

International Public Sector Accounting Standards and their Impact on the Performance Evaluation of Government Units - An Exploratory Study at the University of Kufa

Yasir Sahib Malik¹

¹Lecturer at Accounting Department, Faculty of Administration and Economics, Kufa University, Najaf, Iraq
Email address: yasirs.abdali[AT]uokufa[DOT]edu[DOT]iq

Abstract— Non-profit government units provide many different services to different groups of beneficiaries. To do this, they consume many scarce financial resources, collected from taxpayers and other sources. Supervisors and administrative auditors should perform a performance evaluation of these government units to ensure the efficiency, effectiveness, and productivity of each unit.

As it is clear, any performance appraisal process requires many pillars, the most important of which are to provide adequate information on performance and, conversely, to provide appropriate standards for the measurement process. The aim of the research is to describe the impact of using International Public Sector Accounting Standards (IPSAS) in accounting and disclosure of the activities of government units in Iraq and then to indicate this effect in the process of evaluating performance.

The research also contributes to showing the dimensions of IPSAS on performance evaluation. Although standards have not been adopted by the Iraqi government, there are serious attempts to adopt IPSAS and use them in the performance appraisal process. This research is one such attempt.

Keywords— IPSAS, Government Accounting, Performance Appraisal, Performance evaluation, Government Accounting Standards Board.

I. INTRODUCTION

Governmental units' expenditures is steadily increasing, sometimes chaotic. While this expenditures is supposed to be directed towards community service, a large proportion of failure, corruption, and misconduct are a penalty for government performance (and of course expenditures). Therefore, various governments and professional organizations have sought to organize, create, design, and monitor government activities. Certainly, one of the most important elements of this is the issuance of standards governing the accounting and financial reporting of various government activities. In this context, the International Public Sector Accounting Standards are used to facilitate the organization, comparison, and performance evaluation of governmental units.

The accounting principles, accounting systems and financial reporting of the Iraqi government units currently do not provide the foundations and elements that contribute effectively to the evaluation of the performance of government units. Which requires a transition to IPSAS, which reflects the

ability to evaluate performance effectively and efficiently while enhancing the comparability of government units. The research aims to demonstrate the concept, objectives, and classification of IPSAS, with an indication of the role played by the process of evaluating the performance of non-profit government units. The IPSAS plays an important role in contributing to the performance appraisal, transparency and financial accountability of government non-profit entities.

Author explores the availability of elements required for application IPSAS in the Iraqi environment. These elements are the basis of accounting, procedures, and financial reporting of non-profit government units. Farther more IPSAS are crucial to achieve effective evaluation and efficient performance of these entities.

II. LITERATURE REVIEW

A. International Public Sector Accounting Standards (IPSAS)

Since 1977, International Federation of Accountants (IFAC) has endeavoured to provide services that enhance the global public accountancy profession, and to contribute effectively to the development of international economies. To do, IFAC conduct stimulating adherence to high-quality professional standards. In 2000, International Federation of Accountants (IFAC issued Standard No. 1 (Presentation of Financial Statements). From that date until 2016, the number of standards has become 38 on an accrual basis, as well as one on a cash basis. (www.ifac.org)

B. IPSAS Definition, What is the Reason

The standard is defined as a document agreed upon by all, and approved by a recognized body, containing rules or general guidelines governing the set of different results to give assurance that the organization is in the prepared context (Charon, 2000). It is also defined as a model for solving problems in a coordinated manner that contributes to the measurement, comparison, and achievement of accounting compliance at the local and international level (Ali, 2018), (Ojah et al, 2019).

The importance of IPSAS can be illustrated by below: (Federic et al., 2004: 366), (Zuhair, 2014)

- a. There is a need for international harmonization of accounting policies to improve the financial reporting of public sector units.
- b. To improve comparability of financial and non-financial information among different countries, as well as standardization of practices, even with different currencies, through convergence and similarity.
- c. To provide transparency and appropriateness, and to certify the representation of various elements of the financial statements.
- d. Measuring the expenditure and revenues of countries, and communicating the results of measurement to the users of the financial statements.
- e. Achieve consistency between IPSAS and accounting systems, which acts as an investment attractor due to internationally agreed high-quality financial statements.

C. Powers and Scope Of IPSAS

The overall objective of the IPSAS is to serve the public, that can be achieved from high-quality IPSAS in the public sector. The IFAC seeks to bring international and domestic standards closer together in order to produce consistent, high quality, transparent, and transparent international comparability reports (Jen, 2002). (International Federation of Accountants, 2012) Its can demonstrate the validity and scope of IPSAS:

- a. IPSAS are issued in the public sector according to both the criteria of maturity and cash.
- b. IPSAS is applied to all non-profit government units, while the other government units apply IFRS.
- c. IPSAS does not apply to units that have non-material items.
- d. If countries wish to depart from their domestic standards and follow IPSAS, future policies should be designed to avoid unintended consequences by reviewing and reissuing IPSAS

Provide financial data to all users (who are unable to claim financial information) that meets their needs from such information included in the statements of financial position, financial performance, cash flows and statement of changes in net assets / equity, provided that such data is prepared on an accrual basis Accounting.

D. IPSAS Classification

Government expenditures vary and affect economies. This generates a growing need for the convergence of local public sector accounting standards with domestic standards in order to attract foreign investment. Convergence will provide standardized, comparable and consolidated reports, and will provide a clear picture of the tendency of countries to support different sectors, creating a degree of transparency and accountability at the local and international level (Jane, 2002). To achieve this compatibility, IPSAS provided a set of standards. The standards are intended to avoid conflicts or overlaps with issues related to the International Accounting Standards Board (IASB), national standards bodies or regulatory authorities. Therefore, the standards were

formulated and set according to tow principles; Accrual, and Cash basis.

IPSAS on the accrual basis is classified into four basic groups:

- a. Prepare and present reports and financial statements; The Group includes all standards that relate to the preparation and presentation of financial statements of non-profit government entities, guidance of the form and content of financial statements, and the minimum requirements for the quality of financial statements prepared on an accrual basis. Those statements enhance the comparability among the financial statements of government units or the same unit for different periods. This group includes the statement of financial position, statement of performance result, changes in net assets / equity, statement of cash flow. (IPSASs, 2016). The IPSAS financial statements also indicate the extent to which the unit is able to continue, the consistency of presentation, compilation, classification, clearing, and comparative information (International Federation of Accountants, 2012).
- b. Accounting treatment of intangible assets and intangible assets, this group includes a description of appropriate policies, procedures, and accounting disclosures. This group includes also the recognition requirements of accounting for tangible and intangible assets, regardless if arise from investments are determined as shares in joint ventures, construction contracts, inventories, leases, investment property, property, plant and equipment, provisions, liabilities and contingent assets. Farther more it contains Impairment of non-cash generating assets, impairment of cash-generating assets, intangible assets, adoption of IPSAS on an accrual basis for the first time (your pocket, 2013).
- c. Financial instrument standards: This group includes a description of the appropriate accounting policies, procedures, disclosures, and the definition of recognition conditions that relate to measurement and accounting for long, medium and short term financial instruments, which are classified by maturity date.
- d. Other standards: This group includes a description of how to prepare and disclose changes in accounting policies that were not included in the previous set of standards. This set of standards is used in accounting estimates and errors, the impact of a change in foreign exchange rates, borrowing costs, income from reciprocal transactions, tax and remittance income, employee benefits, and joint arrangements. (Njeru et al, 2009)

For the cash basis, the Board aims to formulate standards to harmonize global accounting systems with the applications and procedures underlying accrual-based financial accounting. However, if countries adopted a cash basis, the Board proposes an international standard aimed at achieving transparency in monetary movement of the State (International Federation of Accountants, 2012). This criterion consists of two parts; the first is presentation requirements according to the cash basis. The second one is optional disclosures (Deloitte Middle East, 2015).

E. Evaluate the Performance of Government Units

Performance appraisal is generally defined as the optimal utilization of resources available to achieve the best goals and results with the lowest possible costs (Muhanna, 2014). The concept of evaluating the performance of government units is defined as an integrated and coordinated system that interacts with the elements of the internal and external environment to achieve the objectives set to give a clear vision of the possibility of making decisions in order to achieve reliable performance (Al-Kaabi and Amran, 2011).

The objective of evaluating performance of government units is to achieve efficiency and effectiveness with regard to public funds and their management. They reflect the strength of government sector governance, as well as the extent to which government performance has evolved between periods. Through the evaluation process, it is possible to arrive at a knowledge of the weaknesses and negative aspects and work to address them and promote a positive answer. Finally, it aims to coordinate the various activities to achieve financial savings and reduce waste and loss of resources, through which it can assess the efficiency of government units' managers in achieving the goals set for them (David, 2010), (Ojah et al, 2019).

Al-Nassar & Ajeel, 2012, consider that the performance evaluation justice is linked to factors related to the cultural background of employees and citizens, which gives them the appropriate capacity to understand the performance and government programs to assess government performance and to support strengths and overcome weaknesses within available financial and human resources (Al Nassar & Ajeel, 2012).

The process of evaluating performance of government units is not simple. The standards or criteria used in the

evaluation are generally a source of conflict between politicians and managers, as well as the multitude or contradictions of public policies (Thiel & Leeuw, 2002). The difficulty of evaluating the performance of government units is related to the following:

- The relationship between the public and private sectors is characterized by multiplicity, inconsistency and lack of clarity, which leads to the existence of difficulty in setting goals..
- Managers of government units have no clarity on how to measure goals, as well as their experience in using standards to be limited.
- Processes are complex and require an integrated database, so measuring and evaluating performance is costly.
- There are multiple operational and strategic plans and reports, resulting in difficulty in evaluating performance and improving efficiency, effectiveness and accountability.

Despite the difficulties encounter evaluating performance in a more objective and acceptable manner -whether the evaluation process is international or local- there is a possibility to achieve it when the results of government units can be compared to standard procedures followed. IPSAS provides possible solutions to the evaluation process. Countries' adoption of these standards contributes to the transparency, fairness, quality, and acceptability of the financial statements on the international level. Countries' adoption meet the requirements of the performance evaluation process between government units also (Ali, 2018). If IPSAS is compared with Iraqi Government Accounting Standards, there are many points of difference. Table (1) shows the most important of them.

TABLE 1. Comparison of IPSAS and Iraqi Government Accounting Standards

	Point of difference	Iraqi Government Accounting Standards	IPSAS
1.	Presentation of financial statements	Financial statements are lack relevance and reliability and do not meet the needs of different users	The financial statements present all the specific characteristics of the accounting information and as set out in Accounting Standard No. (1)
2.	Accounting basis	The cash basis, which does not distinguish between expenses and capital expenditure	Accrual basis, which differentiates between the expenses and capital expenditures or resource
3.	Accounting for assets and their depreciation, and stocks of all kinds	All fixed assets are absent at purchase date. Inventories are not accounted for, thus not showing the real financial situation and result difficulty of control.	All fixed assets are reported in the statement of financial position and are accounted for according to their useful lives, and the amount of their annual expenses or loss. Inventories are accounted for in accordance with Standard No. 12,
4.	Accounting for borrowing costs and state indebtedness	Does not explain how to account for loans and their benefits, in addition to government debt.	IPSAS provides criteria such as (5), (11) and (20), which provide the basis for accounting for state indebtedness, borrowing cost and interest.

Source: preparation of author based on (Onaiza and Mohammed Ali, 2012)

III. RESEARCH METHODOLOGY

An author assumes that there is a close relationship between adopting standards and the process of evaluating performance. This relationship is reflected in strengthening and ensuring performance appraisal, as well as increasing indicators that can be used in this context. This main hypothesis is divided into six sub-hypotheses:

- There is a significant correlation between the adoption of the accrual basis in accordance with IPSAS and the

reduction of resorting to public sector units to exaggerate in determining their allocations in the budget for the next year.

- There is a significant correlation between IPSAS adoption and contribution to the improvement and development of performance evaluation measures for government units.
- There is a significant relationship between IPSAS and contribution to the improvement and development of indicators of performance measurement and evaluation approved by the government.

- d. There is a significant correlation between IPSAS adoption and contribution to the improvement and development of local standards for government accounting.
- e. There is a significant relationship between the adoption of IPSAS and the contribution of enhancing the quality of financial statements.
- f. There is a significant correlation between IPSAS adoption and contribution to the comparability of financial information among public units in Iraq.

To prove (or not) validity of the research hypotheses, a sample of 60 persons was selected. It consists of academics and some specialists in the professional aspect of governmental accounting. The degree of freedom is (59), (60-1). An author uses ratios of frequencies, arithmetic, and standard deviation to determine the validity of the hypotheses:

A. First, the Arithmetic Mean

- a. The value of the arithmetical mean of the paragraph (adoption of the basis of maturity according to IPSAS will reduce the recourse of the public sector units to overstatement in the budget allocation for the next year) (3.69). Which is greater than the value of the mean arithmetic mean, that is, the sample answers were destined to an agreement (52.7%) and full agreement (13.5%), bringing the total ratio (66.2%).
- b. The value of the arithmetic mean of the paragraph (IPSAS will contribute to the improvement and development of performance evaluation measures for government units) (4.6), which is greater than the value of the computed arithmetic mean of (3), which indicates that the answers of the sample of respondents are headed

- towards agreement in general (35%) and full agreement (47.7%).
- c. The value of the arithmetic mean of the paragraph (IPSAS contributes significantly to the improvement and development of government performance measurement and evaluation indicators) (3.89), which is greater than the value of the computed arithmetic mean of (3), which indicates that the answers of the sample are moving toward agreement (84.1%). The agreement reached 38% and the agreement reached 46.1%.
- d. The value of the arithmetic mean of the paragraph (IPSAS contributes significantly to the improvement and development of local government accounting standards) (3.63), which is greater than the value of the computed arithmetic mean of (3), which indicates that the answers of the sample of the research tend to reach agreement in general, 79.8%). The agreement reached 41.1% and the agreement reached 38.7%.
- e. The value of the arithmetic mean of the paragraph (IPSAS adoption contributes to enhancing the quality of financial statements) (4.63), which is greater than the value of the computed arithmetic mean of (3), which indicates that the answers of the sample are headed towards agreement in general and by (89% The agreement reached 49.8% and the agreement reached 39.2%.
- f. The value of the arithmetic mean of the paragraph (IPSAS contributes significantly to the comparability of financial information between the public units in Iraq) (4.11), which is greater than the value of the computed arithmetic mean of (3), which indicates that the answers of the sample (81.7%). The agreement reached 43.3% and the agreement reached 38.4%.

TABLE 2. Calculation of arithmetical mean and standard deviation

Seq.	Description	μ	μ_0	Agree	Strongly agreed	Total
1	The process of evaluating government performance can be developed and improved through the adoption of IPSAS	4.1	3	% 54	% 31.6	% 85.6
2	The (IPSAS) will contribute to improving the development of the process of evaluating the performance of government units	4.6	3	% 35	% 47.7	% 82.7
3	The adoption of (IPSAS) contributes significantly to the improvement and development of local government accounting standards.	3.89	3	% 38.1	% 46	% 84.1
4	The adoption of (IPSAS) contributes to enhancing the quality of financial statements	4.63	3	% 49.8	% 39.2	% 89
5	The adoption of (IPSAS) significantly contributes to the comparability of financial information among public units in Iraq	4.23	3	% 41.4	% 49.6	% 81
6	The transition to accrual basis under IPSAS enhances the comparability of the information content of the financial statements	4.11	3	% 43.3	% 38.4	% 81.7

B. Second: the Analysis of Correlation Relations

This section deals with the strength and direction of correlation between search variables (IPSAS and performance evaluation of government units). The following is a detailed

presentation and discussion of the results of the correlation test between the search variables.

TABLE 3. The Analysis of correlation relations

Seq.	Description	coefficient value	calculated value T	The degree of freedom	value Tabulated T	Describe relationship
1	The process of evaluating government performance can be developed and improved through the adoption of IPSAS	0.59	5.87	59	1.92	Direct correlation
2	The (IPSAS) will contribute to improving the development of the process of evaluating the performance of government units	0.46	4.59	59	1.92	Direct correlation
3	The adoption of (IPSAS) contributes significantly to the improvement and development of local government accounting standards.	0.56	5.79	59	1.92	Direct correlation
4	The adoption of (IPSAS) contributes to enhancing the quality of financial statements	0.52	5.71	59	1.92	Direct correlation
5	The adoption of (IPSAS) significantly contributes to the comparability of financial information among public units in Iraq	0.58	5.85	59	1.92	Direct correlation
6	The transition to accrual basis under IPSAS enhances the comparability of the information content of the financial statements	0.45	4.63	59	1.92	Direct correlation

C. Third: the Analysis of the Strength and Direction of the Impact of the Relationship

TABLE 4. The analysis of the strength and direction of the impact of the relationship

Seq.	Description	Fixed value	Beta Value	Selection Factor Value %	F value calculated T	Describe the relationship
1	The process of evaluating government performance can be developed and improved through the adoption of IPSAS	1.53	0.59	0.23	22.52	Positive impact
2	The (IPSAS) will contribute to improving the development of the process of evaluating the performance of government units	2.17	0.51	0.19	15.34	Positive impact
3	The adoption of (IPSAS) contributes significantly to the improvement and development of local government accounting standards.	1.46	0.57	0.26	23.6	Positive impact
4	The adoption of (IPSAS) contributes to enhancing the quality of financial statements	1.43	0.59	0.21	22.56	Positive impact
5	The adoption of (IPSAS) significantly contributes to the comparability of financial information among public units in Iraq	1.61	0.55	0.29	24.5	Positive impact
6	The transition to accrual basis under IPSAS enhances the comparability of the information content of the financial statements	1.67	0.51	0.30	33.31	Positive impact

From previous data can be reached to the following analyzes:

- The value of beta (0.59), a positive value means that when you change a single unit in the adoption of the (IPSAS) will lead to the development and improvement of the process of government performance evaluation by (0.59), either regression equation was as follows:
 $Y1 = 1.53 + 0.59 X$
- The value of beta (0.51), a positive value means that when you change a single unit in the adoption of the (IPSAS) will lead to the improving the development of the process of evaluating the performance of government units by (0.51) , either regression equation was as follows:
 $Y2 = 2.17 + 0.51 X$
- The value of beta (0.57), a positive value means that when you change a single unit in the adoption of the (IPSAS) will lead to the contributes significantly to the improvement and development of local government accounting standards.by (0.57), either regression equation was as follows:
 $Y3 = 1.46+ 0.57 X$
- The value of beta (0.59), a positive value means that when you change a single unit in the adoption of the (IPSAS)

will lead to the ontributes to enhancing the quality of financial statements by (0.59), either regression equation was as follows:

$$Y4 = 1.43+ 0.59 X$$

- The value of beta (0.55), a positive value means that when you change a single unit in the adoption of the (IPSAS) will lead to the significantly contributes to the comparability of financial information among public units in Iraq by (0.55), either regression equation was as follows:

$$Y5 = 1.61+ 0.55 X$$

- The value of beta (0.51), a positive value means that when you change a single unit in The transition to accrual basis under (IPSAS) will lead to the enhances the comparability of the information content of the financial statements by (0.51), either regression equation was as follows:

$$Y6 = 1.67+ 0.51 X$$

IV. CONCLUSIONS AND DISCUSSION

Based on the impact of IPSAS on assessing the performance of government units, author concludeds that the cash basis effectively contributes to the impartiality and unreality of assessing the performance and financial position

of government units, which requires a transition to accrual basis in accordance with IPSAS transitional provisions. Therefore, the accrual basis based-on accounting for government units of public benefit must be adopted, as this will improve the performance appraisal and accountability process. IPSAS contributes to enhancing the quality and comparability of financial information in government units, thereby enhancing accountability and transparency in government reporting.

When comparing Iraqi standards with IPSAS, the accounting aspects of financial reporting in Iraq are very limited, which is a major obstacle to assessing the performance of government units. An author recommends that government and regulators adopt IPSAS because it will provide information that is more useful to different users. Increase attention to IPSAS and overcome obstacles that may hinder implementation. Local standards that comply with IPSAS should be issued.

REFERENCES

- [1] Ali, Nihad Hussein Ahmed (2018) "Reflection of IPSAS on Quality of Financial Reporting and Performance Assessment in Iraqi Government Units" unpublished doctoral dissertation, Faculty of Management and Economics, University of Baghdad.
- [2] Al-Kaabi, Buthaina Rashed and Amran, Qassim Ali (2011) "The Role of Balanced Scorecard in Assessing the Performance of Government Non-Profit Hospitals", Journal of Administration and Economics, No. 87, Baghdad University, Iraq.
- [3] Charon Claude (2000) "pourquoi des normes d'audit, in R.F.C, N°326", Paris.
- [4] Daoud, Ahmed Adnan Sulaiman (2010) "Evaluation of Financial Performance Using Computer Application Study in the Northern Cement Company for the years 2005-2008", submitted as part of the requirements of obtaining the legal accounting certificate, Arab Institute of Chartered Accountants, Baghdad, Iraq.
- [5] Deloitte Middle East, (2015) "International Public Sector Accounting Handbook", Deloitte Middle East is a leading professional firm that provides audit, tax, management consulting and financial advisory services, a member of Deloitte UK. www.deloitte.com/about
- [6] Diana, MIHAIU (2014) "Measuring Performance in the Public Sector: Between Necessity And Difficulty "S Lucian Blaga University of Sibiu, Romania Tudies in Business and Economics, Romania.
- [7] Federic Choy and Others (2004) "International Accounting", Translated by Mohammed Essam Al-Din Zayed Dar Al-Marikh for Publishing, Riyadh, Saudi Arabia.
- [8] IFAC, (2010) IPSASB Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements.
- [9] IFAC, (2012) "Issues of International Accounting Standards in the Public Sector", first edition, translation of the Arab Society of Certified Accountants, Society of Arab Society of Certified Accountants, Amman.
- [10] IFAC, (2013) "IPSAS In your pocket, International Public Sector Accounting Standards"
- [11] IFAC, (2016) IPSASs, Preface to International Public Sector Accounting Standards"
- [12] Jen Shek Vooh, (2003) "The Important of International Accounting Standards in Promoting Regional Business" translated from CIPE Feature Service. Center for International Private Enterprise.
- [13] Muhanna, RA May (2014) "Evaluation of the Performance of Health Services in Government Hospitals in the Gaza Strip Using Closed Data Analysis", Master of Business Administration, Faculty of Commerce, Islamic University, Gaza, Palestine.
- [14] Nassar, Tariq Kazem, and Ajeel, Abdul Karim Kazem (2012) "Role of Performance Assessment in Achieving Administrative Reform", Iraq.
- [15] Njeru, Alphan and Okundi, Benson and, Kimacia, Bernice (2009) "Introduction to International Public Sector Accounting Standards (IPSAS) "PricewaterhouseCoopers.
- [16] Ojah, Hassnain Kadhém, Malik, Yasir Sahib, and Mohammad Ali, Ahmed Maher, "The Use of the Balanced Scorecard in Improving Health Performance - The Study of the Health Sector in Iraq," International Journal of Multidisciplinary Research and Publications (IJMRAP), Volume 2, Issue 5, pp. 24-30, 2019.
- [17] Ojah, Hassnain Kadhém, Malik, Yasir Sahib, and Mohammad Ali, Ahmed Maher, "Capital solvency and its impact on the stock prices of banks Listed on Iraq Stock Exchange -Applying to National Bank of Iraq," International Journal of Multidisciplinary Research and Publications (IJMRAP), Volume 2, Issue 5, pp. 31-36, 2019.
- [18] Onaizah, Hussein Hadi and Mohamed Ali, Ahmed Maher (2014) "The Role of International Accounting Standards in Reducing Administrative and Financial Corruption", Journal of the Center for Kufa Studies, Issue 1, Vol. 32, pp. 138-162.
- [19] Thiel, Sandra Van & Leeuw, Frans L. (2002) "The Performance Paradox In The Public Sector "Public Performance & Management Review, Vol. 25 No. 3.
- [20] Zuhair, Chalal (2014) "Prospects for the Reform of the Algerian Public Accounting System for the Implementation of the State's Financial Operations", Ph.D. in Accounting, Introduction to the Faculty of Economics, Commerce and Management Sciences, Algeria.