# Impact Assessment of International Public Sector Accounting Standards (IPSASs) on Commercial Public Sector Entities in Africa

Zivanai Mazhambe

*Post Doctoral Research Department, Bright Africa Consultancy Training*

***Abstract: IPSASs*** **are generally applied to not-for-profit making public entities whose primary objective is accountability and effectiveness in the provision of public goods and services. The incorporation of elements of profits and return on investment as part of objectives of commercial public sector entities makes the application of IPSASs technically complex. The study therefore seeks evaluate how impactful are IPSASs on commercial public sector entities. The methodology adopted for this study was mixed research methodology through questionnaires and interviews of PAFA professional in Africa public sector. The findings revealed that commercial public sector entities are greater defined extent profit driven in their objectives, using International Financial Reporting Standards ( IFRSs) as their accounting standards. The findings further revealed that the hybrid adoption of IPSASs with IFRSs applied to commercial public sector entities especially in consolidated financial reporting is technically challenging and compromising the objectivity of IPSASs which require full adoption and application. The study concluded that IPSASs are therefore less impactful and relevant to commercial public sector entities.**

***Keywords—*** **IPSASs, Public Sector Accounting, Government accounting, Commercial Public Sectors, PAFA, IPSASs Challenges**

## I. INTRODUCTION

Commercial public sector entities are to a defined extent profit oriented with service potential being the core. The incorporation of elements of profits and return on investment as part of objectives of commercial public sector entities and the application of IPSASs requires technical guidance and objective professional judgments which are scenario specific in terms of evaluation. The study therefore seeks evaluate how impactful are IPSASs on commercial public sector entities.

According to OECD (Christiansen, 2013) there numerous rational arguments that causes governments to establish and seek ownership in commercial public entities mainly monopolies in economic sectors with limited open competition is deemed not feasible or inefficient. The other compelling reasons (Christiansen, 2013) being market incumbency where marginalised completion is available with state operators maintaining a key defining responsibility , imperfect contracts which cannot clearly defined the State Owned Enterprises (SOEs) in service contracts and also where industrial policy development strategies are deemed should overcome growth obstacles and market imperfection.

## II. LITERATURE REVIEW

The objectives of IPSAS general purpose financial statements is to demonstrate the entity's accountability to its wide range of users in the form of financial position, financial performance and cash flows for the purpose of evaluating and making decisions (IPSAS 1, 2018). Users of IPSAS general purpose financial statements (IPSAS 1, 2018) are assumed to appreciate and understand with a reasonable knowledge of public sector accounting and economic activities coupled with willingness mindset to study the financial information with reasonable diligence in the assessment of evaluating and making decisions. Numerous academic literatures have revealed that SOEs have created a 'third agency problem' emanating from objectives conflict of interest of commercial public entities between short term profit maximisation and long term public service and corporate social responsibilities (Christiansen, 2013) .

According to the PWC report (Sturesson et al,. 2015) Global competition for finance and material resources have made a provision for SOEs relevance and resilience by attainment of societal and public value creation through commercial activities and collaborations with the private sector organisations.

Adoption of IPSAS and its impact on economic reforms by national governments has catapulted stable economic environments and growth leading enhancing employment and stakeholder support for policy frameworks (ACCA, 2017). Financial reporting and consolidations (ACCA, 2017) has contributed to greater disclosures leading to more user and stakeholder engagement. Transition from IFRSs to IPSASs has been mainly necessitated by national governments promoting the culture of accountability and transparency and also funder/donor community advocacy for adoption for comparability and accountability purposes.

Public sector entities primary objective is not to make profits or generate a return on its investors, but to deliver goods and services in an efficient and effective manner relieving the burden of future tax payers in a manner that manages resources for future expenditures enabling users to evaluate accountability and make economic decisions (ASB, 2018). National governments generally have broad powers through statutory provisions and other interventions, with the legislature having an oversight role on the executive. Taxation levied compulsorily by national governments (ASB, 2018) is a key non exchange transaction between individuals, entities and governments accounted for in a publicly approved budget with programmes contributing to the longevity of the public sector

The International Public Sector Accounting Board (IPSASB) acknowledges that national governments hold the prerogative on the application of IPSASs as per its jurisdiction, varying depending on the legal, economic and fiscal reasons with the principal based approach allowing flexibility for application in varying jurisdictions (IPSAS 1, 2018). The IPSASB acknowledges that the public sector encompass entities (IPSAS1, 2018) that seek a return on investment on equity to investors, and IPSASs are not applicable to these type of entities, but when consolidated by the controlling entity, necessary IPSASs adjustments should be made.

## III. PURPOSE OF THE STUDY

This empirical study purpose is to evaluate the impact of IPSAS on commercial public sector entities in Africa

## IV. RESEARCH OBJECTIVE

To evaluate the impact of IPSASs on commercial public sector entities in Africa, based on accounting and auditing professionals in public sector practice

## V. RESEARCH QUESTION

How impactful are IPSASs on commercial public sector entities in Africa?

## VI. METHODOLOGY

The study methodology adopted is mixed research methodology (Mazhambe, 2014), through researcher administered questionnaires and interviews. The case study research design (Mazhambe, 2014) is premised on the enquiry approach so as to extract deeper meaning and presumably perceived variable correlations on the study phenomena. Descriptive and inferential statics have been adopted for data analysis, including qualitative explanatory notes have been employed to extract deeper meaning of the study phenomena (Mazhambe, 2020). The study population was IFAC Accountants in public sector based in Africa, with the sampling frame of Pan African Federation Accountants (PAFA) public sector accountants, being selected randomly (Mazhambe, 2020).. The accountants jurisdictions adopted in this study were southern Africa, East Africa, Central Africa, West Africa and North Africa (Mazhambe, 2020).

## VII. DATA ANALYSIS, PRESENTATION AND DISCUSSION

| Southern Africa | | East Africa | | Central Africa | |
|---|---|---|---|---|---|
| | | | | | |
| Mean | 0.2 | Mean | 0.2 | Mean | 0.2 |
| Standard Error | 0.065802736 | Standard Error | 0.065115282 | Standard Error | 0.056480085 |
| Median | 0.16 | Median | 0.15 | Median | 0.18 |
| Mode | #N/A | Mode | #N/A | Mode | #N/A |
| Standard Deviation | 0.14713939 | Standard Deviation | 0.145602198 | Standard Deviation | 0.126293309 |
| Sample Variance | 0.02165 | Sample Variance | 0.0212 | Sample Variance | 0.01595 |
| Kurtosis | -0.267012998 | Kurtosis | 0.890285689 | Kurtosis | 1.207554957 |
| Skewness | 0.896229555 | Skewness | 1.210813933 | Skewness | 1.150479042 |
| Range | 0.36 | Range | 0.36 | Range | 0.32 |
| Minimum | 0.06 | Minimum | 0.07 | Minimum | 0.08 |
| Maximum | 0.42 | Maximum | 0.43 | Maximum | 0.4 |
| Sum | 1 | Sum | 1 | Sum | 1 |
| Count | 5 | Count | 5 | Count | 5 |

| West Africa | | North Africa | |
|---|---|---|---|
| | | | |
| Mean | 0.2 | Mean | 0.2 |
| Standard Error | 0.064420494 | Standard Error | 0.066105976 |
| Median | 0.18 | Median | 0.16 |
| Mode | #N/A | Mode | #N/A |
| Standard Deviation | 0.144048603 | Standard Deviation | 0.147817455 |
| Sample Variance | 0.02075 | Sample Variance | 0.02185 |
| Kurtosis | 0.359820003 | Kurtosis | -0.500091638 |
| Skewness | 0.932583494 | Skewness | 0.55266385 |
| Range | 0.36 | Range | 0.38 |
| Minimum | 0.06 | Minimum | 0.03 |
| Maximum | 0.42 | Maximum | 0.41 |
| Sum | 1 | Sum | 1 |
| Count | 5 | Count | 5 |

| ANOVA | | | | | | |
|---|---|---|---|---|---|---|
| | | | | | | |
| SUMMARY | | | | | | |
| Groups | Count | Sum | Average | Variance | | |
| Southern Africa | 5 | 1 | 0.2 | 0.02165 | | |
| East Africa | 5 | 1 | 0.2 | 0.0212 | | |
| Central Africa | 5 | 1 | 0.2 | 0.01595 | | |
| West Afrcia | 5 | 1 | 0.2 | 0.02075 | | |
| North Afrcia | 5 | 1 | 0.2 | 0.02185 | | |
| | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | | | |
| ANOVA | | | | | | |
| Source of Variation | SS | df | MS | F | P-value | F crit |
| Between Groups | -5.55112E-17 | 4 | -1.38778E-17 | -6.84309E-16 | #NUM! | 2.866081402 |
| Within Groups | 0.4056 | 20 | 0.02028 | | | |
| | | | | | | |
| Total | 0.4056 | 24 | | | | |

As evidenced form the above statistics whose data is statistically significant, extracted from the primary data premised on the research question on respondents from different jurisdictions of Southern Africa, East Africa, Central Africa, West Africa and North Africa, the data has internal and external validity, and free from bias. The mean, median values are relatively coherent, with acceptable insignificant standard errors. The ANOVA statistics is also in congruent, as evidenced from the critical values above. The data range depicted is clearly spread and is representative of the sample population. There is therefore a notable significant correlation and consistency for statistical significance to derive inferential conclusions.

The findings from the respondents as depicted above were statistically significant and the qualitative content analysis also virtually concurred, that the application of IPSASs on commercial public sector entities is technically complex in Africa. The majority of respondents concurred that International Financial Reporting Standards (IFRSs) should be applied for commercial public entities. The respondents further reiterated that the consolidation of IFRSs to IPSASs based in consolidated financial reporting is technically complex, with prudence and subjectivity in making professional judgments.

## VIII. CONCLUSIONS

The study findings revealed that IFRSs should be applied to commercial public sector entities, and then amalgamated with IPSASs only in consolidated financial reporting. IPSASs are therefore less impactful and relevant to commercial public sector entities. The findings revealed that commercial public sector entities are greater defined extent profit driven in their objectives, using International Financial Reporting Standards ( IFRSs) as their accounting standards. The findings further revealed that the hybrid adoption of IPSASs with IFRSs applied to commercial public sector entities especially in consolidated financial reporting is technically challenging and compromising the objectivity of IPSASs which require full adoption and application, in addition to application of objective professional judgments with prudence. The study concluded that IPSASs are therefore less impactful and relevant to commercial public sector entities

## ACKNOWLEDGMENTS

Sincere acknowledgement is extended to Favoured Africa Business Research Institute (Botswana) for assistance in the coordination of primary data to stakeholders

## REFERENCES

[1] Accounting Standards Board (ASB, 2018): Conceptual framework

[2] Christiansen, H. (2013), "Balancing Commercial and NonCommercial Priorities of State-Owned Enterprises", OECD Corporate Governance Working Papers, No. 6, OECD Publishing

[3] IPSAS 1 (2018): Presentation of general purpose financial statements

[4] IPSASB (2013): International Public Sector Accounting Standards Board. 2013

[5] Mazhambe, Z (2014): Book – *The compromise of IASB's Conceptual Framework and IFRSs*, Lambert Academic Publishing, ISBN: 978-3-659-57452-8

[6] Mazhambe, Z (2014b): Book -*Doctoral (PhD) Proposal Writing*, CompletelyNovel, ISBN- 13: 978-1849145909, ISBN-10: 1849145903

[7] Sturesson J, McIntyre S, Jones CJ (2015): State-Owned Enterprises Catalysts for public value creation?

[8] Zivanai Mazhambe. (2020). *EVALUATING THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSASs) CASH AND ACCRUAL BASED ACCOUNTING APPLICATION TECHNICAL DIFFERENCES IN AFRICA*. http://doi.org/10.5281/zenodo.3747544