recorded in the accounting records and recognised in the financial statements of the periods to which they related as per matching concept (IFAC, 2008, IPSASB, 2017).

The accrual based IPSASs are designed to apply to public sector entities that are responsible for the delivery of services to the benefit of the public and to redistribute income or wealth; and mainly finance their activities directly or indirectly by means of taxes or transfers from other levels of governments, social contributions, fines and fees; and don't have primary objective to make profits. According to the IPSASB currently there are thirty eight (38) accrual based IPSAS, three (3) Recommended Practices Guideline (RPGs) and a single set of cash based IPSAS (IPSASB, 2017) ( See Appendix 1).

## **2.2 Costs and Benefits of IPSAS Adoption**

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

IPSAS encourage the use of the same accounting policies and estimates that is consistence in reporting and comparability (IFAC 2003). This view was supported by Adhikari and Mellemvik, (2010) who also added that adoption of IPSAS earns World Bank and International Monetary Fund trust. The issue of transparency and comparability is viewed as a means of ensuring state stewardship. (UNIDO,2006). Okoliebough (2013) also advocates for adoption of IPSAS since they permit cross country and cross entity comparability which allows users of financial statements to make objective decisions. IPSAS were prepared in convergence with IFRSs. They prescribe the accounting treatment and measurement of a particular phenomenon which reduces the alternative treatments available to managers (ICPAZ 2012). This makes strategic plans and reports more meaningful and supports economic efficiency of the public sector (ILO, 2006). Okolieboh, (2013) sites that IPSAS convergence with IFRSs brings with it a perceived prestige and respect which makes financial statements relevant for decision making purposes. This is in line with the IPSAS framework, (2010)’s objective of financial reporting, that is to provide information to the users of financial statements about the use of allocated resources. The general theory of



decision usefulness in accounting is therefore enhanced by the adoption of IPSAS. (Staubus 1999).

The adoption of IPSAS leads to more comprehensive information prepared and disclosed which encourages stewardship and accountability (UN, 2006) Transparency and comparability enhances the quality of financial reports facilitating decision usefulness for the users of financial reports, (PWC, 2013). IPSAS were also prepared in a flexible manner that allows flexibility in transition. Despite advocating for accrual based accounting standards the IPSASB promulgated cash based IPSAS together with the 32 accrual based IPSAS.(Okolieaboh, 2013). This flexibility makes the transitional process from general cash based procedures to cash based IPSAS, then accrual based IPSAS for instance Nigeria's two phase implementation strategy, cash based IPSAS by 2014 and accrual based IPSAS 2016. (KPMG, 2013). However, Nkundabanyanga et al, (2013) holds that the adoption of accounting standards alone cannot solely influence the quality of financial reports but that in conjunction with the strength of the regulatory framework and other institutional mechanisms standards can have a cumulative effect on quality of financial reports. IPSAS adoption has its benefits but costs are also inevitable, both financial and non-financial costs.

The challenges of IPSAS adoption in Zimbabwe should be identified and addressed for the economy to benefit fully from the adoption and implementation. Previous studies in IFRS adoption have indicated that any accounting transition is bound to be characterized with challenges (Alp and Ustundag, 2009): potential knowledge shortfall, (Irvine and Lucas, 2006): education and training, (Li and Meeks,2006):Legal systems effect and (Martins,2011): enforcement and compliance mechanisms. extensive awareness of the transitional plan to IPSAS and its implications to the preparers and users of financial statements (regulators , citizenry, educators and other stakeholders) has to be effectively coordinated and communicated to avoid resistance to change .Senior management and politicians may resist change hence efficient change management strategies may be required in the transitional stages (PWC, 2009).strategies could include raising awareness on the potential impact of the conversion, identifying regulatory synergies to be derived as well as the temporal effects of transition on the financial position and performance of the government.

Financial conversion costs will definitely be incurred. Statutory bodies and regulators require funding to implement IPSAS. Training costs will be largely incurred. Professional Accountants, regulators, accounting lecturers, and preparers of financial statements are all

required to work together to ensure a smooth transition process. Training resources for such a large group is likely to require huge financial outlay consultancy costs, also IT and ERP implementation costs will be incurred, (Irvine and Lucas, 2006)(PWC, 2009).

Accrual based accounting is more complex and requires greater technical expertise and increased professional judgment on e.g. financial instruments, employee benefits and property valuations (Okolieaboh 2013). Zimbabwe may face the practical implementation challenge since implementation requires professional accountants' auditors and regulators who may be in short supply in the public sector, (Martins, 2011) this view was also pointed by UN, (2006) in their adoption analysis in their organization. Amendments to existing laws may be required in the implementation process. The public sector accounting in Zimbabwe is mainly governed by the Public Finance Management Act [chapter 22:19]. Provisions of the Act and the IPSAS may conflict materially requiring the regulators to converge the Act and the IPSAS for smooth transition. (Li and Meeks, 2006)

## **2.3 Factors affecting the adoption of IPSAS in public sector**

According to ACCA (2017) implementation costs, Political, legal and administrative issues, the level of technology available and training and skills required are challenges pertain IPSAS adoption in public sector.

### **2.3.1 Cost of introducing accrual accounting**

Brusca and Martinez (2016) analysed, the barriers to adoption of IPSAS using a structural equation model to questionnaires sent to American and European countries, they found out that the cost of implementing IPSAS are too high that some of the public sectors fail to implement due to these costs . This was in line with Ijeoma's (2014) and Babatunde (2017) where they found out that the value of resources utilized in enhancing and implementing IPSAS are more and other countries can't manage to pay for these expenses mainly developing nations .PriceWaterhouseCoopers (2014) supported the above scholars where he said accrual accounting is the plain trend, the value related to transferring to accrual accounting is unavoidable and some countries may not come up with the money for to pay a lot of these fees and those expenses . The expenses consists of funding in facts and communication technology, retraining civil servants, fees associated with figuring out and valuing property below accrual accounting and consultation and co-ordination prices.

Eond Ocansey (2014) added on suggesting that although many researchers and professional recognise the benefits of accrual accounting, there are high costs associated with its adoption and more public sectors cannot afford these costs .This was also supported by IPSASB (2014) Implementation costs is one of the challenges that is affecting the implementation and adoption of IPSAS in public sectors. However, Gomes et al (2015) and Patrick et al (2017) mentioned that the cost benefit of the reform is better, despite the concern with the high expenses with the implementation, all stakeholders agree that the advantages will outweigh the fees at the cease of the process if preferred effects are effective so many stakeholders are willing to take the hazard, consequently charges cannot be mentioned as the main aspect affecting the implementation of IPSAS.

Trang (2012) says implementation fees may be big or small task depending on different involved adjustments in human sources, finance and shape of the employer, from his survey effects illustrates that some respondents assume expenses is a minor however a few argue that this is an obstacle. This become in step with Alshujairi (2014) who cited that implementation prices is the main undertaking that is affecting IPSAS adoption in Iraq but being supported from financial sponsors is the most strongly supported aspect . Opanyi (2016) says IPSAS adoption can be very hard but it depends on current role and assets, but adoption of IPSAS ought to nonetheless be known because the closing aim. [ACCA (2017): Oulasvirta (2014) and Gomes and Montesinoz (2012)] suggested that the incentives and programs of adoption of IPSAS have been funded by donors. Tanje (2016) mentioned that the existence of IPSAS for free already cuts down significantly on implementation cost. Adhikari et al (2015) suggested that IPSAS adoption can be done in an approach that requires minimum of capacity development programs and lower costs compared with the demands of other reforms. Svoboda (2016) noted that IPSAS implementation in Swiss confederation was offered on a voluntary basis to local government through financial reporting system modernisation project prospered to achieve their aims.

### **2.3.2 Political, Legal, and Administrative Issues**

The level of accounting adulthood among European member states and among exclusive levels of governments in the nations is particularly heterogeneous with big implications on expenses and velocity of adopting accrual accounting in public area, this affected the implementation of IPSAS noted Pricewaterhousecoopers (2014).The consultation technique executed through Eurostat found out that worries approximately the governance and

oversight of the IPSASB are a number of the motives why country wide government point out for no longer adopting IPSAS European Commission (2013a). This was also supported by Brusca and Martinez (2016) from their survey using questionnaires that they dispatched to accounting officers in price of critical government monetary reporting outcomes suggests that IPSAS have an effect on sovereignty of a country, many countries considers that IPSAS lessen their sovereignty and that their nearby standards are more deserted, consequently they select their own accounting because it permit them to preserve control of issuing requirements. Gomes and Fernades (2016) from his studies in Portugal investigating the reform of public accounting through IPSAS adoption highlighting the perception of different stakeholders he additionally supported the component that political elements have an effect on the implementation of IPSAS. They noted that the choice to undertake accrual based totally IPSAS is

especially decided by way of political impact as opposed to technical or managerial arguments, occasion. Christiaens et al (2015): Oulasvirta (2014) suggested that the power of United States of America to precise business accounting rules slows down the IPSAS compliance process, there's need for cultural change. Babatunde (2017) observed that political issue is the primary barrier to IPSAS adoption in Nigeria. However, Antipova and Bourmistrove (2013) did not believe what the above scholars said they recommended that adoption of IPSAS seems to shape very well into political rhetoric and context of valuable Russians politicians arguing the need to improve transparency, efficiency and accountability of the Russian public zone. The adoption of public zone accounting requirements(IPSAS) in Europe isn't always only a technical query, it's miles indeed first and principal a social financial and political problem, therefore political problem is instead a stimuli than an obstacle Mussari (2014). The tendency to use IPSAS is more important in the countries with participating legislative machine, strong democratic citizen's participatory fashion and strong tradition Caperchion (2012). Mohammed (2014) stated that different international locations regardless of their political and economic machine, they may be encouraged to harmonise their countrywide standards. Tanje (2016) cited that it depends on the political will and top control and administrative aid of the government to have functional courting with the adoption of IPSAS.

### 2.3.3 Training and Skills Required

Availability of qualified accountants is one of the key challenges confronted with the aid of public sectors as authorities groups lacks the vital personnel to safely perform the changes in IPSAS in preference to the monetary reporting framework currently existing in the public area Eond Ocansey (2014).Alshujairi (2014) also supported the issue that education and abilities required is an obstacle to IPSAS adoption pronouncing that the lack of high qualified team of workers and professional accountants is the largest problem that affected the implementation and adoption of IPSAS in Iraq with 91% of the full respondents agreeing that it's an impediment to adoption and implementation of IPSAS .This was in line with the idea of Ernst and young (2012) IPSAS have no longer been chosen because they have too much room for interpretation and subjectivity this calls for experts and skilled accountants.

Oulasvirta (2014) many nations did not undertake IPSAS because the inclusion of truthful price as a size for criteria for public sector is harder to calculate that it requires professional accountants to do the task.IMF (2016) : Lefymenko and Lovinska (2017) stated that public sectors lack knowledge and abilities required for the adoption of IPSAS in public sectors. However, Brusca and Martinez (2016) analysed the limitations to adoption of IPSAS in American and European international locations, their studies version opinions that schooling and understanding with IPSAS are not crucial limitations to adoption of IPSAS for the reason that the suggested values of variables are 1.81 and 1.86 respectively. This was supported by Akure (2015) pronounced that during schooling workshops of IPSAS adoption in Ondo country the commissioner mentioned that the civil servants were no longer missing considered necessary skills to carry out the tasks with IPSAS, the factor become that the world itself is shifting and because the world is moving the people ought to circulate with its employees simplest want to be trained for you to meet up the requirements and very little attempt is required. Adhikari et al (2015) in his interview determined that training and educating of presidency officers and accountants had increasingly grow to be the key issue growing a favourable environment for the adoption of IPSAS due to the fact there has been a big upward push in latest years inside the range of government accountants attending publications and schooling in public zone accounting. He was supported by Mahadi (2014) who noted that training system software structures, machine synchronization, standards harmonization and engagement with other stakeholders are most of the techniques taken by using the implementer to overcome training talents obstacle.

Tanje (2016) referred to that in German and United Kingdom workforce were given at the activity education to facilitate adoption of IPSAS. ACCA (2017) cited that the Institute Of Chartered Accountants is supplying education offerings towards IPSAS adoption in Zimbabwe, Tanzania ,Ghana and plenty of different nations .The massive four audit corporations have better abilities to teach, consult at the adoption of IPSAS in public sector financial reporting Svoboda (2016) mentioned that implementation of IPSAS itself had been carried through professionals and utilizing internal experts which is cheaper. Mahadi (2014) concluded that the assignment to have qualified workers is more likely in growing international locations unlike in advanced countries.

### **2.3.4 The Level of Technology available**

The level of technology affected the implementation of IPSAS.as mentioned by PCW (2014) the need to improve the information technology will affect the implementation and adoption of IPSAS as this requires more technical knowledge and resources and many public sectors cannot afford to fund these expenses. Pricewaterhousecoopers (2012) once said not all government systems and administrative machinery will support IPSAS this greatly affected the IPSAS implementation and adoption process. He was supported by Hughes (2013) some technology and software available in public sectors are not sophisticated enough to collect necessary data required to fully implement IPSAS in financial reporting. Antipova and Bourmistrove (2013) agree the fact that the available technology is a major challenge, he found out that Russian public sector accounting tradition is very different to the accounting tradition of IPSAS as these were developed in two different context so there was need to change the available software and replace it with the new software and many countries will not afford these costs. Alshujairi (2014) supported the idea where he said the It system is not good enough to allow the adoption of IPSAS in Iraq that is why the implementation process is not successful. ACCA(2017) noted that existing technology in the public sector will not necessarily support the adoption of IPSAS .

However, the disagreements were that the World Bank and IMF sponsored reform of major developments in public sector accounting practices [Simpson (2015): PCW (2013): Buhr (2012): Oulasvirta (2014): Gomes et al (2015): Christiaens (2015) and Gomez and Montesano (2012)] The above different views from scholars on whether implementation cost, training and skills required and political, legal and administrative issues are barriers to full adoption of IPSAS ,the truth is that there is lack of empirical evidence whether these factors

are barriers to IPSAS adoption or not which the researcher is going to find out on whether the discussed debatable factors will affect the adoption of IPSAS.

## **2.4 Financial Position and Financial Performance**

Alshujairi (2014) discovered that accrual accounting is extra powerful than cash based totally accounting in giving information of the economic position and performance for the government. He was supported by Trang (2012) who noted that accrual primarily based accounting shows economic position and performance through realisation of assets, liabilities, sales and expenses that money based totally accounting failed to expose. This was in line with Deloitte (2013) concept that accrual accounting based on IPSAS economic announcement allow users to assess the accountability for all resources, controls and deployment of sources and assessment of monetary function and overall performance. Mariano (2015) added that IPSAS permit a greater comprehensive and correct portrait of financial position and overall performance and sustainability of public regulations. Udu (2013) added on suggesting that accrual accounting will provide a clearer photograph of presidency liabilities and this know-how of liabilities will support higher management of government assets and liabilities.

Leyenkova (2016) noted that financial statements prepared in accordance with IPSAS gift pretty economic performance, economic role and cash flows of an entity. IMF (2016) mentioned that accrual accounting guarantees recording of all shares of belongings and liabilities in balance sheet in their cutting-edge market price and their price in use or a few approximations and ordinary revalued to make sure that the stability sheet reflects the real monetary position at a given point in time and it enhance tracking of liabilities and contingent liabilities and the consolidation of all entities underneath authorities manipulated. However, Mahadi (2014) noted that the shift in the direction of accrual accounting demonstrates some difficulties which includes reputation, valuation of assets and liabilities. Eurostat (2012) noted that IPSAS do not cover, recognition of historical history, liabilities associated with social budget, consolidation method (no identity of controlled and controlling interest). Bergmann (2012) cited that the downside of accrual-based accounting is the low use of stability sheet statistics made through selection makers due to worry of the absence of cash or liquidity records. Christiaens et al (2015) cited that IPSAS do not outline the shape of financial announcement, as a count of truth IPSAS additionally depart some of valuation options for instance IPSAS 17 Property, plant and equipment allowed special valuation

policies being the price version or the revaluation model therefore comparison will become hard to provide a not unusual platform to allow converging practices. Hassan (2013): Grandis and Mattei (2012) noted that IPSAS concept of matching revenue to cash gathered is not applicable in public sector practice due to the fact most of the transactions are non-exchange transactions, revenue acquired from taxation do not offer same price in go back whilst carrier supplied do not acquire identical fee in return.

#### **2.4.1 Adoption of IPSAS and relevance of financial statements**

IPSAS adoption is a very crucial count as it improves the capacity of governments to offer the legislative ,bodies ,citizens ,media and stakeholders with comprehensible and applicable economic statements ,this improves greatness of financial reporting Hudes (2013).This was supported by Ijeoma and Oghoghomeh (2014) who asserts that IPSAS adoption need to be fee applicable to users of public region monetary announcement such that worldwide companies ,tax payers ,individuals of parliament ,lenders ,suppliers and financial analyst. The essence of making ready financial statements in step with IPSAS is that public entities have to gift economic function and economic overall performance in this kind of way that customers of those financial statements should make applicable and timely price relevant selection Hassan (2013). Gomes et al (2014) from his research in Portuguese whilst reviewing documents and file publicly available brought to what the above pupils, he suggested that the adoption of accrual accounting in each subsector of the authorities assures the production of feasible, applicable and similar public accounting statistics. Monari (2015) suggested that the adoption of IPSAS lead to relevant and dependable accounting records which is an essential aid in management choice making. Olayninka et al (2016) carried out a pattern having a look at 164 respondents selected from accounting departments of all government ministries in Lagos where he tried to have a look at the impact of IPSAS adoption on the exceptional reporting in Nigeria, he discovered out that IPSAS adoption has a massive wonderful impact on relevance of economic reporting in Nigerian public quarter.

Contrary, Antipova and Bourmistrove: Jones et al and European commission did not trust the view that IPSAS enhance relevance of financial statements. Antipova and Bourmistrove (2013) noted that the lack of conceptual definition, know-how and experience of practicing accountants to use IPSAS in Russia shows that new accounting policies are not necessarily meaningfully implemented in accounting practices. This fact questions the fine and reliability of accounting records provided. He was supported by Jones et al (2014) who found out that



the absence of consistency with budgeting practices affected the relevance of accrual accounting in public area. European Commission (2013a) the studies highlighted the incompleteness of IPSAS with recognize to public region accounting necessities as an example regards to taxation and social advantages, this indicates that they are no longer relevant for tax compliance purposes. Otrusanova and Pastuszkova (2013) suggested that public managers conclude that public managers regularly keep in mind accrual information to be no longer applicable or too complex, as a result not useful for selection making and in ordinary operation work. IPSAS intends to transcend countrywide jurisdictions, ignoring or overlooking the national range in political, cultural, conventional, prison and financial quarter, therefore IPSAS were not relevant Kamellos and Evangelos (2013). Krambia-Kapardis et al (2016) located out that there may be information want hole and statistics satisfactory gap with adoption of standards particularly as a long way as local authority and semi-public employer are involved

#### **2.4.2 Adoption of IPSAS and Reliability of Financial Statements**

Accrual accounting is the only generally familiar information gadget that offers a whole and dependable picture of the monetary and financial function and performance of presidency European Commision (2013a) He became supported by Ijeoma (2014) when he carried out a survey with all accounting departments in Awka whereby the majority of the despondence agree that IPSAS will improve reliability, credibility and integrity of monetary reporting in Nigeria. This changed into in step with the suggestions of Caperchione and Salvator (2012) who noted that accrual accounting is claimed to be better at enjoyable markets and investors with dependable statistics needs whilst figuring out solvency of public entity. Huges (2013) supported the concept while he discovered out that IPSAS adoption is a totally vital subjects as it improves the ability of governments to offer the legislative, our bodies and stakeholders with comprehensible and reliable monetary statements. while Dabbico (2015) changed into analysing the impact of IPSAS on improving asset control the determined that during nations in which accrual accounting had been carried out the improvement and protection of an extra complete asset sign in is crucial, choices makers can get reliable information from correct balance sheet .Hassan (2013) introduced on convey the concept that IPSAS might offer statistics on financial performance which covers the monetary impact and financial position of a government entity rather than best statistics on actions in financial institution money owed and tax money owed.

However, Oulasvirta (2014) did not consider the above researchers whilst he became attempting to find why the evolved international locations are so reluctant to pick IPSAS he got here up with the concept that it isn't potential inside constraints of timeliness or price to decide the honest price of monetary asset or economic legal responsibility with enough reliability. Preferred treasury of the dominion of Morocco (2015) recommended that instability, biennial update, hard in determining the scope, limits of non –change transactions affected the reliability and fine of IPSAS. This became supported with the aid of Kanellos and Evangelos (2013) IPSAS nevertheless lacks steering from conceptual framework, it offer no basement of justification for standards consequently reliability is complex. This changed into consistent with Agasisti et al (2015) from their studies in Italian Universities he located out that IPSAS adoption do not offer any certain guidelines which can assist universities in overcoming the recognition and valuation issues typically the public sector. Nkundabaya (2013) and Nunnally (2013) determined out that despite the fact that public sectors followed IPSAS in their economic reporting a few discrepancies which includes terrible document retaining are being referred to in the public reporting. After reviewing diverse scholars the research is still open to perceive on whether IPSAS adoption will increase comparability, relevance and reliability of economic statements prepared in accordance to IPSAS.

## **2.5 Theoretical review**

There are several theories that address how private organisations respond to changes in the financial reporting system including the changes introduced by the adoption and implementation of IPSAS. The ensuing sub-parts provide a wide discussion of the various theories which influence implementation of accrual based IPSAS in local authorities:

### **2.5.1 Agency theory**

Agency theory shows how management of an organisation selects and applies particular accounting standards and policies to the managers' advantages and return, as opposed to providers of capital funds (Donaldson & Davis, 1991; Eisenhardt, 1989; Ross, 1973). Due to the expected benefits in management performance and reward agreements, the management will ensure that accounting standards and policies which are used guarantee their returns.

According to Jensen and Meckling (1976) reducing information asymmetry between managers and outsiders decreases agency cost. When agency cost is reduced, the implementation of accrual based IPSAS will be achieved. This leads to more transparency

and high disclosure in the financial statements. Implementation of accrual based IPSAS will add value to the Local authorities in terms of quality reporting and compliance with international requirements and attraction of development partners (Ashbaugh & Pincus, 2001).

In addition to that, Lane (2003) concluded that, agency theory can be used in public institutions since the quality of financial reporting is influenced by the conflict of interest between management and stakeholders. It is expected that, the implementation of accrual based IPSAS will increase transparency and accountability in the financial reporting (Maimunah, 2015).

### **2.5.2 Institutional theory**

This theory explains why organisations accept and implement certain accounting standards to bring about authority to the organisation or to respond to institutional pressure (Guerreiro, 2012; Guthrie, 1998). The output of the adopted and implemented accounting standards in the organisation can be positive or negative (Geels, 2004). This can be taken as one of the forces for various government entities in the world to adopt and implement accrual based IPSAS because of the pressure from Development Partners.

In agreement with Institutional theory, Parker (2016) stated that, in order to protect the investors and other interested users from having financial statements which are misleading; there should be statutory control of financial information disclosures in the financial statement. Implementation of accrual based IPSAS in the Local authorities is influenced by institutional theory. For example, Oulasvirta (2014) argued that choice of the appropriate practices by an organisation is affected by pressure and social influences. This study intends to explore, how this theory affects implementation of accrual based IPSAS.

### **2.5.3 Cultural theory**

This theory state that when there is a common perception, a means of satisfying man's mental needs, a system of common sign, projections of man's thought, and lifeless infrastructure makes the preparers of general and specific purposes financial statements to react to regulations and accounting standards either in a positive or negative way (Borker, 2013; Gray, 1988). Cultural theory is somehow confined to positive and normative accounting theories which are concerned with diversity in the accounting and financial reporting systems

and practices; which lead to adoption and implementation of accounting standards (Bellanca & Vandernoot, 2014; Borker, 2016b; Deegan, 2006). Other authors insisted that culture is one of the greatest obstacles to the success or failure of adoption and implementation of IPSAS (Borker, 2012; Paulsson, 2006; Perumpral, Evans, Agarwal, & Amenkhienan, 2009). This is because; this theory aims to illustrate the behaviours of preparers of financial statements towards users of prepared financial statements and shows how the particular country financial reporting culture determines the opportunities and failures in implementing IPSAS (Borker, 2016a; Thompson, Ellis, & Wildavsky, 1990).

On top of that, Borker (2013) illustrated that cultural theory proportions can explain better the success or failures of implementing accounting standards. In supporting this, it was stated that financial reporting environment with a professional accounting orientation will be more successful in implementing accounting standards than countries with statutory control (Barth, 2008; Borker, 2016b). In addition to that, Gray (1988) concluded that professionalism, statutory control, conservatism, optimism, secrecy, transparency, uniformity and flexibility were determined as the determinants of success or failure of implementation of any accounting standards. Generally, it is commonly known that, the choice of a particular accounting system is mainly influenced by culture of a certain country (Zeghal & Mhedhbi, 2006). This means that adoption and implementation of a particular system of accounting is mainly inspired by the culture in which such country originates.

#### **2.5.4 New Public Financial Management**

Among the most paramount aspects of New Public Financial Management (NPFM) is the trend to reforms in the financial information and reporting systems, which are fundamental elements in enhancing and improving the management and decision making of public sector entities (Guthrie, Olson, & Humphrey, 1999). NPFM refers to a term which was coined in the early 1980,,s to indicate a shift towards a new public management style. According to (Gruening, 2001; Hood, 1995), this epoch had two fundamental features known as public sector distinctiveness and rules versus discretion. The primary feature, public sector distinctiveness, means that the differences between public sector and private sector should be reduced and removed which is often marked by creating segregation or unbundling organizations into separate entities, increasing competition between public sector entities or between public sector and private sector, practicing proven private sector management style, and putting more discipline on the use of economic resources (Hood, 1995; Tiede &

Krispenz, 2006). The last feature, rules versus discretion, was affirmed to explain that public administration in this era was set to increase accountability by establishing clear assignment of responsibility, constructing measurable standards and instituting performance measurement, and putting more emphasis on results, rather than on procedures and controls (Hood, 1995).

The NPFM era and its distinctiveness mainly focused on how to adapt regularly applied private sector management styles into public sector. The belief behind this movement is the presumption that private sector management styles are more superior compared to the public sector directorial processes (Tiede & Krispenz, 2007). One form of adjustment induced by NPFM is the use of accrual accounting which is a common accounting basis used in the private sector, as the cornerstone of reforming financial information and reporting system by introducing accrual accounting in the government sector, at the cost of traditional cash accounting systems.

Accounting has played a crucial role in NPFM reforms (Tiede & Krispenz, 2007; Torres & Pina, 2003b). It is stated that a move toward accountingization was central to this change of modes of public management. The term accountingization was used to indicate the introduction of explicit cost categorization in areas where costs were formerly only aggregated, pooled or undefined (Hood, 1995). As the one heart of NPFM is to increase accountability, accounting serves as a vital tool to achieve transparency and to measure accountability which can be attained by presenting information on the performance of a public sector entity in monetary units (Hood, 1995).

Furthermore, in NPFM, public sector officials are prone to scepticism which means that their activities need to be closely costed and evaluated by accounting practices (Torres & Pina, 2003a). As a result, conventional cash accounting which was formerly used in the public sector is considered not appropriate any longer to achieve a transparent and accountable management. Cash accounting in the public sector is viewed to pay attention merely on the execution of budget and compliance to the legal system, rather than on how to manage economic resources effectively (Goddard, Assad, Issa, Malagila, & Mkasiwa, 2016). For that reason, in NPFM, the use of accrual accounting is considered appropriate since this system allows public officials to know the full costs to their various activities, to get a comprehensive view on an entity's assets and liabilities, and also to monitor the return on investment and financial sustainability.

Subsequent to the spread of NPM philosophies, governments in numerous countries have embraced private sector management styles, including the way of thinking and the models or methodology used (Rodríguez Bolívar & Galera, 2016). This change has not occurred merely in state-owned or public companies, but also in the core functions within the governments (Tayib, Coombs, & Ameen, 1999).

Under the umbrella of NPFM, public sector bodies have transformed their financial statement to incorporate accrual accounting principles which are believed to be the vital tool to achieve comparability, transparency and accountability in the public sector entities. It is believed that several driving forces such as the wish to infuse more financial awareness into the decision making system in the public sector and the demand to provide comprehensive, transparent, comparable, and accountable financial information to all stakeholders are the reasons behind these reforms (Gomes et al., 2015; Pina & Torres, 2003).

The information presented by financial reports and information from the public sector entities is expected to help both government officials in the decision making, and citizens and other stakeholders to measure the extent to which revenues meet the full cost to deliver public service. The influential players in bringing about these NPFM related reforms are politicians, financial institutions, management consultants, scholars, the media, and development partners (Pina & Torres, 2003; Torres & Pina, 2003a; Zeghal & Mhedhbi, 2006).

### **2.5.5 Political Theory**

Political theory brings the approach of developing voting support from shareholders, rather by purchasing voting power. Hence having a political influence in corporate governance may direct corporate governance within the organization. Public interest is much reserved as the government participates in corporate decision making, taking into consideration cultural challenges (Pound, 1993). The political model highlights the allocation of corporate power, profits and privileges are determined via the governments' favour. The political model of corporate governance can have an immense influence on governance developments. Over the last decades, the government of a country has been seen to have a strong political influence on firms. As a result, there is an entrance of politics into the governance structure or firms' mechanism (Hawley and Williams, 1996).

### **2.5.6 Nexus of contracts theory**

The nexus of contracts theory is an idea put forth by a number of economists and legal commentators (most notably Michael Jensen and William Meckling as well as Frank Easterbrook) which asserts that corporations are nothing more than a collection of contracts between different parties - primarily shareholders, directors, employees, suppliers, and customers. Proponents of this theory contend that all disputes about the obligations of a particular corporation should be settled by resort to the methods used to interpret contracts, and that courts should not imply the existence of fiduciary duties on behalf of corporate officers and directors. Alternatively, the nexus of contracts theory can also be viewed as a method of enhancing corporate plausible deniability, insofar as it is a way of "passing the buck" down a chain of contractual obligations and losing all semblance of responsibility in the "nexus." This can pose a practical loophole for corporate entities, a theoretical strength for those wishing to forward corporate ideology, and a legal problem for those who wish to take corporate entities to court. Another strength of this theory of the firm is a firm begins to transcend border and defy simple classification when it is really intertwined by its contracts into a number of different countries and with a number of different stakeholders. For example, can General Motors be classified as strictly a U.S. company if it has contractual obligations with workings in China, customers in Europe, or stock investors in Canada?

### **2.5.7 Resource dependence theory (RDT)**

Resource dependence theory (RDT) is the study of how the external resources of organizations affect the behaviour of the organization. The procurement of external resources is an important tenet of both the strategic and tactical management of any company. Nevertheless, a theory of the consequences of this importance was not formalized until the 1970s, with the publication of *The External Control of Organizations: A Resource Dependence Perspective* (Pfeffer and Salancik 1978). Resource dependence theory has implications regarding the optimal divisional structure of organizations, recruitment of board members and employees, production strategies, contract structure, external organizational links, and many other aspects of organizational strategy.

Organizational success in resource dependency theory (RDT) is defined as organizations maximizing their power (Pfeffer 1981). Research on the bases of power within organizations began as early as Weber (1947) and included much of the early work conducted by social exchange theorists and political scientists. Generalization of power-based arguments from intra-organizational relations to relations between organizations began as early as Selznick (1949). RDT characterizes the links among organizations as a set of power relations based on exchange resources.

RDT proposes that actors lacking in essential resources will seek to establish relationships with (i.e., be dependent upon) others in order to obtain needed resources. Also, organizations attempt to alter their dependence relationships by minimizing their own dependence or by increasing the dependence of other organizations on them. Within this perspective, organizations are viewed as coalitions alerting their structure and patterns of behaviour to acquire and maintain needed external resources. Acquiring the external resources needed by an organization comes by decreasing the organization's dependence on others and/or by increasing other's dependency on it, that is, modifying an organization's power with other organizations.

**RDT rest on some assumptions:**

- Organizations are assumed to be comprised of internal and external coalitions which emerge from social exchanges that are formed to influence and control behaviour
- The environment is assumed to contain scarce and valued resources essential to organizational survival. As such, the environment poses the problem of organizations facing uncertainty in resource acquisition.
- Organizations are assumed to work toward two related objectives: acquiring control over resources that minimize their dependence on other organizations and control over resources that maximize the dependence of other organizations on themselves. Attaining either objective is thought to affect the exchange between organizations, thereby affecting an organization's power.

Although RDT was originally formulated to discuss relationships between organizations, the theory is applicable to relationships among units within organizations. RDT is consistent with ecological and institutional theories of organizations where organizations are seen as persistent structures of order under constant reinterpretation and negotiation, interacting with an indeterminate environment of turbulence and a multitude of competing interests.



### **2.5.8 King IV**

King IV, the fourth instalment of Corporate Governance issued by the IoD, was issued on 1 November 2016 (PwC, 2016). The report by the IoD (2016) states that King IV applies to all organisations, be they public/private, large/small, for-profit/non-profit. 100 A report by Deloitte (2016) submits that King IV has made significant strides, as it is based on principles and outcomes but also considers the realities of the day, and not only principles. A report by auditing firm EY (2016: 4), states that “King IV shifts the focus to selecting and implementing governance practices to achieve overarching governance goals”. This could to a large degree be achieved, as the number of principles, as noted in the IoD report (2016) and the Deloitte report (2016), have been reduced from 75 to 17. A report by PwC (2016) compares the differences and similarities between King III and King IV™. In its report, Nkonki (2016: 1) argues that “King IV aims to reinforce good corporate governance principles, practices and governance outcomes”, philosophies and principles that have underpinned the other King Codes. In reports compiled by Werksmans (2016) and KPMG (2016), some of the reasons suggested for the revision of King III include:

- Material changes in the regulatory and corporate governance landscape, as well as experience, since King III was published in 2009
- Difficulties experienced by some public entities, private companies and non-profit organisations in the adoption of King Recommendations and principles
- The need to address some of the criticism levelled against King III
- Aligning King Codes with shifts in the approach from capitalism towards inclusive, integrated thinking across the six capitals

### **2.6 Empirical review**

IPSAS have attracted various researchers in different countries and environments. This study is an attempt to investigate the effect of accrual based IPSAS on financial reporting. There are many studies on adoption of accrual based IPSAS and this part of the research intends to appraise empirical evidence in implementation of accrual based IPSAS:

Oulasvirta, (2014) studied the reluctance of developed country to choose IPSAS. The findings revealed that strongly developed and implemented tradition accounting system was the most resisting factor to implement IPSAS. The study also concluded that developed countries did not adopt IPSAS since there no any coercive pressures like persuasive rules to adopt and implement IPSAS. Likewise, the study by Christiaens et al., (2015) had the same findings which showed that, still remains a level of reluctance especially in central government of the developed countries to implement IPSAS. This is contributed by a well-developed and trusted traditional accounting system compared with accrual based IPSAS. The study also denoted a significant diversity in the timing and implementation of accrual based IPSAS among various government jurisdictions.

On the other hand, Alesani et al., (2012) presented that it is necessary for management to identify contingency framework which are applicable to a particular governmental organisation. Such framework can be used by managers during the implementation period and assist to understand the interactive dynamics between stimuli, reform drivers and stakeholders. Furthermore, the study added that, such understanding could be used by managers to support identification of the appropriate reform design and implementation strategy. This research also disclosed that staff qualification and preparedness affect an accounting reform whereas transparency and accountability improves financial reporting in any public sector entity.

Christiaens et al., (2010) concluded that governments of developed countries still used cash based accounting, while only minorities apply IPSAS and the majority of the LGAs apply accrual accounting disregarding IPSAS. On the other hand, a number of jurisdictions including central and local governments do not adopt and implement IPSAS since they fear transfer their own local business accounting rules and systems.

### **Study in New Zealand on the factors influencing the acceptance of IPSAS**

In another study on the factors influencing the acceptance of IPSAS by Tanjeh (2016), suggested that knowledge and awareness should be well imparted in the executive, decision makers and law making arms of the government. The study concluded that staff training and recruitment programme as well as management information system should be enhanced and given more priority when implementing accrual based IPSAS. Supporting this, Ahmad, (2016) stated that, colleague opinion and inadequate information system support were among the factors influencing users' resistance towards accrual based IPSAS.

Apart from that, PwC Global Survey (2015) on accounting and reporting highlighted that lack of trained and qualified accountants on accrual based IPSAS, inadequate IT system and preparation of budget on cash basis affects the implementation of accrual based IPSAS. Although the survey focused exclusively on central governments (Schumesch, 2013; - 2015), but in accordance with the researcher experience in LGAs the situation seems to be the same in the LGAs in Tanzania.

Furthermore, Babatunde, (2009) documented that political support was a significant factor for the slow implementation of IPSAS. Consistently, (Adhikari & Mellemvik, 2010, 2011) reported that the involvement of the professional accountants and the considerations of the interests of international organisations is inevitable for the public sector entities to achieve the full benefits of IPSAS. The study also disclosed that the implementation of accrual accounting in the Nepalese Central Government has been an unsuccessful mission leading to the replacement of the accrual accounting with the improved version of cash accounting anchored on the cash based IPSAS. The methodology of this study involved documentary search and informal interview.

Whitefield & Savvas, (2016) discovered that majority of the UN agencies have adopted and implemented accrual based IPSAS because of the resolution and agreement by the UN General Assembly. The encouragement and support to the UN agencies facilitated the adoption and implement accrual based IPSAS. The sample was taken from the 13 UN agencies, considering a sample size of 20% of the population, which resulted into 108 accountants. The data were analysed by using descriptive and inferential statistics. It was also suggested that, the process of implementing accrual based IPSAS will be improved when IPSAS software developers and funding agencies take into account the cost of preparing IPSAS training materials, and general cost of adopting and implementing accrual based IPSAS in the concerned public sector entities.

The researcher reviewed another study by Whitefield, (2016) which concluded that the main limitations facing the UN agencies in producing accrual based IPSAS compliant financial statements are technological, organization, financial challenges and alleged usefulness challenges. Moreover the study recommended that technical support from the qualified, trained and professional accountants, provision of accrual basis IPSAS training modules and adequate ICT infrastructures would improve and speed up the process of implementing and adopting accrual based IPSAS. It employed the descriptive and explanatory research designs

with a sample size of 108 accountants out of 540 accountants from the UN agencies. The study recommended a careful study and assessment of the stated factors in order to achieve the intended objective of accrual based IPSAS.

It was noted that since Tanzania adopted and implemented accrual based IPSAS, the main challenges remaining were such as non-identification and reporting of intangible assets, weakness in the information technology system which lead to the use of cash based IPSAS instead of accrual based IPSAS, preparation and presentation of budget under cash system while the financial statements are prepared on accrual based IPSAS1.

Ahmad, (2016) highlighted that factors influencing users' resistance towards accrual based IPSAS includes colleague opinion, technologies and system, inadequate top management support and self-efficacy for change. The study employed 600 questionnaires distributed in the Accountants General Office, using descriptive statistics and Pearson's Correlation as means of data analysis. On the other hand, the work by Azmi & Mohamed (2014) and Tanjeh (2016) supported the above statement by revealing that there is insufficient in house training, lack of knowledge and skills, absence of external consultant and low support from the senior management in implementing accrual based IPSAS. Their study further added that accounting employees are ready for accepting and implementing accrual based IPSAS.

Finally, the study on the actual implementation of accrual based IPSAS by Connolly (2006) acknowledged that there are various effects which have been introduced by implementation of accrual based IPSAS. Some of them include increase in cost, overoptimistic claims and different timing in implementation process. The study concluded that, developing countries like Tanzania still have a long way to go in order to enjoy the benefits of accrual based IPSAS implementation.

## **2.7 Chapter Summary**

The chapter looked at the evolution of IPSAS as well as the types of IPSAS in existence. This study was mainly focusing on Accrual based IPSASs. Costs and benefits of IPSAS adoption was explained in detail in light of its adoption in Local authorities. Factors affecting the adoption of IPSAS in public sector has been clearly laid out. These includes training and skills required, political, legal as well as administrative issues. The researcher also looked at theories underlying the study. Empirical reviews on the implementation of IPSAS have been clearly laid out.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter discusses the research methods used to analyze the impact of IPSAS adoption on financial performance: A case of local authorities and municipalities. In a research context, methodology is a research strategy which addresses issues of research design, measurement of variables, and data analysis (Lee, 2005). Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. It is necessary for the researcher to know not only the research methods or techniques but also the methodology. This chapter explores the research design, different research strategies, research philosophy, and Research instruments and links them to the current study.

#### **3.2 Contextualising the Research Methodology.**

Remenyi (2012) theorises that various approaches to research can be classified into two broad divisions: empirical and theoretical. The dissimilarity is that the empiricist goes out into the world and makes some observations, collects related evidence, draws conclusions and claims that something of value has been added to the body of knowledge. On the other hand the research theorist studies the subject through the writings of others and usually does not have any direct involvement in observations and collection of evidence. The theorist then reflects on the ideas and subsequently constructs a new or different view of the situation which can be regarded as a new theory (Remenyi 2012). However, in the real world the two are interlinked. As Remenyi (2012) puts it “It is not possible to be an empiricist without having a thorough understanding of the theoretical issues surrounding the subject which will be studied and about which evidence will be collected”.

However, empirical research is the dominant paradigm in business and management research and empiricism can either be positivist or phenomenological in nature (Remenyi 2012). In fact two views about the research process dominate the literature: positivism and phenomenology (Saunders, Thorndike and Louise 2009). What comes out of both is that research is a process of enquiry and investigation embarked upon to increase knowledge and also that it is

systematic and methodological. This means that an unanswered question or unresolved problem will be identified and studied and that the researcher will attempt to produce a suitable answer to the question or a solution to the problem.

### **3.3 Research Design**

This study adopts the sequential explanatory research design as it initially aims to develop a general understanding of the research problem through quantitative data, and then to elaborate on the quantitative results and explain these results by exploring respondents' views in more depth through qualitative data. To succeed in its objectives, the study relies on the two methods of data collection most commonly used in social sciences: surveying and interviewing (Bryman & Bell, 2007; Czaja & Blair, 2005). Survey has been chosen because it enables the identification of certain typical characteristics of the subject of research (Czaja & Blair, 2005). On top of that, survey has been selected due to lack of public data on the variables included in this study (Christmann & Taylor, 2006; de Andrés-Alonso, et al., 2010). Furthermore, surveys, through anonymous self-administered questionnaires, facilitate data collection on potentially embarrassing and sensitive topics; respondents seem to give more truthful answers as the anonymity of the questionnaire exempts them from any social imperatives (Czaja & Blair, 2005). In this way, a survey may result in more accurate depiction of reality. In addition to a survey, interviews were chosen as a data collection method as they offer greater flexibility comparing to other methods of data collection, Bryman & Bell, (2007), and facilitate the gathering of more thorough data on the issues identified in the questionnaires. Additionally, interviews allow for probing and enable the researcher to pick up nonverbal cues from respondents. For instance, any discomfort, stress and problems that the respondent may experience can be noticed through frowns, nervous taping and other body language, unconsciously exhibited by the interviewee (Arksey & Knight, 1999; Gorden, 1980; Healey & Rawlinson, 1994).

The choice of respondents was not incidental. The use of multiple informants has been suggested by several scholars, for example, Golden, (1992) who argued that by doing so the validity and reliability of a study increases. However, some have criticised this approach due to the possibility of obtaining opposite views on similar issues. Kumar et al. (1993) argue that aggregating responses from two different sources in order to construct a single organisational response and submitting them for statistical analysis suffers from significant shortcomings. For this reason, it was not the intention of this study to statistically analyse responses coming

from both sources of informants. Thus, the survey's responses were analysed quantitatively while the interview ones qualitatively. Data obtained through survey combined with data collected through interviews provide breadth and depth in terms of understanding the work flows and procedures of local authorities.

### **3.4 Research Philosophy**

There has traditionally been a predominance of positive methods, the most popular being the survey and its permutations (Bygrave, 2003). Since the late 1980s, there has been a steady emergence of articles reflecting on qualitative research, or the constructivist approach (Hill and McGown, 2000). The position adopted in this study advocates for a view where improved understanding can be derived.. However, having discussed the various research philosophies, the researcher adopted both the phenomenological and positivism approach, which are also known as the qualitative and quantitative approaches respectively. The qualitative research methods were in the form of a semi structured interview method. This according to Denzin and Lincoln (2000), provide a framework for a degree of consistency amongst interviews conducted by a number of different interviewers, and gives greater scope for addressing various issues under consideration. The quantitative aspect of the research was disseminated in the form of structured questionnaires. This according to Bygrave (1989) makes it easy for the researcher to analyse data findings, since the questionnaire will be standardized.

### **3.5 Research Strategy**

This study is based on a survey. A survey is one of several ways of doing research. The research strategies common to the social sciences include case study archival analysis, experiments, history and survey. Each of the different research strategies can be used in exploratory, descriptive or explanatory research, (Robson, 1993). When to use each method is determined by the type of research question posed, the extent of control the researcher has over the actual behavioural events and the degree of focus on contemporary as opposed to historical events (Yin, 1994).

### 3.6 The Research Population

Population, according to Castle (1977) and Zikmund (2003) who postulated that a target population is the complete group of the specific population elements relevant to a research project is an entire group about which some specific information is required and recorded. Similarly, Nachmias and Nachmias (1981) define population as the aggregate of all cases that conform to some designated set of specifications. In this study, the population was comprised of Auditors, Accounts clerks, Accountants and Finance managers for all local authorities under study. Total target population according to city council internal records was 1228 employees within the target departments. Qualitative and quantitative researchers approach sampling quite differently. For quantitative researchers, the primary goal for the sampling procedure is to get a representative sample, small number of individuals but representative of the bigger population and produce accurate generalisation about the population. Therefore, quantitative researchers are very concerned about using specific techniques that will yield highly representative samples and they tend to use a type of sampling frame based on theory of probability. Tabulated below is the target population.

Table 3.1 Target population

Local Authority	Target population
Harare	350
Bulawayo	300
Gweru	96
Chipinge	38
Zvishavane	34
Lupane	12
Hwange	18
Vic Falls	23
Karoi	17



Chirundu	9
Masvingo	88
Kadoma	76
Chinhohi	74
Norton	34
Kwekwe	33
Gokwe	26
<b>Total</b>	<b>1228</b>

Source: Internal source

### 3.7 Sampling Design

A sampling design is a definite way for obtaining a sample from a given population. It refers to the technique or the procedure the researcher would adopt in selecting items for the sample. Sample design may as well lay down the number of items to be included in the sample, that is, the size of the sample. Sample design is determined before data is collected. There are many sample designs from which a researcher can choose. Some designs are relatively more precise and easier to apply than others. Researcher must select a sample design which should be reliable and appropriate for a research study (Kothari 2004). In order to select the appropriate sampling design for the study, the researcher needs to understand the different sampling techniques available. There are a number of sampling techniques which can be classified under two broad categories; probability sampling and non-probability sampling. In probability sampling, the elements in the population have some known chance or probability of being as sample subjects.

Probability sampling is mostly associated with survey based research. The sampling techniques under probability sampling include simple random sampling, stratified random sampling and cluster sampling. In non-probability sampling, the elements do not have a known chance or predetermined chance of being selected as subjects. Sampling techniques under non-probability sampling includes quota sampling, purposive sampling and convenience sampling (Saunders *et al*, 2009). Probability sampling designs are used when the

representatives of the sample is of importance in the interest of a wider generalizability. When time or other factors rather than generalizability become critical, non-probability sampling is generally preferred (Robert 2001). Since this study is basically a survey motivated to analyse the impact of IPSAS adoption in local authorities, the need for generalizability was minimal because the study is explorative in nature. Therefore a non-probability sampling design turns out to be more appropriate using convenient sampling.

### **3.8 Sample Size**

A sample is a group of subjects chosen from a larger population with the aim of collecting information about the entire population. According to Leedy (1985), the sample must be representative of the entire population from which it was drawn because the results will be generalised to the entire population. In this study, a sample size of 291 respondents was used, according to Kredjice and Morgate index table appended below (Kredjice and Morgan, 2009).

### **3.9 Instrumentation**

A research instrument is a testing device for measuring a given phenomenon such as a paper and pencil test, a research tool or a questionnaire, or a set of guidelines for observation (Colton and Covert 2007). The quality of information gathered from a sample relies on the quality and reliability of the data collection instruments adopted (Gill 2007). According to Sidman (2000), data collection instruments mainly consist of questionnaires, interviews and documentation. As such, a research instrument in the form of self-administered questionnaire which took the form of 5 point Likert scale was developed.

### **3.10 Reliability**

Reliability and validity are two key components to be considered when evaluating a research instrument. According to Bless and Smith (2000), reliability is concerned with the consistency of the instrument and an instrument is said to have high reliability if it can be trusted to give an accurate and consistent measurement of an unchanging value.

### **3.11 Validity of the Instrument**

The validity of an instrument refers to how well an instrument measures the particular concept it is supposed to measure (Whitelaw, 2001). To test the validity and reliability, the instrument was pre-tested on five non-managerial employees drawn from the local authorities. The instrument was measured on the extent to which individual questions related to the overall objectives of the study. Results from pre-testing indicated points to be improved on the research tool. Data collection commenced after addressing all the concerns as regards validity and reliability.

### **3.12 Data Collection**

Data collection commenced immediately after the analysis of the pre-test results. The respondents were given self-administered questionnaires to respond to. They were given five working days to respond to the research tool which had and closed ended items. Face to face interviews were conducted with a few senior managers.

### **3.13 Data Analysis**

Data analysis is a practice in which raw data is ordered and organised so that useful information can be extracted from it. Since this study utilised a research tool that had both the closed ended questions and structured interview questions, data analysis was done using both qualitative and quantitative methods. For the analysis of quantitative data, the statistical package for social scientists (SPSS) version 25.0 was used. For the analysis of qualitative data that was gathered from interviews, qualitative methods such as systematic content analysis and data matching were used.

### **3.14 Data presentation**

Data was presented in the form of pie charts, bar graphs and textual writings. These methods of data presentation are designed to simplify the data for easy interpretation of the research findings.

### **3.15 Chapter Summary**

The Chapter presented an overview of the research procedures that were used in this study. A quantitative research methodology, which took the form of a descriptive survey, was used to gather information from the respondents. The study had a sample size of 354 respondents comprising of Auditors, Accounts clerks, Accountants and Finance managers. The research philosophy, the research design and the sampling design were also highlighted. The following chapter outlines the research findings gathered from data analysis.

## CHAPTER FOUR

### DATA PRESENTATION AND ANALYSIS

#### 4.0 Introduction

The chapter analysed data collected by via questionnaires. The researcher used SPSS to analyse as well as to summarize findings. Tables and graphs have been used herein in for data presentation and analysis. Reliability, normality test, correlation and regression analysis were mainly used in the study.

#### 4.1 Response rate

*Table 4.0.1: Response rate*

Questionnaires sent	returned	Distorted or not returned	% age
291	219	72	75%

The table shows a response of 75%. A high response rate was mainly driven by the variables used. The researcher used closed ended questions which were easy to administer. The questionnaire was short and easy to answer.

#### 4.2 Reliability test

The researcher carried out a consistency check using Cronbach alpha. The main purpose to test a data collection tool for reliability was to check for consistency of questions asked against objectives of the study. A Cronbach alpha of 0.7 and above is acceptable according to Polit.et.al (2009). A table below is a summary of reliability test showing the Cronbach alpha and the number of items used. Reliability check was done using only 42 items from a total of 47. Demographics were removed as they cannot be tested for consistency.

*Table 4.0.2: Reliability test*

Reliability Statistics	
Cronbach's Alpha	N of Items
.735	34

The questionnaire was reliable with a Cronbach alpha of 0.735. High reliability was a contribution of variables used. The researcher adopted most of the variables from other researchers which were already tested for reliability as well as validity. A pilot test was conducted which further improved reliability of the tool.

### 4.3 Normality test

The researcher conducted a normality test to ascertain if the data was even or unevenly distributed. The researcher conducted this test using the Shapiro-Wilk which is the normality test used when the sample size is less than 2000.

The table below shows the Shapiro-Wilk test results. The significance values of the test as indicated on the table all have figures that are below 0.05 hence it means that the data was unevenly distributed therefore the researcher made use of non-parametric tests. The non-parametric test was done using the Spearman correlation test.

*Table 4.0.3: Test of normality*

Tests of Normality						
	Kolmogorov-Smirnov <sup>a</sup>			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
A law/standard has been accepted	.343	219	.000	.778	219	.000
A number of pilot projects have been started	.316	219	.000	.749	219	.000
There is a transition period	.273	219	.000	.784	219	.000
Accrual accounting is fully adopted	.175	219	.000	.892	219	.000
Some local governments voluntarily adopt accrual accounting	.270	219	.000	.859	219	.000
Your organisation is currently on cash basis	.312	219	.000	.745	219	.000
Some local governments have voluntarily adopted accrual accounting?	.263	219	.000	.851	219	.000
It is useless to reinvent the wheel; it is more efficient to make use of the knowledge of the IPSASB	.229	219	.000	.808	219	.000
To enhance national/international comparability of financial information	.327	219	.000	.617	219	.000
To be in accordance with international organizations	.396	219	.000	.649	219	.000
To facilitate the consolidation of financial statements	.286	219	.000	.682	219	.000
To improve private/public comparability	.284	219	.000	.750	219	.000
The IPSASs are developed by qualified persons	.234	219	.000	.780	219	.000
For financing purposes	.257	219	.000	.812	219	.000
To facilitate comparison of financial information for public benefit	.285	219	.000	.849	219	.000

Tests of Normality						
To improve the quality of the general purpose financial reporting by (public sector) local authorities	.426	219	.000	.608	219	.000
Balance sheets and profit/loss calculations are of less importance in the public sector	.354	219	.000	.695	219	.000
Cash accounting systems complement better with budgetary accounting systems	.198	219	.000	.851	219	.000
An accounting reform will lead to considerable costs	.288	219	.000	.786	219	.000
The current cash accounting system meets all requirements	.249	219	.000	.872	219	.000
A cash based system better fits the characteristics of a public sector organization	.251	219	.000	.865	219	.000
The accounting system was only just changed to a modified cash accounting system	.207	219	.000	.853	219	.000
Local governments resist against an accounting reform	.242	219	.000	.853	219	.000
Some public sector efforts cannot be accounted for	.196	219	.000	.840	219	.000
Former accounting reforms have shown significant implementation problems	.310	219	.000	.827	219	.000
Accrual accounting has limited potential to support political decision-making	.260	219	.000	.872	219	.000
IPSAS adoption will reduce and curb corruption in financial reporting quality in public sector	.345	219	.000	.774	219	.000
IPSAS adoption will help to improve governance in public fund accounting	.375	219	.000	.708	219	.000
The adoption of IPSAS will improve credibility of financial reporting in public sector	.292	219	.000	.784	219	.000
Preparing of financial statements in accordance to IPSAS will actually show the financial performance the organisation	.255	219	.000	.765	219	.000
Preparing financial statements in accordance to IPSAS will actually shows the financial position of the public sector.	.346	219	.000	.784	219	.000
Adoption of IPSAS in public sector will ensure that financial statements will be comparable.	.304	219	.000	.813	219	.000
The adoption of IPSAS in public sector assures relevance of the financial statements.	.300	219	.000	.836	219	.000
Adoption of IPSAS in public sector will result in the reliability of the financial statements.	.344	219	.000	.743	219	.000

Essentially the tests are separated into two basing on the sample size. Kolmogorov-Sminov test is used for larger samples usually above 2000 whereas Shapiro Wilk test will be used for smaller samples, those below 2000. The decision rule is that if the significance value (p-value) is greater than 0.05, the dataset is normally distributed otherwise the data is unevenly distributed. The table above shows P-Values of .000 which means the data is not normally

distributed. The results entails that non-parametric tests should be carried out. Regression and correlation are the non-parametric tests used in this study.

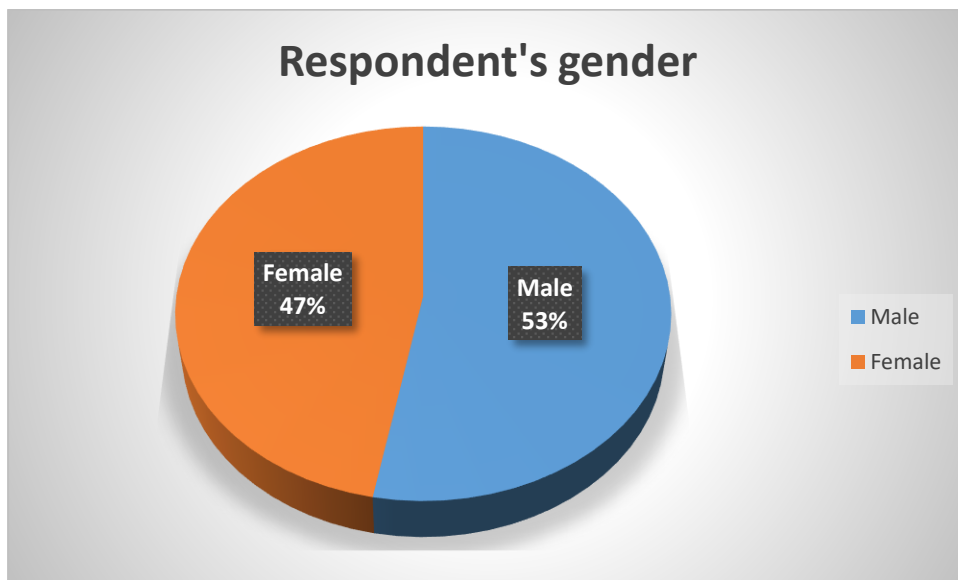
#### **4.4 Descriptive analysis**

A descriptive analysis quantitatively describes the main features of data. The most common methods used include measures of central tendency and measures of dispersion.

##### **4.4.1 Demographics**

The section below captures demographic information of respondents

##### **4.4.1.1 Gender**



*Figure 1.1: Respondent's gender*

Figure 1.1 above shows gender of respondents. Most of the respondents were males with 53%. Female respondents constituted 47% of respondents. This shows that the research was gender balanced.



#### 4.4.1.2 Respondent's education

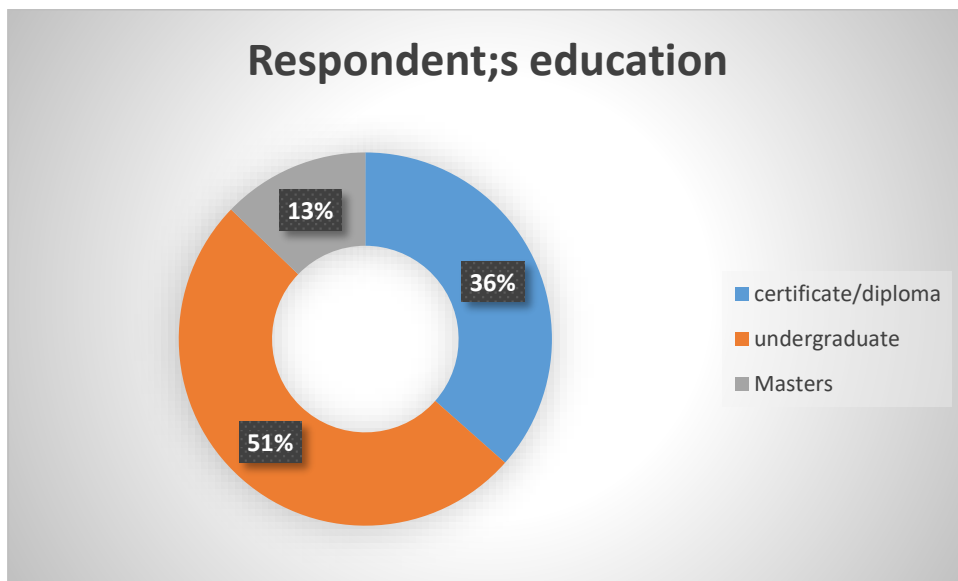


Figure 4.2: Respondent's education

Most of the respondents are holders of undergraduate degrees constituting 51% of respondents. Holders of certificates were fairly below holders of undergraduate degrees with 36%. A few respondents are holders of masters programs.

#### 4.4.1.3 Age of respondents

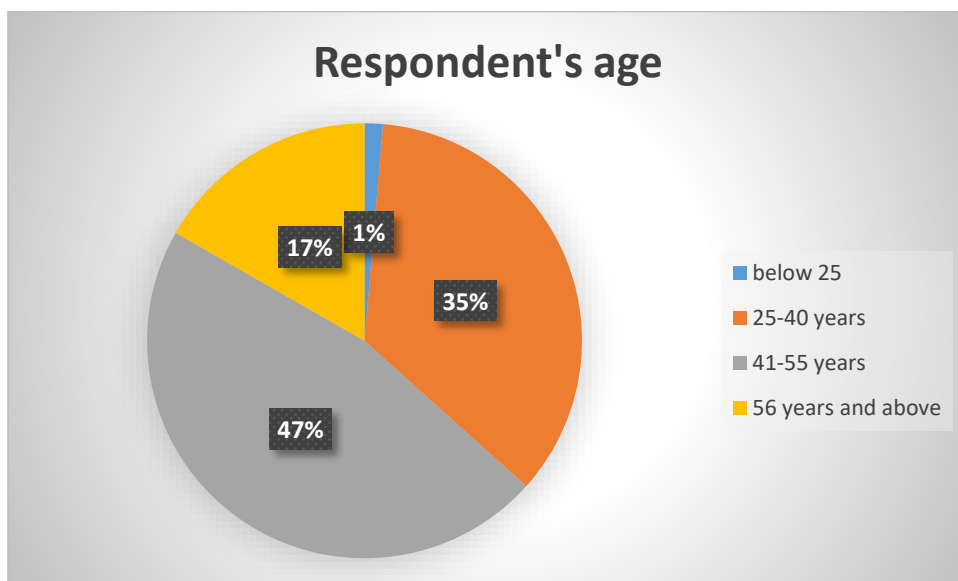


Figure 4.3: Respondent's age

Most of the respondents are between the age of 41-55 years constituting 47% of respondents followed by 35% constituting of respondents between the age of 25-40 years. With the least percentage were respondents below the age of 25 years (1%) followed by those above the age of 56 (17%). Age distribution shown above showed that the public sector has retained its employees which further improves reliability of the findings since most of the respondents were in the system for ages.

#### 4.4.1.4 Respondent's Title

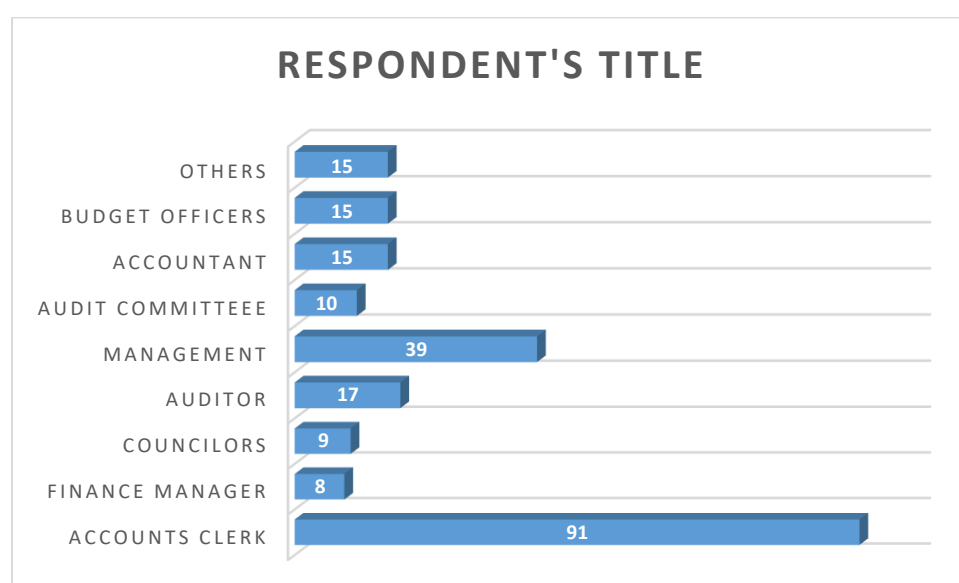


Figure 4.4: Respondent's title

Most of the respondents were accounts clerks constituting a frequency of 91 from a total of 219. Management also contributed a lot in the research, 39 of them responded. Auditors (17), budget officers (15) as well as people with other titles besides the ones listed contributed immensely on the research. The researcher managed to reach 9 councillors as well as 8 finance managers. Results showed that responses from various departments were taken especially from key people in finance operations.

#### 4.4.2 State of the adoption of accrual accounting

In this section the researcher collected various results on the adoption of IPSAS in local authorities.

Table 4.0.4: A law/standard has been accepted

A law/standard has been accepted					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	27	12.3	12.3	12.3
	Neutral	15	6.8	6.8	19.2
	Agree	125	57.1	57.1	76.3
	Strongly agree	52	23.7	23.7	100.0
	Total	219	100.0	100.0	

Most respondents agreed that IPSAS standards has been accepted within the public sector with a total percentage of 80.8%. However only 12.3% had a different opinion on the acceptance of the standard yet another 6.8% were indifferent.

Table 4.0.5: A number of pilot projects have been started

A number of pilot projects have been started					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	41	18.7	18.7	18.7
	Agree	98	44.7	44.7	63.5
	Strongly agree	80	36.5	36.5	100.0
	Total	219	100.0	100.0	

It was agreed that a number of pilot projects have been started in preparation of IPSAS adoption (81.3%).Only 18.7% of the respondents are still behind.

Table 4.0.6: There is a transition period

There is a transition period					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	40	18.3	18.3	18.3
	Neutral	13	5.9	5.9	24.2
	Agree	82	37.4	37.4	61.6
	Strongly agree	84	38.4	38.4	100.0
	Total	219	100.0	100.0	

Respondents agreed that there is a transition period for a new accounting reform (75.8%). 18.3% of the respondents were not aware of the transition period and the remaining 5.9% were indifferent.

*Table 4.0.7: Accrual accounting is fully adopted*

<b>Accrual accounting is fully adopted</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	25	11.4	11.4	11.4
	Disagree	29	13.2	13.2	24.7
	Neutral	58	26.5	26.5	51.1
	Agree	54	24.7	24.7	75.8
	Strongly agree	53	24.2	24.2	100.0
	Total	219	100.0	100.0	

Only 48.9% agreed that accrual accounting system to date has been fully adopted. Only 24.6% of the respondents denied that accrual accounting is fully adopted whereas 26.5% were neutral.

*Table 4.0.8: Some local governments voluntarily adopt accrual accounting*

<b>Some local governments voluntarily adopt accrual accounting</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	27	12.3	12.3	12.3
	Disagree	84	38.4	38.4	50.7
	Neutral	15	6.8	6.8	57.5
	Agree	55	25.1	25.1	82.6
	Strongly agree	38	17.4	17.4	100.0
	Total	219	100.0	100.0	

Most of the respondents denied that some local governments voluntarily adopt accrual accounting (50.7%). However some comprising of 42.5% agreed that there was a voluntary adoption raised by other local authorities. 6.8% were not moved.

*Table 4.0.9: Your organisation is currently on cash basis*

<b>Your organization is currently on cash basis</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	101	46.1	46.1	46.1

	Agree	94	42.9	42.9	89.0
	Strongly agree	24	11.0	11.0	100.0
	Total	219	100.0	100.0	

Most local authorities are still on cash basis (53.9%), however some considerable steps have been taken by the other 46.1% towards accrual based accounting system.

### Summary on Adoption of IPSAS

In order to determine the extent to which adoption of IPSAS affect Financial performance, the respondents were provided with a list of factors relating to the adoption of accrual accounting and requested to indicate the extent to which they agree with the statements by ticking in the appropriate response against a five – point scale. Responses were: strongly agree = (5); agree = (4); neither agree nor disagree = (3); disagree = (2); and strongly disagree = (1). The responses are summarized and presented in table 4.4 below. 1- 3 – Small Extent, 3 – 3.5 - Average, 3.5 – 5 – Large Extent

*Table 4.0.10: State of the adoption of accrual accounting*

Item Statistics			
	Mean	SD	N
A number of pilot projects have been started	3.99	1.058	219
There is a transition period	3.96	1.085	219
A law/standard has been accepted	3.92	.893	219
Accrual accounting is fully adopted	3.37	1.294	219
Your organisation is currently on cash basis	3.19	1.140	219
Some local governments voluntarily adopt accrual accounting	2.97	1.352	219

### Source: primary data

Respondents had varying responses on the adoption of accrual accounting in the public sector. Variables were captured were arranged in their order of acceptance. Mean scores ranged between 2 and 4. Respondents agreed to a larger extent that a number of pilot projects have been started (M = 3.99) and that there is a transition period to effectively adopt IPSAS (M = 3.96). Respondents agreed to a greater extent that a standard has been accepted (M = 3.92). There was a moderate and slightly above average responses supporting the assertion that accrual accounting is fully adopted in the public sector (M = 3.37). Respondents to an average extent agreed that they are still on cash basis despite the fact that their organisations

are heading towards the accrual based accounting (M = 3.19). Respondents were against the fact that some local governments voluntarily adopted accrual accounting (M = 2.97)

#### 4.4.3 Reasons to link the accrual accounting legislation to IPSAS

In this section the researcher collected various results on accrual accounting legislation in local authorities.

*Table 4.0.11: the knowledge of the IPSASB*

<b>It is useless to reinvent the wheel; it is more efficient to make use of the knowledge of the IPSASB</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	52	23.7	23.7	23.7
	Agree	99	45.2	45.2	68.9
	Strongly agree	68	31.1	31.1	100.0
	Total	219	100.0	100.0	

Most respondents agreed that it makes more sense to and more efficient to make use of the knowledge of the IPSASB other than reinventing the wheel (76. 3%). The other 23.7% had a different opinion.

*Table 4.0.12: To enhance national/international comparability of financial information*

<b>To enhance national/international comparability of financial information</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	12	5.5	5.5	5.5
	Agree	110	50.2	50.2	55.7
	Strongly agree	97	44.3	44.3	100.0
	Total	219	100.0	100.0	

Majority of the respondents agreed that adoption of IPSAS enhances national/international comparability of financial information (94. 5%). Only 5.5% denied that comparability can be enhanced by making use of accrual based accounting.

*Table 4.0.13: To be in accordance with international organizations*

<b>To be in accordance with international organizations</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	12	5.5	5.5	5.5
	Neutral	15	6.8	6.8	12.3
	Agree	150	68.5	68.5	80.8
	Strongly agree	42	19.2	19.2	100.0
	Total	219	100.0	100.0	

Majority of the respondents agreed that adoption of IPSAS matches local authorities with international standards (87. 7%).Only 5.5% denied whereas 6.8% where indifferent.

*Table 4.0.14: To facilitate the consolidation of financial statements*

<b>To facilitate the consolidation of financial statements</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	12	5.5	5.5	5.5
	Agree	99	45.2	45.2	50.7
	Strongly agree	108	49.3	49.3	100.0
	Total	219	100.0	100.0	

Majority of the respondents agreed that adoption of IPSAS facilitate the consolidation of financial statements (94. 5%).Only 5.5% denied that consolidation can be enhanced by making use of accrual based accounting.

*Table 4.0.15: To improve private/public comparability*

<b>To improve private/public comparability</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	12	5.5	5.5	5.5
	Neutral	15	6.8	6.8	12.3
	Agree	86	39.3	39.3	51.6
	Strongly agree	106	48.4	48.4	100.0
	Total	219	100.0	100.0	

Majority of the respondents agreed that adoption of IPSAS improves private or public comparability of local authorities with (87. 7%).Only 5.5% denied whereas 6.8% where indifferent.

*Table 4.0.16: The IPSASs are developed by qualified persons*

<b>The IPSASs are developed by qualified persons</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	15	6.8	6.8	6.8
	Neutral	42	19.2	19.2	26.0
	Agree	69	31.5	31.5	57.5
	Strongly agree	93	42.5	42.5	100.0
	Total	219	100.0	100.0	

Most respondents showed that they have trust in IPSASs as they are developed by qualified persons and a recognized person (75%). Only 6.8% had a different opinion on the qualifications of the developers of IPSAS.

*Table 4.0.17: For financing purposes*

<b>For financing purposes</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	12	5.5	5.5	5.5
	Neutral	28	12.8	12.8	18.3
	Agree	99	45.2	45.2	63.5
	Strongly agree	80	36.5	36.5	100.0
	Total	219	100.0	100.0	

**Source: Research data**

Most of the respondents agreed to a larger extent that for financing purposes IPSAS can assist local authorities to get funding from donors who support its adoption the likes of IMF and World bank (81.7%).



Table 4.0.18: To facilitate comparison of financial information for public benefit

To facilitate comparison of financial information for public benefit					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	15	6.8	6.8	6.8
	Disagree	28	12.8	12.8	19.6
	Neutral	57	26.0	26.0	45.7
	Agree	105	47.9	47.9	93.6
	Strongly agree	14	6.4	6.4	100.0
	Total	219	100.0	100.0	

For public benefit comparison of financial statements is made easier through the use of IPSAS.80.4% agreed to the assertion with the minority of 19.6% with a different opinion.

Table 4.19: To improve the quality of the general purpose financial reporting by (public sector) local authorities

To improve the quality of the general purpose financial reporting by (public sector) local authorities					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	15	6.8	6.8	6.8
	Neutral	14	6.4	6.4	13.2
	Agree	160	73.1	73.1	86.3
	Strongly agree	30	13.7	13.7	100.0
	Total	219	100.0	100.0	

The majority of the respondents agreed that linking account reform to accrual accounting improves the quality of the general purpose financial reporting by (public sector) local authorities (86.8%). Only 13.2% had a different perception on the above.

### Summary on the link to accrual accounting legislation

A Likert scale of 1-5 was used to select the appropriate responses from the choices; 5- Strongly Agree, 4-Agree, 3-Neutral, 2 Disagree, 1- Strongly Disagree. From the results an average score was calculated; **1- 3 – Small Extent, 3 – 3.5 - Average, 3.5 – 5 – Large Extent**

Table 4.0.20: Reasons to link the accrual accounting legislation to IPSAS

Item Statistics			
	Mean	SD	N
To facilitate the consolidation of financial statements	4.38	.754	219
To improve private/public comparability	4.31	.825	219
To enhance national/international comparability of financial information	4.28	.929	219
For financing purposes	4.13	.836	219
It is more efficient to make use of the knowledge of the IPSAS	4.07	.738	219
The IPSASs are developed by qualified persons	4.03	1.113	219
To be in accordance with international organizations	3.96	.869	219
To improve the quality of the general purpose financial reporting by (public sector) local authorities	3.87	.896	219
To facilitate comparison of financial information for public benefit	3.34	1.012	219

**Source: primary data**

The table above is a summary of findings showing what respondents had to say are the reasons to link the accrual accounting legislation to IPSAS. The mean scores ranges from 3 to 5. Which shows that respondents were in agreement with most of the reasons raised by the researcher. The variables are arranged with their means in accordance with agreement scores. Respondents agreed to a larger extent that the main reason to link accrual accounting legislation to IPSAS was to facilitate the consolidation of financial statements (M = 4.38). Respondents also agreed to a greater extent that IPSAS improves comparability in public or private institutions (M = 4.31) as well as enhancing both national and international comparability of financial information (M = 4.28). It was also agreed to a larger extent that It is more efficient to make use of the knowledge of the IPSAS (4.07). The other reason for IPSAS adoption was mainly compliance with international organisations (M = 3.96). Results also reviewed that IPSAS adoption improves quality of the general purpose financial reporting by (public sector) local authorities (M = 3.87) as well as to facilitate comparison of financial information for public benefit (M = 3.34)

#### **4.4.4 Reasons not to adopt accrual accounting**

A Likert scale of 1-5 was used to select the appropriate responses from the choices; 5- Strongly Agree, 4-Agree, 3-Neutral, 2 Disagree, 1- Strongly Disagree. From the results an average score was calculated; **1- 3 – Small Extent, 3 – 3.5 - Average, 3.5 – 5 – Large Extent**

*Table 4.0.21: Reasons not to adopt accrual accounting*

Item Statistics			
	Mean	SD	N
An accounting reform will lead to considerable costs	4.06	.954	219
Former accounting reforms have shown significant implementation problems	3.89	.770	219
Local governments resist against an accounting reform	3.64	1.275	219
Some public sector efforts cannot be accounted for	3.55	1.162	219
Cash accounting systems complement better with budgetary accounting systems	3.28	1.096	219
The accounting system was only just changed to a modified cash accounting system	3.21	1.036	219
Accrual accounting has limited potential to support political decision-making	3.21	1.034	219
The current cash accounting system meets all requirements	2.92	1.355	219
A cash based system better fits the characteristics of a public sector organization	2.46	.987	219
Balance sheets and profit/loss calculations are of less importance in the public sector	1.90	1.038	219

**Source: primary data**

Besides the fact that adoption of IPSAS is the modern way for financial reporting, respondents had their own reasons why some local authorities shun adoption accrual based accounting in the name of IPSAS. Respondents had varying responses on the phenomena with mean scores ranging from 1 to 5. This shows incongruence in their responses. Most of the respondents agreed to a larger extent that an accounting reform will lead to a considerable costs to the local authorities ( $M = 4.06$ ). Again respondents agreed that previous reforms have shown significant implementation problems which they are not ready to face again with the coming of this new reform ( $M = 3.89$ ). It was also noted that there is resistance against an accounting reform from local governments ( $M = 3.64$ ). Respondents also raised that some public sector efforts cannot be accounted for with the adoption of IPSAS ( $M = 3.55$ ). To a moderate extent, respondents agreed that Cash accounting systems complement better with budgetary accounting systems (3.28). Respondents also noted that the accrual accounting has limited potential to support political decision making unlike the cash basis one ( $M = 3.21$ ). However, respondents did not agree with the fact that the current cash accounting system meets all requirements. It was noted that the current cash accounting has some challenges on its own which emanates from different facets of management and decision makers (2.92). Respondents differed on the fact that cash based system better fits the characteristics of a public sector organisation ( $M = 2.46$ ). It was also denied that balance sheets and profit/loss calculations are of less importance in the public sector ( $M = 1.90$ ).

#### **4.4.5 Financial performance**

A Likert scale of 1-5 was used to select the appropriate responses from the choices; 5- Strongly Agree, 4-Agree, 3-Neutral, 2 Disagree, 1- Strongly Disagree. From the results an average score was calculated; **1- 3 – Small Extent, 3 – 3.5 - Average, 3.5 – 5 – Large Extent**

*Table 4.0.22: Financial performance*

Item Statistics			
	Mean	SD	N
Preparing of financial statements in accordance to IPSAS will actually show the financial performance the organisation	4.25	.810	219
Adoption of IPSAS in public sector will result in the reliability of the financial statements.	4.25	.964	219
The adoption of IPSAS will improve credibility of financial reporting in public sector	4.05	.959	219
Adoption of IPSAS in public sector will ensure that financial statements will be comparable.	4.01	.784	219
IPSAS adoption will help to improve governance in public fund accounting	4.00	.865	219
IPSAS adoption will reduce and curb corruption in financial reporting quality in public sector	3.93	.890	219
Preparing financial statements in accordance to IPSAS will actually shows the financial position of the public sector.	3.93	.729	219
The adoption of IPSAS in public sector assures relevance of the financial statements.	3.88	.781	219

**Source: primary data**

In order to capture what respondents had to say on IPSAS adoption and financial performance, table 4.7 above captured responses of all respondents on financial performance. The mean score range was 3 to 5. This showed that respondents were in support of the phenomena. To a greater extent respondents agreed that Preparing of financial statements in accordance to IPSAS will truly show the financial performance the organisation (M = 4.25) and also that the adoption of IPSAS in public sector will result in the reliability of the financial statements (M = 4.25).According to the results adoption of IPSAS will improve credibility of financial reporting in public sector (M = 4.05) to a greater extent and ensures that financial statements are comparable (M = 4.01).In accordance with governance in public fund accounting, respondents agreed to a larger extent that adoption of IPSAS is ideal (M = 4.00). Results also reviewed that IPSAS adoption will reduce and curb corruption in financial reporting quality in public sector (M = 3.93).Lastly it was agreed to a larger extent that the adoption of IPSAS in public sector assures relevance of the financial statements ( M = 3.88)

## 4.5 Correlation of variables

A correlation of items was computed to capture magnitude, direction and significance of relationships. Spearman rho correlation test was used since it is used for abnormal. This test was computed mainly to see how dependent variables relates to the dependent. In our case financial performance is the dependent whereas IPSAS adoption was the independent.

*Table 4.0.23: Inter-correlation of items*

Correlations			FINANCIAL PERFORMANCE	ADOPTION OF IPSAS
Spearman's rho	FINANCIAL	Correlation Coefficient	1.000	
	PERFORMANCE	Sig. (2-tailed)	.	
		N	219	
	ADOPTION OF IPSAS	Correlation Coefficient	.549**	1.000
		Sig. (2-tailed)	.001	.
		N	219	219

\*\* . Correlation is significant at the 0.01 level (2-tailed).

**Source: primary data**

### Direction

IPSAS adoption and financial performance had a strong positive correlation. This was shown above on the highlighted correlation coefficient.

### Statistical significance

Two stars (\*\*) entails that the Correlation is significant at the 0.01 level (2-tailed) where as one star (\*) means that the correlation is significant at the 0.05 level (2-tailed) as shown on the table above. The independent variable was statistically significant as it relates to the dependent variable (Financial performance) as shown in the table above.

### Magnitude

According to Saunders (2009), correlation coefficient between 0 - 2.99 is regarded as weak, yet, 0.3 - 0.499 range is considered to be moderate and anything above 0.5 is considered to be

strong. Following these ranges, the relationship between IPSAS adoption and Financial performance had a strong positive relationship of .549\*\*.

#### 4.6 Regression analysis

Regression test was computed to capture the cause and effect relationship between cloud computing adoption and operation business performance. Three tables below summarized the cause and effect relationship.

*Table 4.0.24: Regression model summary*

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.749 <sup>a</sup>	.562	.458	.60291

a. Predictors: (Constant), ADOPTION OF IPSAS

The findings in the table above of the model summary gives R Square value of .562 and Adjusted R Square is .458. The researcher used the Adjusted R. Square for its accuracy in sharing the predictive power of the independent variables against the dependent. As a percentage, 45.8 % of variance in financial performance is explained by: IPSAS adoption. This means that, the model has got a 45.8 % predictive power to financial performance. However, the remaining 54.2%. is explained by other variables which are outside the scope of this study.

*Table 4.0.25: Regression Anova table*

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.209	1	5.209	14.330	.000 <sup>b</sup>
	Residual	78.880	217	.364		
	Total	84.089	218			
a. Dependent Variable: FINANCIAL PERFORMACE						
b. Predictors: (Constant), ADOPTION OF IPSAS						

The F test summarized above is significant with a p value of 0.00 which is below 0.05 level of significance. P value qualifies regression to explain a cause and effect relationship between the dependent and independent variables. It can be concluded that the model is significant or fit in predicting financial performance with an F-value of 14.330 and p-value of 0. 000. Below are the corresponding regression coefficients.

Table 4.0.26: Regression coefficients table

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.254	.256		8.795	.000
	ADOPTION_OF_IPSAS	.542	.072	.549	3.786	.000

a. Dependent Variable: IPSAS\_ADOPTION

Co-efficient table above shows a strong positive relationship between IPSAS adoption and financial performance with a beta co-efficient of. 549. This entails that an improvement by one unit to a positive direction on IPSAS adoption will proportionately result to an improvement on financial performance by .549.

#### 4.7 Model Analysis

The multivariate regression model adopted for the analysis is given below.

$$FP = a + bIPSASA$$

Where FP = Financial performance,

IPSASA = IPSAS adoption

a is the constant term,

b, is the regression coefficient,

The regression of the average values of each of the variables FP and IPSAS adoption using Statistical Package for Social Sciences yields the regression coefficients in Table 4.12.

Table 4.0.27: Regression coefficients table

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.254	.256		8.795	.000
	ADOPTION_OF_IPSAS	.542	.072	.549	3.786	.000

a. Dependent Variable: IPSAS\_ADOPTION

**Source: Research Data (2020)**

The multivariate regression model is thus given below:

$$FP = 2.254 + 0.542IPSASA$$

The regression coefficients provide insight into the impact of the independent variables on financial performance of the local authorities. The values of the regression coefficients

associated with the independent variable are used in addressing the objectives as to the impact of each of the independent variables on the financial performance of local authorities.

#### 4.8 Answer to hypothesis statement

H0: There is a positive relationship between IPSAS adoption and financial performance of local authorities.

H1: There is a negative relationship between IPSAS adoption and financial performance of local authorities.

To test the hypothesis statement above the researcher used correlation test. Table 4.13 below is a correlation table between IPSAS adoption and financial performance.

Table 4.0.28: Correlation test

Correlations				
			FINANCIAL PERFOMANCE	ADOPTION OF IPSAS
Spearman's rho	FINANCIAL PERFOMANCE	Correlation Coefficient	1.000	
		Sig. (2-tailed)	.	
		N	219	
	ADOPTION OF IPSAS	Correlation Coefficient	.549**	1.000
		Sig. (2-tailed)	.001	
		N	219	219
** Correlation is significant at the 0.01 level (2-tailed).				

Correlation table above shows a positive strong statistically significant relationship between financial performance and adoption of IPSAS therefore null hypothesis was accepted and H1 rejected.

#### 4.9 Chapter Summary

The chapter analysed and presented findings in tabular and graphical representations. Relevant tests were conducted namely reliability tests, validity and normality. The research tool was reliable and consistent. The researcher validated the instrument before data collection. Data collected was uneven therefore non-parametric tests have been used to analyse data. The chapter concluded that IPSAS adoption enhances financial performance of local authorities. The next chapter summarizes the study as well as answering objectives of the study.



## **CHAPTER FIVE**

### **CONCLUSIONS AND RECOMMENDATIONS**

#### **5.0 Introduction**

This chapter discusses the achievement of the research objectives, research questions, the limitations, summary, conclusion, recommendations, and suggestions for further studies.

#### **5.1 Recapitulation of Research Objectives and Questions**

The research sought to investigate to analyze the impact of full application/implementation of IPSAS on financial performance in local authorities. To address the main research objective. The study a sought to fulfill the following specific objectives:

- i. To determine the state of adoption of IPSAS in public sector.
- ii. To assess the effect of IPSAS adoption on financial performance of local authorities
- iii. To examine the reasons to link the accrual accounting legislation to IPSAS
- iv. To determine reasons not to adopt accrual accounting in the public sector.

##### **5.1.1 Research Questions**

The research questions that the researcher sought to answer were

- i. What is the state of IPSAS adoption in public sector in Zimbabwe?
- ii. Does the adoption of IPSAS affect financial performance of local authorities in Zimbabwe?
- iii. What are the reasons to link the accrual accounting legislation to IPSAS?
- iv. What are the reasons not to adopt accrual accounting in the public sector?

#### **5.2 Summary of findings**

In this research, findings indicated that IPSAS adoption have a positive influence on financial performance.

#### **5.3 Achievement of Research Aim and Objectives**

The main objective of the research was to analyse the impact of full application/implementation of IPSAS on financial performance in local authorities. The study identified four main objectives as listed above.

**Findings for objective one: To determine the state of adoption of IPSAS in public sector.**

Respondents had varying responses on the adoption of accrual accounting in the public sector. Variables were captured were arranged in their order of acceptance. Mean scores ranged between 2 and 4. Respondents agreed to a larger extent that a number of pilot projects have been started ( $M = 3.99$ ) and that there is a transition period to effectively adopt IPSAS ( $M = 3.96$ ). Respondents agreed to a greater extent that a standard has been accepted ( $M = 3.92$ ). There was a moderate and slightly above average responses supporting the assertion that accrual accounting is fully adopted in the public sector ( $M = 3.37$ ). Respondents to an average extent agreed that they are still on cash basis despite the fact that their organisations are heading towards the accrual based accounting ( $M = 3.19$ ). Respondents were against the fact that some local governments voluntarily adopted accrual accounting ( $M = 2.97$ ).

**Findings for objective two: To assess the effect of IPSAS adoption on financial performance of local authorities**

To a greater extent respondents agreed that Preparing of financial statements in accordance to IPSAS will truly show the financial performance the organisation ( $M = 4.25$ ) and also that the adoption of IPSAS in public sector will result in the reliability of the financial statements ( $M = 4.25$ ). According to the results adoption of IPSAS will improve credibility of financial reporting in public sector ( $M = 4.05$ ) to a greater extent and ensures that financial statements are comparable ( $M = 4.01$ ). In accordance with governance in public fund accounting, respondents agreed to a larger extent that adoption of IPSAS is ideal ( $M = 4.00$ ). Results also reviewed that IPSAS adoption will reduce and curb corruption in financial reporting quality in public sector ( $M = 3.93$ ). Lastly it was agreed to a larger extent that the adoption of IPSAS in public sector assures relevance of the financial statements ( $M = 3.88$ ). To answer the same objective, correlation and regression analysis was as well used. A strong positive correlation was observed ( $r = .549$ ,  $p = 0.000$ ) which entails that there is a linear relationship between the two variables. Regression further confirmed the cause and effect relationship between IPSAS adoption and financial performance. A strong positive statistically significant coefficient was obtained with a positive t-value ( $t = .543$ ). This entails that adoption of IPSAS will improve financial performance by 54.3%.

#### **Findings for objective four: To examine the reasons to link the accrual accounting legislation to IPSAS**

Respondents agreed to a larger extent that the main reason to link accrual accounting legislation to IPSAS/ IPSAS adoption was to facilitate the consolidation of financial statements ( $M = 4.38$ ). Respondents also agreed to a greater extent that IPSAS improves comparability in public or private institutions ( $M = 4.31$ ) as well as enhancing both national and international comparability of financial information ( $M = 4.28$ ). It was also agreed to a larger extent that It is more efficient to make use of the knowledge of the IPSAS (4.07). The other reason for IPSAS adoption was mainly compliance with international organisations ( $M = 3.96$ ). Results also reviewed that IPSAS adoption improves quality of the general purpose financial reporting by (public sector) local authorities ( $M = 3.87$ ) as well as to facilitate comparison of financial information for public benefit ( $M = 3.34$ )

#### **Findings about objective five: To determine reasons not to adopt accrual accounting in the public sector.**

Most of the respondents agreed to a larger extent that an accounting reform will lead to a considerable costs to the local authorities ( $M = 4.06$ ). Again respondents agreed that previous reforms have shown significant implementation problems which they are not ready to face again with the coming of this new reform ( $M = 3.89$ ). It was also noted that there is resistance against an accounting reform from local governments ( $M = 3.64$ ). Respondents also raised that some public sector efforts cannot be accounted for with the adoption of IPSAS ( $M = 3.55$ ). To a moderate extent, respondents agreed that Cash accounting systems complement better with budgetary accounting systems (3.28). Respondents also noted that the accrual accounting has limited potential to support political decision making unlike the cash basis one ( $M = 3.21$ ). However, respondents did not agree with the fact that the current cash accounting system meets all requirements. It was noted that the current cash accounting has some challenges on its own which emanates from different facets of management and decision makers (2.92). Respondents differed on the fact that cash based system better fits the characteristics of a public sector organisation ( $M = 2.46$ ). It was also denied that balance sheets and profit/loss calculations are of less importance in the public sector ( $M = 1.90$ ).

#### **5.4 Answer to research questions**

##### **What is the state of IPSAS adoption in public sector in Zimbabwe?**

The research showed that not all local authorities have embraced IPSAS adoption to date. A significant number of local authorities have started the adoption preparation as they yearn towards 2025 which is the year they are expected to have fully embraced IPSAS implementation.

### **Does the adoption of IPSAS affect financial performance of local authorities in Zimbabwe?**

Results of the study showed that IPSAS adoption has a positive impact on financial performance of local authorities. Regardless of the preparedness challenges as well as costs associated with the accounting reform, it was proven that the benefits of IPSAS adoption outweighs the costs associated with its implementation.

### **What are the reasons to link the accrual accounting legislation to IPSAS?**

The main reasons to link the accrual accounting legislation were identified as follows in precedence:

- To facilitate the consolidation of financial statements
- To improve private/public comparability
- To enhance national/international comparability of financial information
- For financing purposes
- It is more efficient to make use of the knowledge of the IPSAS
- The IPSASs are developed by qualified persons
- To be in accordance with international organizations
- To improve the quality of the general purpose financial reporting by (public sector) local authorities
- To facilitate comparison of financial information for public benefit

### **What are the reasons not to adopt accrual accounting in the public sector?**

The main reasons not to link the accrual accounting legislation were identified as follows in their order of precedence:

- An accounting reform will lead to considerable costs
- Former accounting reforms have shown significant implementation problems
- Local governments resist against an accounting reform

- Some public sector efforts cannot be accounted for
- Cash accounting systems complement better with budgetary accounting systems
- The accounting system was only just changed to a modified cash accounting system
- Accrual accounting has limited potential to support political decision-making

## **5.5 Contribution**

This section focuses on the contributions of this research study. The section is divided into three sections which are theory, methodology and empirical.

### **5.5.1 Theoretical contribution**

This research will assist scholars in identifying the major variables determining the impact of IPSAS adoption on financial performance, as outlined in the conceptual framework. The successful use of the theories in this study contributes towards providing examples for the interpretation of similar phenomena from other countries particularly contributing to the public sector.

### **5.5.2 Methodological contribution**

This study adopted the survey strategy with the use of a structured questionnaire for quantitative research. The study used primary data collected from Local authorities around the country. Previous studies used qualitative approaches, or mixed approaches making use of secondary data. Hence, the study will have contributed to the body of research methodology.

### **5.5.3 Practical contribution**

This research has provided data on which further studies can be built upon. Public sector can make use of the recommendations in coming up with new accounting reforms. Local government and the regulator can identify their areas of responsibility and take the necessary actions to improve financial performance in the public sector.

## **5.6 Recommendations**

Below are the study recommendations:

### **5.5.1 Recommendations to policy makers**

- The researcher recommends all the countries that are still in progress of adopting IPSAS in the financial reporting to adopt the IPSAS and make effort to complete the adoption process as the researcher found out that IPSAS adoption will improve

quality reporting in public sector. Furthermore, IPSAS are the only international recognised accounting standards in the public sector as mentioned by PCW (2013).

- The researcher recommended that full adoption by all countries is recommended so as to ensure quality reporting across public sectors worldwide.
- The researcher recommends the public sectors to engage in seminars, training programs for all the stakeholders. Also educational institutions and tertiary institutions should involve new curriculum and involve the study of IPSAS in public sectors in their training courses programs, hiring technology experts to ensure success in the adoption of IPSAS by updating and upgrading resulting in readiness of technology at all the time.
- The government should improve human resource competent in implementing IPSAS. Basing from the findings the researcher concluded that the benefits will obviously outweigh the cost of implementing the IPSAS in financial performance.
- The researcher recommends the World Bank and IMF to keep on supporting the countries that are still in the progress of adopting the IPSAS in public sector so as to mitigate the implementation challenges. The government can draft a budget for all the requirements needed for the adoption process the will start to seek the financial assistant against the budget.
- Policy makers should work together with local authorities and set measurable targets that they can measure against.
- Task force to monitor implementation who can intervene in times of crisis

### **5.5.2 Recommendations to Management**

- Trainings must be held across all departments on accrual based accounting reform. Management need to organise such trainings with reputable institutions like ICAS which is currently offering a training on IPSAS.
- Ample time should be given for a flawless transition from cash basis accounting.

- Management need to incentivise young generation employees so that they can retain them after training.
- Transparent goals are needed for them to get enough funding from donors who support the adoption of IPSASs in the public sector the likes of MFI and World Bank.

### **5.7 Generalisation of Findings**

The research was carried out in Zimbabwe and findings showed that IPSAS adoption. The same results can be inferred to other local authorities in southern Africa considering the fact that they share similar structures.

The research can be applied to other countries who have the same economic and social practise as Zimbabwe with little variations. The research findings are consistent with the extant literature; therefore, the research adds evidence that speaks to the generality of the original findings.

For the countries that have not reformed their Public Finance Management, it is beneficial for these countries to reform the public finance management and undertake the IPSAS as the accounting guidance to be well-known for public area reporting

### **5.8 Research Limitations**

Confidentiality -The researcher's access to confidential information useful to carry out the report was limited. However, this limitation was negotiated with management and absolute assurance was provided that findings would be used for academic purposes only.

### **5.8 Areas of Further Research**

The researcher recommended that a further research be carried out in SADC countries as well as other African countries who have already adopted IPSAS or those aspiring to. Other researchers may consider using the same variables of this study to test whether IPSAS adoption yields a positive influence on financial performance.

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## APPENDICES

### *Appendix I: Sample size index table*

**TABLE FOR DETERMINING SAMPLE SIZE FROM A GIVEN POPULATION**

N	S	N	S	N	S	N	S	N	S
10	10	100	80	280	162	800	260	2800	338
15	14	110	86	290	165	850	265	3000	341
20	19	120	92	300	169	900	269	3500	246
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	351
35	32	150	108	360	186	1100	285	5000	357
40	36	160	113	380	181	1200	291	6000	361
45	40	180	118	400	196	1300	297	7000	364
50	44	190	123	420	201	1400	302	8000	367
55	48	200	127	440	205	1500	306	9000	368
60	52	210	132	460	210	1600	310	10000	373
65	56	220	136	480	214	1700	313	15000	375
70	59	230	140	500	217	1800	317	20000	377
75	63	240	144	550	225	1900	320	30000	379
80	66	250	148	600	234	2000	322	40000	380
85	70	260	152	650	242	2200	327	50000	381
90	73	270	155	700	248	2400	331	75000	382
95	76	270	159	750	256	2600	335	100000	384

Note: “N” is population size

“S” is sample size.

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**QUESTIONNAIRE**  
**Graduate School of Management**



Dear Sir/ Madam

REF: Graduate Research Questionnaire

My name is **Rodney Ndlovu**, an MBA student and I am undertaking a research entitled; **An analysis of the impact of full application/implementation of IPSAS on Financial performance in local authorities.**

You have been identified as one of the respondents to the questionnaire because of the expertise you present.

In this regard I kindly request you to fill the questionnaire. The response of the questions therein and any information will be purely for academic research, the purpose and the information provided will be treated with the strictest of confidence and anonymity.

Results of the study will be vital for current and future students as well as researchers. Your assistance and support will be highly appreciated.

Yours sincerely,

**Rodney Ndlovu**

**Instructions**

1. May you please provide your honest answers?
2. Answer all questions
3. Tick in the spaces provided
4. Do not write your name or your identification to ensure confidentiality
5. The questionnaire will be collected once you have completed answering

**Section A: Demographic questions**

1. Gender: Male ☐ Female ☐

2. Level of Education

☐ Certificate/Diploma ☐ Degree/Honors ☐ Masters ☐ PHD

3. Position: ☐ Accounts Clerk ☐ Auditor ☐ Accountant ☐ Finance Manager  
☐ Management

4. Age: ☐ < 25 yrs. ☐ 26-40 yrs ☐ 41 -55 yrs ☐ 56 yrs and above

5. Experience: ☐ < 5 yrs. ☐ 6- 10 yrs ☐ 11 - 15 yrs ☐ 16 yrs and above

### Section B: State of the adoption of accrual accounting

Please indicate the extent to which you agree with each statement using the following scale (1-Strongly Disagree, 2- Disagree, 3- Agree, 4- Strongly Agree).

	Question	Strongly disagree	Disagree	Agree	Strongly Agree	Neutral
1.	A law/standard has been accepted	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2.	A number of pilot projects have been started	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3.	There is a transition period	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
4.	Accrual accounting is fully adopted	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
5.	Some local governments voluntarily adopt accrual accounting	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

### Section B: Reasons to link the accrual accounting legislation to IPSAS

For what reasons is the (planned) accrual accounting legislation linked to IPSAS?

	Question	Strongly disagree	Disagree	Agree	Strongly Agree	Neutral
1.	It is useless to reinvent the wheel; it is more efficient to make use of the knowledge of the IPSASB	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2.	To enhance national/international comparability of financial information	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

	Question	Strongly disagree	Disagree	Agree	Strongly Agree	Neutral
3.	To be in accordance with international organizations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.	To facilitate the consolidation of financial statements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5.	To improve private/public comparability	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6	The IPSASs are developed by qualified persons	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7	For financing purposes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

### Section C: Reasons to not adopt accrual accounting

What are the reasons for the standard setter/legislator to not adopt accrual accounting?

	Question	Strongly disagree	Disagree	Agree	Strongly Agree	Neutral
1.	Balance sheets and profit/loss calculations are of less importance in the public sector	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.	Cash accounting systems complement better with budgetary accounting systems	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.	An accounting reform will lead to considerable costs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.	The current cash accounting system meets all requirements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5.	A cash based system better fits the characteristics of a public sector organization	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6	The accounting system was only just changed to a modified cash accounting system	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7	Local governments resist against an accounting reform	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8.	Some public sector efforts cannot be accounted for	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9.	Former accounting reforms have shown significant implementation problems	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10	Accrual accounting has limited potential to support political decision-making	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Section D: Will IPSAS adoption and implementation improve financial performance.**

	Question	Strongly disagree	Disagree	Agree	Strongly Agree	Neutral
1.	IPSAS adoption will reduce and curb corruption in financial reporting quality in public sector	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.	IPSAS adoption will help to improve governance in public fund accounting	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.	The adoption of IPSAS will improve credibility of financial reporting in public sector	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.	Preparing of financial statements in accordance to IPSAS will actually show the financial performance the organization	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5.	Preparing financial statements in accordance to IPSAS will actually shows the financial position of the public sector.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6.	Adoption of IPSAS in public sector will ensure that financial statements will be comparable.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7.	The adoption of IPSAS in public sector assures relevance of the financial statements.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
8.	Adoption of IPSAS in public sector will result in the reliability of the financial statements.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**THANK YOU**