



**ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES**

**ASSESSMENT OF THE PERCEPTION OF FOREIGN
CHARITIES IN ADDIS ABABA ON THE BENEFITS
AND CHALLENGES OF ADOPTING
INTERNATIONAL PUBLIC SECTOR ACCOUNTING
STANDARDS (IPSAS) IN ETHIOPIA**

By

MESEKER WOLDEHAWARIAT

JUNE 2017
SMU
ADDIS ABABA, ETHIOPIA

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**A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY, SCHOOL OF
GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS
ADMINISTRATION IN ACCOUNTING AND FINANCE**

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DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Assistant Professor Asmamaw Getie. All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

Name

Signature & Date

Dedicated to the memory of my late father, Woldehawariat Woldegabrial, who always dreamt and worked hard for his children to excel in knowledge and education and to my loving mom, Mebrate Tesfaye, for giving it all it takes throughout our life.

ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a university advisor.

Advisor

Signature & Date

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ACKNOWLEDGEMENTS

I am so humbled by the Almighty God and His blessed Mother for shining the light to guide me through life.

Special thanks to my organization, Handicap International, for partially sponsoring my MBA study.

I am indebted to my advisor, Assistant Professor Asmamaw Getie, for his diligent academic guidance, inputs and scholarly advice in conducting this thesis.

My sincere thanks also goes to Dr. Mekbib Alemu for his constructive advice and comments at each stage of this study and to Ato Anteneh Daresema and W/rt Tinsae Kidanemariam, who gladly provided technical support whenever requested.

I am grateful to those foreign charities who participated in the study and filled the questionnaire which without their support this study would have been null.

I sincerely appreciate all my families (both sides), friends and colleagues who believed in me to start, stay on and finish this study.

Most importantly, immeasurable thanks to my dear husband Tewodros Tesfaye and my beloved boys Nahom and Yohanan Tewodros; who had to deal with my stress first hand and also who have paid the biggest price. You have scarified months of precious family time and relieved me from family responsibility to enable me reach where I am now. It's your loving support and encouragement which brought me here. Love you all.

AND BIGGEST APOLOGY FOR EVERYONE IN MY INNER SOCIAL CIRCLE WHICH I IGNORED FOR QUITE SOME TIME NOW.

List of Acronyms

AABE	Accounting and Auditing Board of Ethiopia
ACCA	Association of Chartered Certified Accountants
AICPA	American Institute of Certified Public Accountants
AU	African Union
ChSA	Charities and Societies Agency
EC	European Commission
EU	European Union
FASB	Financial Accounting Standard Board
FDRE	Federal Democratic Republic of Ethiopia
GAAP – UK	Generally Accepted Accounting Practices
GAAP – US	Generally Accepted Accounting Principles
GPFR	General Purpose Financial Report
IASB	International Accounting Standard Board
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
IT	Information Technology
NPOs	Not-for-profit Organizations
NGOs	Non-Governmental Organizations
PwC	PrinceWaterHouseCoopers
ROSC	Report on Observance of Standards
SAICA	South African Institute of Chartered Accountants
UK	United Kingdom
UN	United Nations
UNAIDS	United Nations Program on HIV/AIDS
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNPF	United Nations Population Fund
US	United States
WHO	World Health Organization
WIPO	World Intellectual Property Organization

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ABSTRACT

IPSAS are the international accounting standards applicable to public sector which include not-for-profit organizations. The objective of this study is to investigate the perception of foreign charities in Ethiopia on the benefits and challenges of IPSAS adoption. Charities and Societies in Ethiopia are expected to adopt IPSAS by July 2017. A descriptive survey design is used to collect data for this study from 29 sample organizations. The study depicts that, the envisaged benefits of IPSAS are transparency; enhanced internal control; understandability; accountability; comparability; credibility and better interpretation and acceptability of financial reports. Few experience in adopting and implementing IPSAS; scarcity of qualified professionals and trained human resources; lack of proper guidelines from regulatory bodies on the adoption process and increased administrative, compliance or other costs are the key challenges of IPSAS adoption in Ethiopia. The adoption of IPSAS in Ethiopia in the expected deadline is not feasible. Despite the acknowledged benefits, the foreign charities in Ethiopia do not seem to endorse that the benefits of IPSAS outweigh its challenges in this study. Adoption of IPSAS by the foreign charities in Ethiopia is not because the benefits outweigh the challenges but because it is a mandatory requirement by the government. Revising the timeframe for adoption and full engagement to IPSAS transition by foreign charities are recommended.

Keywords: Adoption, International Public Sector Accounting Standards, Ethiopia

CHAPTER ONE

INTRODUCTION

1. Background of the Study

There are quite a large number of organizations and huge amount of funds involved in the not-for-profit sector worldwide. According to Crawford et al (2014) charities and other Non-Governmental Organizations (NGOs) work globally to provide development and relief activities using funds they receive from different governments, private donors and international foundations. Funders are shifting to having a global approach to their work. Because of this, charities and other NGOs have to deal with diverse international grant requirements and accounting standards, however, this might not be easy when there is no agreed approach to financial planning and reporting.

Moreover, *“governments and other public sector entities are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term”* (IPSASB, 2016a). Charities are custodian of resources provided to them and have obligations to different stakeholders (Zainon et al, 2013). They need to ensure integrity of their reports to avoid financial disgrace (Flynn, 2009). Charities must keep accurate records of income and expenditure to be able to provide information for the management and show accountability to their stakeholders. A good financial management system makes it easier for charities to be accountable to donors and project beneficiaries, thereby enhancing their respect and confidence in the organization. This, in turn, helps an NGO be more competitive and can increase its chances of maintaining long-term financial health (Lewis, 2013).

According to information gathered by the researcher from Charities and Societies Agency (ChSA) on December 5, 2016, there are about 383 foreign charities in Ethiopia which originated from different parts of the globe: US, Canada, UK, different European countries, Asia, Africa and Australia. Alongside their operation, such organizations financially monitor their operation based on selected accounting standards.

In Ethiopia, there was no specific national accounting standard charities should follow (World Bank, 2007). There were only a general guidelines for charity and society accounts and reports provisioned on proclamation number 621/2009 (FDRE, House of Council, 2009). Foreign charities were using their own choice of accounting standard. The financial reporting proclamation number 847/2014 is issued to establish a sound, transparent, and understandable financial reporting system applicable to entities in both private and public sectors (FDRE, House of Council, 2014). Charities and Societies in Ethiopia are expected to adopt IPSAS by July 8, 2017 and will statutorily be required to issue IPSAS based financial statements for the year ending July 7, 2018 (AABE, 2016).

IPSAS are the international accounting standards applicable to public sector which include not-for-profit organizations. It provides high-quality, independently produced accounting standards, underpinned by strong due process and supported by governments, professional accounting bodies, and international development organizations, representing best practices for governments and not-for-profit organizations (WHO, 2013). Similarly AU (2013) states that, IPSAS aims to improve the quality of general purpose financial reporting by public sector entities. These entities will make better informed assessments of the resource allocation decisions thereby increasing transparency and accountability by improving disclosure and reporting.

Governments, jurisdictions, and international institutions have adopted IPSAS and others are on their way to adopt these standards. Austria, Brazil, Cambodia, Chile, China, Colombia, Costa Rica, Indonesia, Japan, Kenya, New Zealand, Nigeria, Panama, Peru Portugal, Spain, Switzerland, Vietnam are some of the governments which adopt or have plans to adopt IPSAS. The European Commission, The North Atlantic Treaty Organization (NATO), The Organisation for Economic Co-operation and Development (OECD) and The United Nations system are among those listed under the international institutions adopting IPSAS (IPSASB, 2016b).

Ekelot (2016) states that, east African nations such as Kenya, Uganda, Tanzania, Rwanda and Burundi showed interest to harmonize financial reporting across the region and signed East African Monetary Protocol on 30 November 2013 although the nations are at different levels of implementation. Ethiopia also considers that, “*conversion to the international reporting standards leads to greater transparency, comparability, increased level of confidence in financial reporting, cost efficiency and proactive risk management*” (AABE, 2016). Conversion to IPSAS for the public sector is inevitable and therefore it is necessary to check the readiness of charities and give them the necessary support to be able to adopt and implement the standards as expected.

At the same time, IPSAS adoption and implementation is not expected to be free from problem. Implementation is beyond an accounting exercise and requires system change. AABE (2016) listed enough public awareness, cost of implementation, education for the accounting professionals and management and the synchronization of IPSAS with the existing laws among the expected challenges in Ethiopia. Thus, it is appealing to assess issues that charities perceive that would hinder full enjoyment of IPSAS.

For the purpose of this study, terms like charity, not-for-profit, non-governmental organizations are used interchangeably to refer to the charity sector.

2. Statement of the Problem

The effort to develop international standard for accounting was initiated by developed countries to support developing nations to have their own accounting standards. (AICPA, 2011). Later on different factors such as political integration and globalization of financial markets and firms’ operations in different jurisdictions led towards the acceptance of a common set of accounting standards (Flower, 2004).

From the public sector perspective, IPSAS is considered as essential for greater financial accountability and transparency and are accepted to be the accounting system for funds received from World Bank. Moreover, international organizations which provide financial

assistance to developing countries are commending recipient countries to adopt IPSAS (Chan, 2008). Ethiopia is not isolated from this process. In December 2014 Ethiopia proclaimed that, it would implement IFRS for profit sectors along with IPSAS for public sectors (FDRE, House of Council, 2014).

In the proclamation 847/2014, charities are considered among the public sectors. Charities are not there to get a profit rather to provide service for the common good using the funds they receive from donations or grants (Chokkalingam & Ramachandran, 2015). They are expected to utilize the funds provided within the agreed time for the agreed purpose. As stewardess of donated resources, the public and donors need assurance that the resources are being used properly for the stated purpose by these organizations (Blackbaud, 2011). Charities produce financial reports to meet the financial information needs of the stakeholders, donors and regulatory bodies (Ryan & Irvine, 2012). IFAC publication announced that not-for-profit entities are spending money and time addressing various regulators' reporting requirements as well as those of their funders when they would rather use those resources to deliver services.

IFRS was the initial international accounting standard, however, they are principally developed for profit-oriented entities. On the other hand, IPSASs are written for public sector entities that deliver services to heighten and keep the welfare of the citizens. IPSAS standards are principally built on the principles of IFRS to enhance comparability between private and public sector reporting. Nonetheless, changes were made in IPSAS to show the distinctions between the public and private sectors and also to address the differences in the variety of topics enclosed by the two sets of standards (Ernst and Young, 2013). The two sectors stakeholders are different as well with different reporting expectations (Jorge et al, 2015). Even if a literature about IFRS is rich, IPSAS which is distinctly different for the reasons mentioned above has not been subject of research so far in Ethiopia. There are few studies (Fantahun, 2012; Simegn, 2015; Alemi & Pasricha, 2016; Hailemichael, 2016) that are available for Ethiopia mainly focusing on the adoption and implementation of International Financial Reporting Standard (IFRS). Though IPSAS adapts IFRS to a public sector context, its application environment is different from that of IFRS. This lack of local literature on IPSAS is indicative of the fact that it is ignored.

There are various studies about the adoption or implementation of IPSAS in other countries mainly focusing on government accounting (Roje, Vašiček, & Vašiček, 2010; Grossi & Soverchia, 2011; Ijeoma N. B., 2014; Ijeoma & Oghoghomeh, 2014; Mhaka, 2014; Ofoegbu, 2014; Alshujairi, 2014; Rossi & Trequattrini, 2011; Atuilik, Adafula, & Asare, 2016; Nkwagu, Okoye, & Nkwagu, 2016; Biancone & Secinaro, 2015; Tanjeh, 2016) and also in the different United Nations Offices (UNAIDS, 2013; WHO, 2013; Biraud, 2010; WIPO, 2007). However, none of these studies considered the charities view about IPSAS adoption. Therefore, in this study considering the view of adoption of IPSAS in charities operating in Ethiopia is justified.

This study is initiated after a workshop was organized by AABE in April 26, 2016 announcing the implementation of IFRS in Ethiopia. The focus of discussion was only on IFRS and attention was not given regarding the adoption and implementation of IPSAS. Though the number of charities or public entities are relatively small compared to the business sector, it worth to discuss or study IPSAS adoption because of its focus on providing accounting information on the not-for-profit entities. Charities need to gain a better understanding of the standard they are supposed to follow and its underlying issues. It needs to be assessed to see if charities are ready to adopt IPSAS within the set deadline and also the issues related to adoption. These issues need to be evaluated and answered before it is too late. Hence, the foreign charities' view in adopting IPSAS and the prospect of adoption as demanded by the proclamation necessitates investigation.

Reporting entities incorporated outside Ethiopia (including foreign charities) shall comply with the applicable financial reporting standards under proclamation 847/2014. If the reporting standards the foreign charities follow is different from the proclamation, the charities needs to adjust themselves to comply with the proclamation. However, foreign charities might be working under different (probably) incompatible standards as a requirement from their country of origin's jurisdiction. Under such conditions, they will face a problem to be in line with the proclamation's requirement. Then what are the challenges foreign charities might face if they are forced by the proclamation to convert their accounting standard into IPSAS? This question worth a research study.

Since adoption is a change process, it needs planning and preparation. The benefits and challenges of the proposed changes need to be assessed along with the possibility of adopting the standard within the set timeline for public entities. This study, therefore, aims to assess the perception of foreign charities operating in Ethiopia about the expected benefits and challenges of adopting the international public sector accounting standard (IPSAS) and mainly ventures to assess the charities' accounting frameworks in different countries, the charities' awareness and preparedness to adopt IPSAS, the expected benefits and challenges of adopting the international standard and weigh the benefits against the challenges.

3. Basic Research Questions

In order to achieve the intended objective of the research, the following specific research questions guided the study.

1. What are the accounting frameworks/standards foreign charities follow to prepare their financial reports?
2. Are the foreign charities in Ethiopia aware that they have to adopt IPSAS in the fiscal year 2017 and are they ready to adopt it?
3. What are the envisaged benefits foreign charities may get while adopting IPSAS?
4. What are the envisaged challenges that foreign charities may encounter while adopting IPSAS?
5. Will the expected benefits outweigh the challenges?

4. Objectives of the Study

The general objective of this study was to assess the prospect of International Public Sector Accounting Standards (IPSAS) adoption in Ethiopia with particular reference to foreign charities. The study specifically

- Assess the current accounting framework/standard used for financial reporting by foreign charities;

- Assess the level of preparedness of the foreign charities to adopt IPSAS;
- Identify the envisaged benefits foreign charities may get while adopting IPSAS;
- Identify the envisaged challenges that foreign charities may encounter while adopting IPSAS; and
- Weigh the benefits versus the challenges while adopting IPSAS

5. Significance of the Study

The research was directed towards developing a better understanding about International Public Service Accounting Standards adoption and its expected benefits and challenges by finance heads of foreign charities.

The study has a potential to contribute to understand the implication of IPSAS introduction on foreign charities working in more than one jurisdiction under different guidelines which are possibly incompatible by presenting empirical evidence. It indicates to AABE the issues foreign charities would face while adopting IPSAS. On the other hand, the study indicates to the management of foreign charities what they are expected to do for successful adoption of IPSAS.

6. Delimitation/Scope of the Study

The study assessed the issues related to the adoption of IPSAS specifically in Foreign Charities working in Ethiopia.

The researcher believes that it would be much more comprehensible if appropriate detail of investigation in all foreign charities is done to have a full overview of the adoption of IPSAS in Ethiopia and draw genuine results. However, as most of the head offices of foreign charities are based in Addis Ababa, certain compromises had to be made to delimit the study on foreign charities operating in Addis Ababa using a survey. By looking into the structural and staff capacity, it is possible to study the prospect of implementation of IPSAS. However, regardless of their existing capacity, perception is one factor that determines implementation of any standard. Thus, in this research only the perception of the foreign charities is investigated.

7. Organization of the Study

The study is organized in five chapters. Chapter one offered the general introduction of the study. Chapter 2 presented the review of related literatures concerning the International Public Sector Accounting Standards, issues related to its adoption and the nature of the charities' sector to give the theoretical foundation for the research. Chapter 3 outlined the research design of the survey, the population and sampling technique, instrument and procedure of data collection and method of data analysis. Chapter 4 provided an analysis of the findings from the data collection tools and discussion while Chapter 5 offered conclusions and recommendations.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

This section presents a review of the related literature conducted on International Public Sector Accounting Standards and its adoption. The chapter gives a general overview of charities accounting frameworks, general information about IPSAS, the key to successful adoption, the benefits and challenges of adopting IPSAS and a gap in the existing literature in the area under study.

Charity as defined in proclamation number 621/2009, is an institution which is established exclusively for charitable purposes and gives benefit to the public. It might be used interchangeably with Non-Government Organization or Not for Profit organization. Foreign charities refer to those charities that are formed under the laws of foreign countries or which consist of members who are foreign nationals or are controlled by foreign nationals or receive funds from foreign country sources (FDRE, House of Council, 2009).

International NGOs started to operate in Ethiopia following the terrible famine of 1973–74 and 1984–85. During those times, the NGOs were mainly providing emergency relief operations and were largely foreign entities (Clark, 2000). Following the famine, their number and contributions have grown as an important development partners that address the country's diverse growth priorities (Sintayehu Consult, 2016). The NGOs have invested considerable effort and resources in poverty reduction, protection of vulnerable population groups, promotion of gender equality, and enabling citizen participation in the political process (Mohamed, 2012).

NGOs are dependent on funds from a variety of sources, comprising membership fees, donation from individuals, donors, foundations, corporations, government grants and service delivery (Dupuy, Ron, & Prakash, 2015). These organizations are obliged to account for funds that they receive. Usually funds are provided to not-for-profits for a particular purpose, which the organizations need to account along with utilizing their resources effectively. The primary goal of not-for-profit organizations is not profit rather to meet

some socially desirable need (Gross, McCarthy, & Shelmon, 2005). Thus the not-for-profit should exhibit stewardship of the donated resources and must show that the provided funds were used as per the agreement (Blackbaud, 2011).

Although there are a variety of organizations within the charities sector, they commonly share the accountability responsibility to the different stakeholders embracing beneficiaries, funders, government and regulators (Connolly, Hyndman, & McConville, 2013). This is reflected by financial reports (Blackbaud, 2011). (Morgan) supported this saying that, financial reporting is an important aspect of not-for-profit organizations' accountability.

Charities use financial reporting frameworks/accounting standards in order to produce financial reports to meet the financial information needs of the stakeholders, donors and regulatory bodies and also to monitor the financial and material resources charities mobilize for the realization of their goals. Moreover, these organizations have been judged for absence of transparency and accountability in their finances, which some argue contribute to the fading trust in the honesty and efficiency of the sector (Ryan & Irvine, 2012). According to Chan (2006), accounting has a role in warranting respect of legal and contractual obligation, financial management, and encouraging transparency and accountability.

Countries use accounting standards for different sectors to frame how financial reports are prepared and presented to information users. Thus, countries like UK (UK SORP), USA (FASB Topic 958) and Australia has recognized that there are specific need for accounting standard for not-for-profit sector and developed their own standard. Others consider sector neutral accounting standards or adopt/adapted international accounting standards such as IFRS and IPSAS for public sector (Roje, Vašiček, & Vašiček, 2010; Laswad & Redmayne, 2015). Although, there are discussions on the need of having a specific standard, there is no specific international accounting standard for not-for-profits at the moment (Crawford et al, 2014).

Foreign charities prepare their annual operational and financial reports to users of these reports based on the requirement set by their country of origin (where they are incorporated) using the accounting framework of their respective countries.

Regulatory and Financial Reporting Frameworks for Charities

Some examples of charities' regulatory and financial reporting framework in different countries are reviewed below.

United States: The primary charity regulator in the US at federal level is the Inland Revenue Service (IRS). The accounting standard setter in the US is FASB. FASB provided and amended in 2016 its Accounting Standard Codification 958 for Not-for-profit entities. The FASB Accounting Standards Codification is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. US persistently wants to keep its GAAP. However, IASB and the FASB are now working on a joint project following the Norwalk Agreement to develop an improved common conceptual framework that provides a sound foundation for developing future accounting standards (FASB, 2016; Crawford et al, 2014).

Canada: The Canada Revenue Agency (CRA) registers and regulates charities in Canada. Charities in Canada can be registered private or public. Accounting standards for not-for-profits controlled by government is set by the Public Sector Accounting Board whereas standards for the private sector, including private sector not-for-profits is set by the Accounting Standards Board (ACSB). The not-for-profit accounting in Canada is derived from Canada's 4400 series of the Handbook and is aligned with Canadian GAAP (Irvine, Ryan, & McGregor-Lowndes, 2010).

Switzerland: Charitable organizations that are supported by donations from public authorities in Switzerland are regulated by Swiss GAAP FER 216 for their accounting. Swiss GAAP complements the legal accounting provision. Compliant with the IFRS and IPSAS, FER Conceptual Framework 7.15 considers the annual financial reporting to include financial statements such as balance sheet, profit and loss statement, appendix along with a financial report (Meyer, Ferrar, & Zoebeli, 2012).

United Kingdom: UK company law and charity law govern charities in England. The Statement of Recommended Practice for Charities (the SORP) issued by the Charity Commission and the Office of the Scottish Charity Regulator sets out how charities are expected to apply the relevant accounting standard to their particular activities and transactions, and explains how charities should present and disclose their activities and funds within their accounts. It provides a framework for charities to explain what they aim to do, how they go about it and what they achieve. Both company and charity law do not allow the use of IFRS for reporting rather allow Financial Reporting Standards applicable in the UK. SORP recommends to prepare accounts on the accruals basis to give a true and fair view of a charity's financial position and financial activities (Charities Commission, 2014).

Australia: The Australian Charities and Not-for-profits Commission regulates charities under the ACNC Act (Artiach et al, 2016). Australia has issued Australian Charities Commission Regulation 2016 to regulate charities and non-for-profit organization. Charities have an ongoing obligation to report each reporting period based on Australian Accounting Standards. The Australian Accounting Standard Board makes the Accounting Standards in line with IFRS. Charities report by submitting an Annual Information Statement and an annual financial report (Gilchrist, 2017).

South Africa : South African Accounting Standards Board (ASB) is the national public entity develops and maintain financial reporting standards for the public sector called 'generally recognised accounting practice' (GRAP) which were initially based on IPSAS (Crawford et al, 2014). Accounting standards for private and public sector is different in South Africa. SAICA is in charge of private sector standards while IFRS is used for all listed companies and public entities (Prather-Kinsey, 2006). There are no major bodies, in South Africa, that issue accounting standards for NPOs. Not-for-profit organizations submit narrative reports of their activities in the prescribed manner together with their financial statements for the financial year which are prepared with the standard of generally acceptable accounting practices (Crawford et al, 2014).

The common General Purpose Financial Reports produced by charities include balance sheet, income and expenditure statement and statement of cash flows.

Financial reporting standards and requirements vary by country which creates heterogeneity in financial reporting (Brusca & Condor, 2002). Thus, IPSAS are created with an aim to promote harmonization and comparability of international accounting, as well as to improve the reliability and transparency of public accounts (Bellanca & Vandernoot, 2014).

International Public Sector Accounting Standards Board and IPSAS

The International Public Sector Accounting Standards Board (IPSASB) is the international independent board that develops IPSAS. Its operations are facilitated by the International Federation of Accountants (IFAC) (IPSASB, 2016b).

IPSAS are independently developed financial reporting standards and are proven to be suited for public sector organizations and other not-for-profit organizations as they require strong transparency (WHO, 2013). The IPSASB's Standards Project was established in late 1996. To date, there are 40 standards on the accrual basis of accounting and one standard on the cash basis of accounting (IFAC, 2017). Financial statements prepared by IPSAS serves more the public than the preparer. They facilitate better financial management and good governance as a result of high quality international public sector accounting standards (Biraud, 2010).

IPSAS standards are based on IFRS issued by the International Accounting Standards Board (IASB) (Crisan, 2014). This is to promote better comparability among private and public sector for transactions common to both sectors. Yet, it should be noted that IFRSs are mainly created for profit-oriented entities, while IPSASs are for service-oriented public sector which aim to boost and sustain citizens' welfare (Ernst and Young, 2013). Likewise, Jorge, Portal, Caperchione, & Helden (2015) said that, the two frameworks are basically vary considering their stakeholders (shareholders versus constituents) resulting in different reporting expectations and thus requiring different accounting policies.

IPSAS obliges full compliance. If all the requirements are not met in full, entities cannot be considered as fully compliant with IPSAS (IPSASB, 2016a).

Conceptual Framework of IPSAS

The Conceptual Framework for Financial Reporting describes the concepts that underlie financial reporting which coherently flow from an objective. The objective identifies the purpose of financial reporting while the other concepts guide the boundaries of financial reporting; selection of the transactions, other events, and circumstances to be represented; the definition, recognition and measurement of the elements from which financial statements are constructed, summarized and reported (IPSASB, 2016a).

IPSASB has developed its conceptual framework which contains Role and Authority of the Conceptual Framework; Objectives and Users of General purpose Financial Reporting; Qualitative Characteristics and Reporting Entity; definition, recognition and measurement of the elements of financial statements and the presentation of information for the general purpose financial reporting. The goal of the framework is to make the objectives and the intentions of the standards clear in order to produce financial statements that satisfy the user's needs. The focus is on high-quality financial reporting for accountability and decision making purposes. The framework is developed to facilitate the implementation of the IPSASs and to enhance the consistency of practice. The conceptual framework respects the characteristics of the public sector in its approach, valuation of assets and liabilities and the presentation of the financial reports (IPSASB, 2016a).

In general, the framework determines the qualitative characteristics (relevance, faithful representation, understandability, timeliness, comparability, and verifiability) that allow information to be part of the GPFR. Materiality, cost-benefit and achieving an appropriate balance between the qualitative characteristics on information embraced in GPFRs are identified as pervasive constraints. It defined the reporting entity as a government or other public sector organization which prepares GPFRs. The elements the financial statements are assets, liabilities, revenue, expense, ownership contributions, and ownership distributions (Deloitte, 2015).

The framework also identifies the criteria that must be satisfied in order for an element to be recognized in the financial statements and the measurement bases for assets and liabilities where there are no requirements in IPSASs to fairly reflect the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes. It sets out the concepts applicable to the presentation (selection, location and organization) of information that is reported in the GPFRs (Deloitte, 2015).

The usual information provided by GPFR under accrual basis of accounting are Financial Position, Financial Performance, the statement of changes in net assets/equity (IPSAS 1) Cash Flows (IPSAS 2) and notes to the financial statements, or annex (IPSAS 1). While under the cash basis of accounting, the primary financial statement is the statement of cash receipts and payments (IPSASB, 2016a).

The primary users of GPFR of public sector entities are service recipients and resource providers. Regulatory bodies, legislature, and audit institutions are also other users of GPFRs (ibid). However, the list of users are argued by Jorge, Portal, Caperchione, & Helden (2015) suggesting that there should be a scientific empirical 'user-need' studies to validate the users in current framework. They said that, IPSASB identified the primary users of the financial statements considering the views of the voluntary respondents to the initial consultation paper about this framework instead of conducting interviews or field studies. According to them, answers of all the stakeholders could be a solid basis to build the framework on.

Standards are set following a public due process. Those who are concerned with public sector financial reporting forward their opinions to the IPSASB to be considered in the development of IPSAS (Deloitte, 2015). On the other hand, the IPSAS framework was criticized by Jorge, Portal, Caperchione, & Helden (2015) saying that, the framework encloses very extensive 122 pages which to some extent also coincides with the current standards. These commonalities might generate discrepancies when the standards are revised or updated later on.

Accounting Standards for Ethiopia

Charities and Societies Agency regulates the charities in Ethiopia. Charities and societies are required to maintain day-to-day records of financial transactions. They are also required to furnish an annual statement of accounts prepared in accordance with acceptable standards to the ChSA after audited by a certified auditor (FDRE, House of Council, 2009).

Ethiopia's accounting practice and professional organization are influenced by UK practices through the UK-based ACCA and US based educational system (Bobe & Mihret, 2011). Therefore both US GAAP and UK GAAP are applicable in Ethiopia. The Commercial Code of Ethiopia laid the ground in formalizing the accounting in Ethiopia and enclosed different accounting and external auditing provisions in preparing financial reporting and conducting external audit of companies (Ethiopia, 1960). Similarly, there was no specific national accounting standard charities should follow (World Bank, 2007) except a General Guidelines for Charity and Society Accounts and Reports provisioned on proclamation number 621/2009 (FDRE, House of Council, 2009). Proclamation number 847/2014 for financial reporting is issued to establish a sound, transparent, and understandable financial reporting system applicable to entities in both private and public sectors.

Key Success Factors for the adoption of IPSAS

The adoption process will require not only the will of the organization but also the commitment from the people involved in the process following acceptance of the importance of the standard and its benefits by the management. It is not focused only on a specific item but entails significant investment in people, information systems, project management, communications, training and testing (UNDP & UNPF, 2007).

Knowledge and awareness, as stated by Tanjeh (2016), are among the main determining factors of IPSAS acceptance. Similarly (Ijeoma & Oghoghomeh, 2014; Mhaka, 2014) asserts that awareness on the transition to IPSAS via all available channels of communication, training and documentation are among best practice for smooth transition.

Project management is also an approach which can make IPSAS adoption cost-effective and successful. It creates an opportunity to get the required support from top management; to set up a sound governance structure; to design and follow communication and training plans; to devise new accounting policies; and align business processes in a timely manner (Aggestam, 2010). Correspondingly, adoption, according to Alemi & Pasricha (2016), involves policy decision to adopt, planning and making all necessary resources available to handle all the changes in system, procedures, and operation from the implementer side.

It was acknowledged by Ijeoma & Oghoghomeh (2014) and Ernst and Young (2015a) that, the key success factors for adopting IPSAS are continued political/executive support and ownership; commitment of stakeholders; technical knowhow and competence; public awareness and communications; computerized information systems; sufficient funding and suitable legal framework. By the same token PwC (2013) suggested that, *“a well-designed project and effective change management strategy, which considers people and systems requirements, are crucial for successful implementation.”* Furthermore, better understanding of IPSAS and engagement by everyone involved in the process and change motivated from top to bottom and vice versa guarantee success in IPSAS conversion (IPSASB, 2014; Ernst and Young, 2015b).

Learning and experience sharing mechanisms between countries, organizations or professionals who already have the knowledge about the adoption process will help those who starts the process of adoption. To support this Ernst and Young (2016) shared a lesson learnt report on first time adoption of IPSAS. Few of them are planning and dealing with the conversion project carefully; devoting time in gap analysis and developing a realistic roadmap; foreseeing the key challenges around a successful conversion and clarifying IPSAS benefits to each stakeholder in order to obtain buy-in of all groups concerned, especially to have political commitment.

In line with what is stated above, AABE planned a three years transition to adoption encompassing developing a guideline to give direction on how to adopt; identifying gaps in existing laws and conflicting requirements between laws and organizing successive workshops and trainings to create awareness and deliver basic skills (AABE, 2016).

Benefits of IPSAS

Countries, organizations and businesses are becoming interrelated due to globalization. This initiates an effort to have a commonly accepted international accounting standard and framework to produce reports which are comparable and of quality across jurisdictions. Ahmad & Khan (2010) says that,

Adopting a single global accounting language will ensure relevance, completeness, understandability, reliability, timeliness, neutrality, verifiability, consistency, comparability and transparency of financial statements and these bring about a qualitative change in the accounting information reports which will strengthen the confidence and empower investors and other users of accounting information around the world.

The qualitative characteristics of IPSAS on its conceptual framework incorporate the above items. According to PwC (2013), the prominent benefits of adopting IPSAS are greater transparency and accountability. Governments and other public sector entities are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term (IPSASB, 2016a).

According to Barrett (2004), accountability is a relationship founded on a requirement to prove, assess, and take responsibility for performance, taking into account the results achieved and the means used as per the expectations. Charities need stakeholder's trust to ensure their long-term sustainability. But the sector was hit by publicized scandals of malpractice and mismanagement which stained public trust and confidence (Yasmin, Haniffa, & Hudaib, 2013) and alleged with creative accounting techniques to mislead contributors led to the need for accountability (Khumawala & Gordon, 1997).

Financial reporting is an important aspect of charities' accountability. IPSAS offers increased recognition, measurement, presentation and disclosure requirements in relation to transactions and events in general purpose financial statement (Ijeoma & Oghoghomeh, 2014) which helps charities to have better financial management and gain public trust. More disclosure will make the charities' work more visible to the public. Not-for-profits needs to open up to public scrutiny if they expect public trust and thereby ensure the continuation of their operations (Ryan & Irvine, 2012). IPSAS enabled this with its heightened transparency which according to PriceWaterHouseCoopers (2009) simplifies relations with financiers and smoothen interaction with the general public.

IPSAS provide a more comprehensive and coherent financial information to enhance transparency and internal control which makes the financial statements more comparable over time and between organization (Bellanca & Vandernoot, 2013). Christiaens, Vanhee, Manes-Rossi, Aversano, & Cauwenberge (2014) shares the notion that IPSAS will enrich the (inter)national comparability of financial information and allow the consolidation of financial statements. Ames (2013) supported that, international set of accounting standards improve comparability for users of financial statements and at the same time narrow the differences in accounting practice. This is desirable especially for those organization that work in more than one jurisdiction. Deloitte (2015) and Ijeoma & Oghoghomeh (2014) reflected that IPSAS promote greater credibility, using international best practice and improve comparability by harmonizing statements across countries.

IPSAS aims to improve the quality of general purpose financial reporting by public sector entities and decision-making regarding the allocation of resources which leads to better informed assessments of the resource allocation decisions made by entities (Ernst and Young, 2013; Bellanca & Vandernoot, 2014). This was reinforced by Diniz et al (2015) saying that IPSAS offers better decision-making, greater comparability of statements, reduction of possible fraud and increased credibility of information. On the same token Obara & Nangih (2017) and WHO (2013) stated that, IPSAS adoption strengthen internal controls, boosts financial and resource stewardship and increased efficiency in decision making and good governance.

Generally speaking,

IPSAS adoption imply improved internal control and transparency with respect to all assets and liabilities; more comprehensive and consistent information about costs and income; integration of non-expendable equipment into the accounting system, with better accuracy and completeness; improved consistency and comparability of financial statements over time and across organizations and best accounting practices through the application of credible and independent international accounting standards (Biraud, 2010).

The numerous benefits of adopting IPSAS suggested by supporters does not make it free from challenges. It must also be noted that to optimize the professed benefits, full adoption and compliance with the IPSAS framework is obligatory (Atuilik, Adafula, & Asare, 2016).

Challenges of adopting IPSAS

IPSAS adoption is a multifaceted and full range change management process. Alongside its various benefits, it necessitates some challenges which attracts resistance. Contrary to its stated benefits there are counties which do not welcome IPSAS. Several jurisdictions choose not to apply IPSAS because they are afraid that they would lose their standard-setting authority and because IPSAS are still relatively unknown (Christiaens et al, 2014)

IPSAS is also time and money consuming. It demands extra time and effort of practitioners and verifiers at the same time it demands managers to have strong IPSAS knowledge to comprehended and critically examine financial information produced using IPSAS (Adamu & Ahmed, 2014). Cost is the other challenge. The complex financial reporting requirements of IPSAS give rise to increased cost in terms of developing manuals, education and training of staff, research, technology and consultancy. Besides, availability of qualified expertise who are familiar with the international standards; readiness from those involved and resistance to change are considered to be the challenges in adopting IPSAS (PrinceWaterHouseCoopers, 2012; PriceWaterHouseCoopers, 2009).

Big costs of implementation, shortage of qualified and trained personnel and unavailability of IT-accounting system were confirmed as a challenge in a study conducted in Iraq by

(Alshujairi, 2014). Atuilik, Adafula, & Asare (2016) complemented this by saying adequate technical capacity in IPSAS lacks in Africa which as a result make adopter not ready for the transition and resist the transition for fear of the unknown.

IPSAS deals with both the cash basis of accounting and the accrual basis of accounting. But due to its characteristics of enhancing accountability, accrual basis of accounting is being favored (PwC, 2013). Deloitte (2015) backed that the information contained in accrual accounting IPSAS financial statements is considered useful, both for accountability and for decision-making purposes. However, considering the weight given on compliance with rules and regulations, cash based accounting system was initially believed to be more suitable for the public sector (Tudor & Mutiu, 2006). The shift from cash or modified accrual-based accounting to full accrual accounting under IPSAS can be a challenging as it involves a huge volume of work and also major changes in business processes and practices (Aggestam, 2010). Besides, the costs and benefits of the change are not necessarily well understood in the transition countries (Roje, Vašiček, & Vašiček, 2010). The other concern is that, IPSAS requires a comparison of budget amounts and the actual amounts to be included in financial statements. Budget are prepared in cash basis but the financial statements are prepared on an accrual basis. This creates incompatibility (WHO, 2013).

Another point raised as a challenge by Ernst and Young (2015b) is that, IPSAS is a principles-based framework and does not offer strict set of rules that preparers need to be abided by. It gives room for the professional judgment of the preparer, with only some degree of explanation of the principles in the standard to guide them. This lack of support for these judgments makes it possible for new types of technical audit qualifications.

As seen from the literature, IPSAS has enormous benefits and at the same time various challenges. Okoughenu & Domma (2016), advocated that the benefits IPSAS prevail over the challenges of adopting it. Similarly Diniz, Silva, Santos, & Martins (2015), stated that the cost-benefit analysis of IPSAS showed that IPSAS will bring better results than the investments made. On the contrary, some stakeholders are afraid that the imminent cost of implementing IPSAS could outweigh the benefits (Christiaens & Neyt, 2015).

Empirical Review of Literatures

This study reviewed a research was conducted by Roje, Vašiček, & Vašiček (2010) about accounting regulation and IPSAS implementation in transition countries. The study aimed to examine the adequacy of governmental accounting and financial reporting model, reflecting the existing accounting regulation and financial reporting framework in Slovenia, Croatia and Bosnia and Herzegovina. It inferred that transition countries have put effort in tracking the international developments regarding governmental accounting such as a gradual transition from cash to accruals, consistent appliance of internationally recognized and comparable analytical framework of financial and statistics reporting. The research concluded that, the costs and benefits of the change from cash to accrual basis accounting is not well understood; significant technical capacity is required to understand the standards, interpret them in the country's perspective and develop the founding accounting policies to support the application of the standards. It also concluded that, the change to accruals and IPSAS adoption is of no benefit if no use is made of the accounting information.

Grossi & Soverchia (2011) studied European Commission Adoption of IPSAS to Reform Financial Reporting. Their study highlighted the modernization of the European Commission (EC) accounting system using IPSAS and accrual accounting as a foundation. It used semi-structured interviews with officials and traced key decisive moments, routes and outcomes of events within the implementation stage of the reform emphasizing on the consolidation of annual accounts. The article examined how the EU consolidation process has evolved over time; the drivers behind the reform and the new consolidation approach. It concluded that the hybrid approach used by EU is appreciated and all the benefits and limits of the IPSAS approach to consolidation in a supranational public organization is showed.

Ijeoma. N. B. and Oghoghomeh. T. 2014 in their study examined the expectations, benefits and challenges of adoption of International Public Sector Accounting Standards (IPSAS) in Nigeria. Primary source of data was employed to generate the data. The findings of the study showed that, adoption of IPSAS is expected to increase the level of accountability and transparency; enhance comparability and international best practices; provide more

meaningful information for decision makers and improve the quality of the financial reporting system in public sector of Nigeria. The study concluded that the adoption of IPSAS in Nigeria is expected to influence operating procedures, reporting practices thereby strengthening good governance and relations with the government and the governed.

The next research by Charity Mhaka, 2014 presented a cost benefit analysis of IPSAS adoption in Zimbabwe. The study compared the existing cash accounting basis with the proposed IPSAS based accounting reporting. The study used a review approach to make the contrast by inspecting major publications and documentary materials. Adoption of IPSAS in Zimbabwe would change the basis for financial reporting from non IPSAS cash to full accrual IPSAS as a result facilitates the reconciliation between budgeted and actual results. The study concluded that IPSAS adoption improves the quality of financial reports and assists the government in managing both domestic and external debt and also improve donor confidence in the country as IPSAS encourages transparency and comparability.

The study by Tanjeh, 2016 sought to investigate the factors influencing the acceptance of government accounting reforms in general and IPSAS in particular in Cameroon. A survey; the Ordinary Least Squares (OLS) and Ordered Logistics Estimation techniques used. The main findings of the study revealed that the determining factors of IPSAS acceptance in Cameroon are knowledge and awareness, institutional organization, staff training and recruitment, management information system, qualification, sex, implementation cost, political support, and age. The paper finished up proposing a careful study of these factors by the government for IPSAS acceptance to happen.

Atuilik, Adafula, & Asare, 2016 analyzed the Benefits and Challenges in Transitioning to IPSAS in Africa in their study. Their study also assessed the methods for tackling the challenges to enjoy full benefits of IPSAS and reporting regime. The study explained the fundamental principles underlying IPSAS, followed by a discussion of the benefits and challenges while transitioning to IPSAS in general, and by African governments in particular. Cash and accrual IPSAS are examined and the status of IPSAS adoption by African countries discussed. The study concluded by recommending approach to African governments and a guide for effective transition to IPSAS.

Mohammed Huweish Allawi Alshujairi studied about Government Accounting System Reform and the Adoption of IPSAS in Iraq in 2014. His research investigated the needs of reforming the government accounting system in Iraq as a developing country through the adoption of an accrual accounting based on IPSAS. It explored the reasons; requirements; challenges and factors which support adoption of accrual basis accounting based on IPSAS mainly focusing Iraq's central government. The research uses qualitative methodology through a questionnaire. The study disclosed that reform through the adoption of an accrual accounting based on IPSAS is inevitable to Iraq's government accounting. IPSAS rewards such as (meeting requirements of international financial organizations or sponsors and providing financial position and performance, assuring a better financial integrity, being more efficient to make use of the knowledge of IPSASB, improving accountability and transparency for resources, being a benchmark for evaluating and improving government accounting, enhancing (inter)national comparability of financial information of the Iraqi government with other governments, facilitating the consolidation of financial statements better than the present accounting system and improving public financial management) are reasons for its adoption in Iraq. The anticipated challenged during adoption includes big costs of implementation, shortage of qualified and professional accountants, and poor IT-accounting system; shortage of trained human resources being the biggest one.

Another study conducted in Brazil to assess the advantages of the Implementation of IPSAS in Brazilian Public Accounting: Analysis of the perception was conducted by Diniz et al in 2015. A questionnaire elaborated based on five theoretical approaches was used for the study. The key results of the study showed that the research participants agreed that the implementation of the IPSAS is viable. By the same token, the cost-benefit analysis of IPSAS implementation proved that the application of the IPSAS exceeds the investments made. It was also evidenced that, the state should be responsible for the training of staff and application of IPSAS. However, the responsible body for interpreting the standards, the international entities or the local institutions involved in the process are not well defined yet. It was verified that Brazil is adapting and accepting the new changes to be implemented in the public system. Nevertheless, the updating of its concepts and the confrontation of new challenges for the new phase of Public Accounting invites resistance.

Gérard Biraud in his study about Preparedness of United Nations system organizations for the international public sector accounting standards (IPSAS) in 2010, tried to look into the status of IPSAS and how United Nations carried out the transition process focusing on identifying best practices and possible risks. The study assessed the main benefits, challenges and difficulties involved in the entire business process and IPSAS project implementation issues. The study employed preliminary desk review, interviews and in-depth analysis. The study summarized IPSAS benefits as improved internal control and transparency with respect to all assets and liabilities; more comprehensive and consistent information about costs and income, which will better support governance, in particular Results-Based Management; integration of non-expendable equipment into the accounting system, with better accuracy and completeness of records; improved consistency and comparability of financial statements over time and across organizations; adoption of best accounting practices through the application of credible and independent international accounting standards. The study also listed incorporated challenges such as reputational and potential risks, change management, IPSAS being time and money consuming and cultural and political aspects. Results revealed that some United Nations system organizations have started using accrual-based accounting to record certain revenues or expenses while others are still in their initial stages. The implication is that some are better placed for IPSAS implementation while others are not.

Gap in the Existing Literature

As it can be seen above, there are a number of studies regarding IPSAS adoption or implementation in other countries mainly focusing on government accounting. Conversely, there is a lack of empirical study that examines the situation in Ethiopia. Moreover, none of these studies considered charities' view about IPSAS adoption. Therefore, the current study makes an attempt to address this gap and assess the anticipated benefits and challenges of IPSAS adoption in foreign charities operating in Ethiopia.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

The purpose of this study was to assess the envisaged benefits and challenges of adopting IPSAS by foreign charities in Ethiopia. Utilizing the theoretical constructs of the reviewed literature, as well as the country's proclamation on financial reporting standard outlined by the higher legislative body, this study researched foreign charities' readiness to adopt this standard comprising the expected benefits and challenges of adoption. Hence, this chapter presents the research design selected to address the issue, the procedure of data collection employed, the sampling technique used, and the instruments and data analysis techniques used to answer the research questions raised in the research.

Research Design

The objective of this study is to investigate the perception of foreign charities on the benefits and challenges of IPSAS adoption. To investigate the view of many charities and generalize it to the 383 charities, quantitative research approach was found to be appropriate. This approach uses unbiased approaches and employs statistical procedures (Creswell, 2009). There are also wide ranges of statistical tests available to analyze the data with available descriptive statistics (Bordens & Abbott, 2011).

The research is a descriptive type, which according to Zikmund et al (2013) tries to portray a picture of a given situation or phenomenon. Accordingly, this research relies on assessing the current condition and stands of foreign charities in relation to the adoption of IPSAS. Hence, the appropriate research design in this research is descriptive survey.

The researcher utilized a survey design to collect data for this study. Survey "allows a collection of large amount of data from a sizable population in highly economical way" (Saunders, Lewis, & Thornhill, 2003). Almost all the questions including the Likert-type survey are adapted from other researches conducted on the same issue in different contexts and few are developed by the researcher. It was used to collect data from finance heads or deputies in 29 selected foreign charities working in Ethiopia. This methodology allowed statistical analysis of the data.

Procedure for Data Collection

The primary data was collected through the use of questionnaires from the Finance Heads of the selected foreign charities, since they are more aware of the organization's stand in terms of the adoption of IPSAS in the organization and also get involved in the decision making process of adopting IPSAS in their respective organization. Their point of view on the matter was considered vital as they voice out their organization's stand. It was not required to include other employees of these charities in the study to respond to the questionnaires, because they are not part of the decision makers to adopt IPSAS. After identifying the sample respondents, the questionnaire was provided to them in person by the researcher and time was given to them to respond to all of the items in the questionnaire. To allow the respondents to consult documents if need be, on average two-three weeks was given to respondents to complete the questionnaire. In addition to the explanation given to the respondents during the delivery of the questionnaire, respondents were given contact address of the researcher to freely ask for clarifications at any time.

Population and Sampling Technique

The population targeted by the study is the foreign charities operating in Ethiopia who have their Ethiopian Head Offices in Addis Ababa as the majority are found in Addis Ababa. According to the document collected from ChSA, the total number of foreign charities registered in different parts of the world but operating in the country are 383. One hundred and eighty are from US and Canada, 142 from Europe, 13 from Asia and Arab Countries, 9 from Africa, 3 from Australia, while the remaining 36 charities' country of origin is not specified in the data held at the ChSA. The first five countries with the largest number of charities in Ethiopia are USA with 162 charities followed by UK with 38, Germany with 25, Canada with 18, Switzerland with 15, Italy with 12 and the Netherlands with 11. The others countries have less than 10 charities while there are 12 countries which are represented by only 1 charity. 324 charities have their head office in Addis Ababa, 48 in other regions and 11 of the charities' address is not the specified in the ChSA data. The total number of countries where these charities are incorporated are 31. Two countries which are represented only by one charity and which their Ethiopian Head office is outside Addis Ababa are excluded from the sample.

Considering the context and limitations, a sample was used to generalize to a population. Purposive sampling technique was used to select among the charities which their country of origin and recent office address were specified. It is understood that foreign charities originated from the same country follow the same accounting standards. In this research attempt was made to incorporate as many charities as possible from the different countries of origin. In view of the purpose of the research and to diversify the samples, this purposive sampling is the most appropriate method.

Using heterogeneous strategy, samples are drawn purposively from each country of charities' origin to see which accounting standard the charities follow and if the standard is IPSAS or not. One representative sample was selected randomly out of the 29 countries and a total of 29 samples are finally drawn. Four countries of origin represented only by one organization do not exist anymore and could not be contacted. One organization said that it is new and does not have the required organizational structure in place yet to accept and fill the questionnaire. Therefore, for this survey study a total of 24 questionnaires were distributed.

Type of Data and Data Collection Tools

Survey requires direct participation of research respondents (Zikmund et al, 2013). Therefore, the method employed to gather primary information was survey design involving structured questionnaire. Structured questionnaires are used more frequently in descriptive studies to identify general pattern. (Saunders, Lewis, & Thornhill, 2003). The questionnaire survey is administered to finance and deputy finance head of foreign charities.

The questionnaire was a self-administered questionnaire which was delivered to the respondent and collected later. It mainly had close-ended questions and very few open ones to have opinion of the respondents. The questionnaire had five parts which looks into Respondents' Information; Current Accounting Practice of each sample charity; Awareness and Preparedness in Adopting IPSAS and Expected Benefits and Expected Challenges to be faced in the Adoption of IPSAS.

The first part asked information about the position of the respondents; their educational background; their year of experience in the sector; the name of the organization and the country of incorporation of the charity. The second part explored the foreign charities main source of funding; the current accounting reporting framework/standard; basis of accounting; to which institution they provide financial statements and if they provide same or different financial statements. The third part checked out if the charities are aware of the proclamation; if yes how, if no why; if there is a need for specific accounting standard for charities and if IPSAS is well-suited for charities; if charities are ready to adopt and implement IPSAS and why; the basis of IPSAS the charities would adopt; if they started preparing for adoption, if yes, what kind of preparatory work done so far if no, why; if they plan to use in-house expertise or consultancy for the adoption of IPSAS; if it is feasible to finalize the adoption process on the deadline; if what the charities would do if the standard their headquarters requires them to follow is different from that of IPSAS and finally what will be the consequence of the choice made. The first three parts had 32 items.

Part four and five of the questionnaire were presented as tables containing a list of items that were used to assess the envisaged benefits and challenges and a five point Likert scale. In these last two parts respondents were asked to show their level of agreement on a five point Likert scale ranging from Strongly agree, Agree, Neither Agree nor Disagree, Disagree, to Strongly Disagree which have a numeric value assigned from 5-1 respectively. It is assumed that the distance between the two consecutive categories are the same. Strong agreement indicates the most favorable attitude on the statement. A Likert scale is a method of summated ratings that asks respondents to indicate the extent to which respondents agree or disagree with a statement or series of statements about an object of interest. It ranges from very positive to very negative attitude towards some object (Zikmund et al, 2013 and Cooper & Schindler, 2003).

Validity and Reliability of the instrument

The data collection instrument which was developed from the literature and was checked for their validity by the research advisor who is an expert in the field of study. After validity is

ensured, the questionnaire was checked for internal consistency and establish reliability. The performance of the questioner was evaluated by examining feasibility during questionnaire pre-testing. Feasibility of the questions was evaluated by examining the presence of missing item responses, study participant acceptability, and the time and ease of administration.

Reliability was also checked for expected benefit and challenge statements in the scales by using a Cronbach's Alpha test. Cronbach Alpha was used to measure internal consistency for the study survey, based on the sample estimation. George & Mallery (2003) suggested that, 0.7 is an acceptable level. The reliability test was conducted for all the 17 benefit items and 19 challenge items. The Alpha of the instrument is 0.913 and 0.767 for benefit and challenge items respectively.

When the data is collected from the sample, the quality of data was also assured through checking filled questionnaires by the researcher in real time for completeness and clarity of data. In addition data cleaning was also made before the beginning of the analysis.

Methods of Data Analysis and Presentation

In this study, closed-ended questions is developed based on the reviewed literatures conducted by other researchers in the past about adoption of IPSAS in various countries. The collected data is analyzed through descriptive and inferential statistics using Statistical Package for the Social Scientists (SPSS). The data gathered from part one to three are analyzed using frequency and percentage. Part four and five which rated the expected benefits and challenges items based on a 5 point Likert scale were analyzed using mean and standard deviation. Then the grand means of Expected Benefits and Challenges were calculated. After that, independent sample t-test using the grand means was run to see if the respondents showed inclination towards any of the two. Parametric or non-parametric tests were used to further check if there is a difference in different groups of respondents. Based on the analyzed data, the findings have been discussed and conclusion and recommendations were drawn.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Results/Findings of the Study

This chapter presents the analyses of the data collected through the questionnaire survey from the respondents. It uses descriptive and inferential statistics. The primary data used for this study was collected from the finance heads of the foreign charities.

For this survey study a total of 24 questionnaires were distributed to a sample of charities and a total of 21 questionnaires were collected after weeks of effort.

This section is divided into has five subsections: subsection one covers the profile of respondents, subsection two looks into the current accounting practice of the charities, subsection three deals with awareness and preparedness of charities to adopt IPSAS and the final subsection explores envisaged benefits and challenges to be faced by charities at the time of IPSAS adoption.

The survey result is presented following mainly the order of question in the questionnaires.

4.1.1 Respondents' Profile Analysis

This study depended on the foreign charities finance leaders to assess the expected benefits and challenges of adopting IPSAS. Accordingly, it was important to check the profile of these leaders to see the relevance of their perception. Primarily, respondents were requested to provide their position, educational background and years of work experience in charities' financial management.

Table 4.1: Respondents' position in their respective charities

Position in the organization	Frequency	Percent
Finance Head	17	81.0
Deputy Finance Head	1	4.8
Other	3	14.3
Total	21	100.0

Table 4.1 demonstrates that majority of respondents (81%) are Heads of the Finance Department, 4.8% are Deputy Finance Head while the remaining three are a Country Representative and Senior Finance Officers. The Country Representative is the highest authority in the organization who may be the manager of the Finance Head while the Senior Finance Officers according to their organization structure are more of like a Deputy Finance Head. This means that Country Representative and Finance Heads can be considered as a top management members while the Deputy Finance Heads and Senior Officers can be considered middle level managers. From this, 85.7% of the respondents are member of the top management and 14.3% of the respondents are from the middle level management. Therefore, it can be assumed that they know the organization’s future plan and take part in making decisions and the responses they gave in this research reflects their organization’s point of view.

Responses regarding educational background of the respondents pointed out that, almost equivalent percentage is shared between Bachelors Degree and Masters Degree Holders representing 52.4% and 47.6% of the respondents respectively. This shows that the respondents will be in a position to understand the issues related to the adoption of IPSAS in charities. The significance of this is that, the respondents are able to make comprehensive evaluation of the proclamation’s requirement.

Similarly, their year of experience in the sector is asked to know if they are familiar with the charities sector and also the operating environment.

Table 4.2: Respondents’ years of experience in charities financial management

Years of Experience	Frequency	Percent
Less than 5 years	5	23.8
5-10 Years	7	33.3
10-15 years	7	33.3
15-20 years	2	9.5
Total	21	100.0

The result indicates that 23.8% are working for less than 5 years in charities financial management and 42.8% have above 10 years' experience in the sector. A considerable number of staff (i.e. 76.2%) have sufficient (above 5 years) experience in charities' sector. It is assumed that majority of the respondents have more than sufficient experience about accounting standards with which charities are supposed to work. The level of education together with the accumulated experience would give respondents expertise outlook about accounting standards.

4.1.2 Current Accounting Practice

The respondents were asked about their charities' source of funding to check if they could be flexible or be influenced by different institutions to choose the accounting standard. The main source of fund were categorized into five and the distribution of the sources is presented as follows. As they can choose more than one funding source, the total sum of charities can be more than 21.

Table 4.3: Main Source of Funding for the 21 Charities

Source of Fund	Own fund	International Donor	Individual	UN Agency	Foreign Government
Number of Organizations	2	14	7	4	10

It is shown that the main source of funding for 14 of the charities is international donors. That means, 66.7% of the charities are dependent on fund secured from international donor agencies. Next to that, 10 (47.6%) of the charities are mainly supported by foreign governments. Only 2 (9.5%) of the charities raise their own fund to supplement the fund they get from other sources. The result indicates that, the charities financial sources are heavily dependent on donors and foreign governments (can only be one or more than one funding source as seen in table 4.4) with different rules and procedures the charities are expected to comply. On the other hand, their dependency on donors can be considered as an opportunity or a challenge to IPSAS adoption depending on their funders' interest. If the funders are in favor of IPSAS, the adoption process can be facilitated but if they are not, the process can be hindered as charities would likely be more inclined towards their funders' interest.

Corresponding to the source of funding, respondents were also asked how many source of funding they have to assess to whom they present their accounts and the inconsistent demands of funders and at the same time to check the number of institutions they would have to deal with if there is a need for conversion in accounting standard.

Table 4.4: Number of Funding Source of the 21 Charities

Number of Funding Source	1	2	3	4	5
Number of Organizations by number of funding source	11	6	3	-	1

The result indicates that, half of the charities have only one source of funding while the other half have more than one. Those who have more than one source of funding will have to deal with different rules and procedures the charities and at the same time if they want to change their accounting standard, they also need to accommodate the need/preference of the difference funders.

To assess the current accounting standard foreign charities follow, respondents were asked the accounting standards with the corresponding standard setting board they use at the moment.

Table 4.5: Accounting Reporting Framework followed by Charities

Accounting Framework/Standard	National Standard Setting Board	IASB	IPSASB
National GAAP of the country which the charity is incorporated	11		
Specific accounting standards applicable to charities in the country of origin	5		
IFRS applied in full		3	
IFRS with reduced disclosures (IFRS for SMEs)		1	
International Public Sector Accounting Standards			1
TOTAL	16	4	1

From the total of the respondents, 76.2% use National standards (either GAAP or specific standard for charities) as set by their national standard setting board, 19% use IFRS as set by the IASB and only one organization is currently using IPSAS as set by IPSASB. The majority of the foreign charities follow the standards that are set by their country of origin and these standards are not IPSAS. This indicates that, the charities will either have to change or adjust their own accounting standards to match with IPSAS requirements or follow both standards to be in line with the obligatory requirement set in Ethiopia. This will raise issue of compatibility with own standard or become costly and can be considered as a challenge.

Foreign charities have their headquarters outside Ethiopia. They are mainly governed by the law in their country of origin although they operate in different parts of the world. Therefore, it is desirable to see if the charities are already using IPSAS as their accounting standard hence their transition will be smooth or are currently implementing a different accounting standard which makes their transition according to the Ethiopian government proclamation difficult. The respondents were asked if they have to follow the same accounting standard as their Headquarters.

Table 4.6: Number of charities with same accounting standard as headquarters

	Frequency	Percent
Yes, it's mandatory to follow	17	81
Yes, it's not mandatory to follow	3	14.3
No	1	4.8
Total	21	100

As indicated above, 81% of the charities have to follow the accounting standard of their Headquarters mandatorily while 14.3% can follow the same but not mandatorily. Overall, 95.3% of the charities follow the accounting standard of their Headquarters. Only one charity indicated that, it does not have to follow its Headquarters accounting standard. By inspection, the charity who claimed to be free from following its headquarters standards is currently following National GAAP of its headquarters. As mentioned in the description of the previous table, this might create a problem for the majority of the charities operating in Ethiopia as the accounting standard followed by their Headquarters is not IPSAS.

IPSAS has both cash basis and accrual basis of accounting. During adoption, charities need to choose one of the basis. So far IPSASB has issued one standard for the cash basis IPSAS and 39 standards for accrual basis of accounting. Most of the foreign charities are not using IPSAS currently as seen in table 4.5. Thus, the respondents were inquired which basis of accounting they are currently following to see if it is going to similar or different basis of accounting when they transition to IPSAS.

Table 4.7: Basis of accounting currently being followed by charities

	Frequency	Percent
Modified cash basis	12	57.1
Accrual basis	9	42.9
Total	21	100.0

The basis of accounting used by 57.1% of the respondent is modified cash basis while the rest 42.9% use accrual basis of accounting. If the charities want to keep their current basis of accounting, it will not pose a problem as IPSAS has both accrual and cash basis of accounting although it inclines to favor accrual basis of accounting. However, if those charities which are currently using modified cash basis accounting want to adopt the accrual basis IPSAS, the transition could be a challenging task which demands proper guidance as stated in IPSAS 33.

Charities prepare different types of reports to different stakeholder following a specific accounting standard.

Table 4.8: Institutes to whom charities provide financial statement

	Headquarters	Donors	Ethiopian Government	Other
Number of organization	19	19	21	2
Percent out of 21	90.5%	90.5%	100.0%	9.5%

According to the result, all charities prepare at least one financial statement since 100% of them produce one to the Ethiopian government. When it's time to mandatorily report using IPSAS, all the charities have to provide a statement to the Ethiopian government which

means in one or the other way, they will be forced to adopt IPSAS. It is also illustrated that, there are 2 organizations who do not report to their headquarters. It might not be difficult for these organizations to change their standard if they are not accountable to their headquarters.

Additionally, the charities were asked how many reports they produce to be able to see their burden in reporting.

Table 4.9: Number of institutes to whom charities provide financial statement

Number of financial statements charities produce	1	2	3	4
Number of organization		4	15	2
Percent out of 21	0.0%	19.0%	71.4%	9.5%

On the other hand, most of the charities (80.9%) produce three or more financial statements and 19% of the charities produce financial statement for only two institutions.

In relation to reporting, respondents were asked if they prepare the same or different financial statements tailored to meet each of the above institutions' needs. From their responses, it was witnessed that, except one all of the charities prepare financial statements tailored to meet each institution's needs. The one charity which prepares financial statement 'same to all', uses additional disclosure or note to meet the need of each institution. This means all of the charities are required to produce multiple reports. Transition to IPSAS will either increase the number of reports produced by charities if they don't change their current accounting standard or will replace the multiple reports by one IPSAS statement if accepted by all the different institutions.

Respondents were asked to identify the kind of challenge they face when they are preparing tailored financial statements. Therefore, table 4.10 presents a prominent three challenges mentioned by respondents.

Table 4.10: Challenges faced by charities to prepare tailored financial statements

	Frequency	Percent out 20
Require more Human Resource (HR)	4	20
Require more Information Technology (IT)	5	25
Require more time	20	100
Others	2	10

Even though, few of the charities recognize that they need additional Human Resource (20%) and Information Technology (25%), all of the charities (100%) acknowledged more time is required to produce tailored financial statements. IFAC publication announced that not-for-profit entities are spending money and time addressing various regulators' reporting requirements as well as those of their funders when they'd rather use those resources to deliver services.

4.1.3 Awareness and Preparedness in Adopting IPSAS

Awareness and the preparedness play an important role in adopting IPSAS successfully. Accordingly, the charities were asked if they were aware of the proclamation No. 847/2014 dated December 5, 2014 about IPSAS adoption for public sector as of fiscal year 2017. Awareness of IPSAS in relation to this question was assumed to be through formal means such as formal education, training, or seminar and informal means such as media or self-reading.

The result denotes that, about half of the respondents were aware of IPSAS adoption through one of the means mentioned above. This means at least 50% of the charities working in Ethiopia are not aware of the fact that they are required by law to adopt IPSAS in 2017. According to the charities, this lack of awareness was mainly because the proclamation was not well publicized and some other reasons which the charities do not know. Even among those who claimed to be aware of the proclamation, half of them (50%) got the information through self-reading and the other half from media, formal education and seminar. Although there are 383 registered charities required by law to adopt IPSAS, the above data showed that little has been done to make them aware of the proclamation.

All of the foreign charities have to report to more than one user. Therefore, based on the strictness of their stakeholders, they may not see the need for adopting IPSAS in their organization or consider it as an additional burden. To find what they feel about the mandatory single financial system, they were asked if they believe that there is a need for specific accounting standard for charities.

The majority of the charities (76.2%) responded that, there is a need for specific accounting standard for charities although 42.9% of the respondents do not know if IPSAS is that specific accounting standard which is well-suited for charities. From this result, we can conclude that if at some point charities consider transition to IPSAS as problematic, it is not because they do not want a specific standard. It can be expected that the challenges they may state would be implementation challenges.

It is known that, the Ethiopian government has required charities to adopt IPSAS as per proclamation No. 847/2014 starting from 2017. In view of that, respondents were asked if they believe IPSAS suits well to charities' needs. The response of 21 respondents are presented in the table below.

Table 4.11: Suitability of IPSAS to address specific issues of charities

	Frequency	Percent
Yes	9	42.9
No	3	14.3
I don't know	9	42.9
Total	21	100.0

As can be seen from the table above, 42.9% of the charities believed that IPSAS is well-suited to their needs while the remaining 57.2% either don't know (42.9%) or do not think that IPSAS is the standard for charities. Out of those who responded negatively, majority of them said that they don't know whether IPSAS is well-suited or not. This might imply that, the charities acceptance of IPSAS might be indifferent about what the government of the country in which they are operating is requiring them to do by proclamation.

Questions were presented to the charities to see whether they are ready to adopt IPSAS and simultaneously see if they have started preparation to transition to IPSAS in 2017 as required by the law. The responses to the two main questions are presented below.

Table 4.12: Readiness and Preparedness of Charities to Adopt IPSAS

	Yes	No	Total
Is your organization ready to adopt and implement IPSAS?	12 (57.1%)	9 (42.9%)	21
Have your organization already started preparing for adoption?	3 (14.3%)	18 (85.7%)	21

57.1% of respondents claimed that their organizations are ready to adopt and implement IPSAS. When they are asked for their reasons for adopting IPSAS, most of them (66.7%) said that it's because it is an obligatory requirement from the Ethiopian government. Still significant proportion (50%) of the respondents expressed that, their organization will adopt IPSAS because it provides better accounting quality. Even though the proportion of the charities were trace amount, donor pressure and current accounting practice were also mentioned as a reason for adoption. Those charities who claimed that they are not ready to adopt expressed that they don't know that, they are required to start to adopt IPSAS (88.9%) and it is not compatible with their current accounting standard (22.2%).

Regarding preparation, only 3 charities out of the 12 who claim to be ready to adopt expressed that their organization has started doing something for adoption. Two of the charities started reviewing policies and procedures and one of them started analyzing the existing information systems for compatibility and synergy with IPSAS requirements. The majority 85.7% (considering both those who are ready and not) have not started preparation. The reasons for refraining from preparation are mainly because of lack of regulation on how to implement IPSAS from authorities (66.7%) and waiting for action from higher officials (55.6%). One charity has difficulty in understanding how to adopt IPSAS and another charity claimed that it is not aware whether IPSAS is relevant and mandatory for charities.

Even though the conversion to IPSAS by the end of the year is made mandatory by Ethiopian government proclamation, a significant proportion (42.9%) of the foreign charities in Ethiopia were not ready to adopt the accounting standard by the time the data was collected. As the data above revealed, it is worrying to see that only 57.1% of the charities in Ethiopia are ready to adopt the government proclaimed standard and more disturbing to find only 14.3% of the charities have attempted to do something about adopting it.

It was seen elsewhere above that, there is about half half distribution between the two basis of accounting in the charities' current practice. Here the respondents were asked which basis of accounting they would choose when they adopt IPSAS.

In this case, 70% have responded that they would choose accrual basis of accounting. Relating this result with the previous finding about their current practice, it is indicated that 50% of charities who are currently using modified cash basis accounting tended to change to accrual basis of accounting. This might result in a challenge when these charities initially transition from cash basis recording to accrual basis. One charity who choose to keep using cash basis commented that donors do not refund expenses or settle advances based on accrual records because they crosscheck payment against receipts.

The IPSASB's Standards Project was established in late 1996. However, it was introduced in Ethiopia with the proclamation. Elsewhere in this research, 50% of the respondents expressed that they have no awareness concerning the proclamation about IPSAS. Nevertheless, among other things, availability of expertise who have IPSAS know-how is vital for successful adoption of the standard. Hence, respondents were asked if they plan to use in-house expertise or consultancy service for adoption.

Table 4.13: Use of in-house (either in country or from headquarters) expertise for IPSAS adoption

	Frequency	Percent
Yes	14	66.7
No	7	33.3
Total	21	100.0

The majority (including those who are ready and not) of the charities (66.7%) plan to use the in-house expertise to adopt IPSAS. This means that, there is technical expertise on which the charities can depend on in the transition process to IPSAS. However, significant proportion expressed that they don't depend on their in-house expertise. Under this condition, these charities either have to hire a consultant or seek training of their staff for the adoption as it is mandatory requirement by the Ethiopian government.

Therefore, to check what these charities are going to do about the lack of in-house expertise for the adoption, they were asked if they plan to use consultancy for the application of IPSAS. Out of the 7 respondents who expressed that they don't have in-house expertise in table 4.13, 3 of them expressed that they will use domestic consultancy and 1 respondent stated that the organization would use foreign consultancy. However, the remaining 3 do not supplement their deficiency with a consultant or they simply skipped the question.

Table 4.14: Respondents expectation of feasibility of adoption IPSAS within the set deadline

	Frequency	Percent
Yes	4	19.0
No	17	81.0
Total	21	100.0

From what has been observed so far in this research, many of the charities are not ready to adopt IPSAS and almost all the charities expressed that they have not started any preparation towards the adoption process. It is, therefore, expected that the charities wouldn't be able to adopt IPSAS within the set deadline. To know this, respondents were asked if they think it would be feasible to finalize the adoption within the set deadline and only 19% of the charities responded positively and as expected the rest of them (81%) declared that it would be impossible to meet the deadline.

Foreign charities operating in Ethiopia are accountable for their headquarters which is outside Ethiopia and also for the Ethiopian government through Charities and Societies

Agency. Hence, the respondents were asked what they would choose to do if the standard their headquarters requires them to follow were different from that of IPSAS. Table 4.15 presents their response.

Table 4.15: Envisaged strategies when IPSAS is different from the charities' headquarters standard

	Frequency	Percent
Keep on following that of the headquarters	5	23.8
Follow IPSAS as in proclamation	4	19
Follow both standards in parallel	12	57.1
Total	21	100

As can be witnessed from the above data, a little above half of the charities (57.1%) would reconcile the problem by using both their headquarters' standard as well as that of IPSAS. Only about 19% of the charities claimed that they would totally convert their accounting standard to IPSAS. From this we can see that in one or the other way, 76.1% of the charities would adopt IPSAS.

Table 4.16 presents the expected consequence of the chosen strategy by the charities. Those who chose to follow their headquarters accounting standard expect a sanction from the government as a result of noncompliance. They seem uncertain about the future to ease the tension due to conflicting standard between headquarters and IPSAS. They expect a revision either from the headquarters side to adopt IPSAS or expect the proclamation to be revised to address such differences. Those who chose to follow IPSAS as in the proclamation expected a revision from their headquarters to consider the Ethiopian government interest. However, only one of the charities expected closure as a result of conflict between IPSAS (an Ethiopian government interest) and their own headquarters strict requirement. Those who chose to follow both standards did not share the concerns of those who claimed to adopt only one standard.

Table 4.16: Expected consequences due to adoption or rejection of IPSAS

	Keep on following that of the headquarters	Follow IPSAS as in proclamation	Follow both standards in parallel	Total
Sanction even threat of closure from the government as a result of noncompliance	5	0	1	6
Threat of closure from the Headquarters as a result of noncompliance	0	1	0	1
Revision of the proclamation to address such cases	1	1	6	8
Revision from the headquarters to consider adoption	3	3	3	9
Increase of cost	0	1	10	11
Additional Human Resource	0	1	5	6
Additional Financial Information System	1	2	8	11
Tension due to conflicting standard between headquarters and IPSAS	2	2	6	10
No consequence	0	0	1	1

Furthermore, as can be seen from the last column of Table 4.16, the three major concerns of charities in Ethiopia due to the envisaged adoption of IPSAS are: increase of cost (11, 52.4%), additional Financial Information System (11, 52.4%) and tension due to conflicting standard between headquarters and IPSAS (10, 47.6%). In addition, revision from both sides were also expected by the charities. As charities work is the interest of everyone concerned, it is not surprising at all to see none of the organizations consider closure as a consequence except one organization. One organization expects no consequence but chose to follow both standards in parallel. By inspection of the response of this respondent, it worth to note that the organization is currently following IFRS and this standard and IPSAS are similar in nature. It was also noted from the response in the questionnaire that, this charity believes adoption of IPSAS is to the benefit of the organization as they believe that it gives better accounting quality.

4.1.4 Charities view of Envisaged Benefits and Challenges of IPSAS

A. Envisaged Benefits

The Ethiopian government has announced an obligatory adoption of IPSAS for public sectors including charities. However, the tendency of charities to adopt IPSAS is influenced by their assessment of the presumed benefits and challenges. To determine what benefits and challenges are expected by charities, a questionnaire with a list of items based on literature review was developed. Thus, respondents were requested to indicate to what extent they agree with the benefits and challenges items based on a 5 point Likert scale. The five points with their respective numeric value were: 1:Strongly Disagree; 2: Disagree; 3: Neither Agree nor disagree, 4: Agree and 5: Strongly Agree.

Seventeen items were identified from literature and are listed as benefits of IPSAS and were presented to the respondents to rate them from Strong Disagreement to Strong Agreement according to the scale indicated above. Table 4.17 presents the summary of the 21 respondents' response with respect to the 17 items.

As indicated in table 4.17, 6 of the items were found distributed over the upper 4 scales and 11 items were also found to be distributed over the upper 3 scales. This means that, respondents responded to all the items with more of positive inclination to the 12 problematic items. Hence, all the items were considered in the following analysis as inspection pointed out that; there is a strong positive preference to all of the 17 benefit items.

Table 4.17: Mean Values of respondents' view about Expected Benefits of IPSAS

	N	Mean	Std. Deviation	Minimum	Maximum	df
Enhance accountability of charities towards all stakeholders	21	4.1905	.74960	3.00	5.00	2
Enhance financial transparency of charities	21	4.2381	.70034	3.00	5.00	2
Enhance the comparability of financial reports over time and over different organizations.	21	4.0952	.83095	2.00	5.00	3
Facilitate the consolidation of financial statements.	21	4.1429	.91026	2.00	5.00	3
Improves understandability of financial statement.	21	4.2857	.78376	3.00	5.00	2
Bring about high quality financial statements.	21	4.1429	.85356	3.00	5.00	2
Improves credibility of financial statement	21	4.1905	.74960	3.00	5.00	2
Provides alignment with best accounting practices.	21	4.1905	.81358	3.00	5.00	2
Promotes standardization, harmonization & consistency.	21	4.1429	.79282	2.00	5.00	3
Increases funding opportunity from international organizations like UN due to increased transparency.	21	3.9048	.94365	2.00	5.00	3
Results in better management of financial resources.	21	4.0000	.77460	3.00	5.00	2
Improve the stewardship of assets and liabilities	21	3.9048	.76842	3.00	5.00	2
Improves overall management and planning	21	4.0476	.80475	2.00	5.00	3
Provides better information for management to make a decision and forecasting.	21	4.1905	.81358	2.00	5.00	3
Strengthen internal control mechanisms	21	4.2857	.56061	3.00	5.00	2
Facilitate to be in line with Charities and Societies Agency (ChSA) requirements	21	4.0000	.77460	3.00	5.00	2
The benefits of adopting IPSAS justify its implementation costs.	21	3.8571	.72703	3.00	5.00	2
Grand Total:	21	4.1064	.78539	2.00	5.00	

From table 4.17, we can see that the rating of respondents to the benefit items were distributed in the upper half of the Likert scale with the least mean of 3.86 (S.D=0.727), the maximum mean of 4.29 (S.D=0.561) and a grand mean of 4.11 (S.D=0.785). This means that the respondents showed agreement or strong agreement for all the items.

Three of the benefit items which were rated favorably by the charity leaders were: improves understandability of financial statement (M=4.29, S.D=0.784), strengthen internal control mechanisms (M=4.29, S.D=0.561) and enhance financial transparency of charities (M=4.24, S.D=0.700). According to these responses, the most important benefits of IPSAS are understandability, internal control and financial transparency. Furthermore, respondents did not show any disagreement for any of the 17 items but the items to which they showed least agreement are the benefits of adopting IPSAS justify its implementation costs (M=3.86, S.D=0.727), increases funding opportunity from international organizations like UN due to increased transparency (M=3.90, S.D=0.944) and improve the stewardship of assets and liabilities (M=3.90, S.D=0.768). We can infer from this that, the charities were not that much confident about the benefits of IPSAS with respect to cost, increase funding opportunity and improve stewardship.

Different literatures (PwC, 2013; Mhaka, 2014; Ijeoma N. B., 2014; Nkwagu, Okoye, & Nkwagu, 2016) showed that transparency, accountability, comparability and credibility were the major benefits of IPSAS. In this study, respondents confirmed this with respect to transparency. Even though it is at second rate, they also showed agreement with the rest. This means that the foreign charities endorse the experts view.

B. Envisaged Challenges

As indicated in table 4.18, responses for 4 of the items were ranged in the upper 3 scale levels which means respondents in general agreed with the items. However, three items which were rated in the full scale (1 = Strongly disagree to 5 = Strongly agree) were excluded from further analysis. The items excluded are: *problem of presenting budget information in financial statements; IPSAS allows both cash & accrual basis of*

accounting. According to the choice an organization make in a specific year, the admin cost to be reported under the 70/30 classification and conflicting requirement between IPSAS and Charities and Societies' Agency (e.g. asset definition, operational and admin cost presentation, etc.). The admin cost increase under the 70/30 expense classification might not be apparent for respondents as they have not started implementing IPSAS yet.

As can be observed from table 4.18, the three major challenges expected by the respondents when they would adopt IPSAS were: few experience in adopting and implementing IPSAS (M=4.38, S.D=0.669); lack of proper guidelines from regulatory bodies on the adoption process (M=4.38, S.D=0.669) and increase administrative, compliance or other costs (M=4.43, S.D=0.598).

The item to which respondents showed tendency to disagreement with a least rating was the cost of adopting IPSAS is too high compared to the benefits that will be enjoyed (M=2.76, S.D=0.625). The other two items with least ratings and to which respondents showed near indifference as to the challenges were: IPSAS is difficult or cumbersome (M=3.24, S.D=0.944) and problem of transitioning from recording under the cash/modified cash basis to the accrual basis (M=3.33, S.D=0.966). Relatively cost compared to benefit, difficulty of IPSAS, and the transition from the different basis of accounting were not appreciated as challenge by the respondents. But the later was considered to be a problem by (Legenkova, 2016; Aggestam, 2010). In addition to these challenges, the lack of knowledge base about IPSAS in the organizations and also in the country which is due to the fact that IPSAS is new in Ethiopia were also rated moderately by respondents.

Table 4.18: Mean Values of respondents' view about Expected Benefits of IPSAS

	N	Mean	Std. Deviation	Min	Max	df
IPSAS is rather unknown in Ethiopia	21	3.8571	1.10841	1.00	5.00	4
Resistance to changes by adopters and implementers	21	3.9524	.80475	2.00	5.00	3
Lack or shortage of the necessary internal technical expertise on IPSAS in the organization	21	4.3333	.96609	2.00	5.00	3
Lack or shortage of the necessary technical expertise on IPSAS in the country	21	4.0952	.83095	3.00	5.00	2
Few experience in adopting and implementing IPSAS.	21	4.3810	.66904	3.00	5.00	2
Lack of proper guidelines from regulatory bodies on the adoption process.	21	4.3810	.66904	3.00	5.00	2
Lack of full understanding of the issues involved.	21	4.2857	.95618	1.00	5.00	3
IPSAS is difficult or cumbersome.	21	3.2381	.94365	1.00	5.00	4
Some charities accounting issues are not addressed in IPSAS.	21	3.7143	.84515	3.00	5.00	2
Problem of using fair value in comparison to historical cost method in evaluating assets.	21	3.5714	.87014	1.00	5.00	3
Problem of transitioning from the registration under the cash/modified cash basis to the accrual basis	21	3.3333	.96609	1.00	5.00	4
Increase administrative, compliance or other costs	21	4.4286	.59761	3.00	5.00	2
Uncertainties over re-configuration of the business processes	21	4.0952	.62488	3.00	5.00	2
Require additional reporting standard to produce report as per ChSA requirement	21	3.6190	1.02353	1.00	5.00	4
Requires additional resource to be in line with different standards	21	4.0476	.92066	1.00	5.00	3
The cost of adopting IPSAS is too high compared to the benefits that will be enjoyed.	21	2.7619	.62488	2.00	4.00	2
Grand Total:	21	3.8809	0.8388	1.00	5.00	

From literature (Okoughenu & Domma, 2016), there is a tendency that the benefit of IPSAS outweigh its challenge. Taking the respondents response, to see if the respondents showed inclination towards the Envisaged Benefits or Challenges, independent sample t-test was used. Parametric test was warranted after the normality of the distributions of the means for the two groups of tests was conducted. In this test, the grand mean rating of the 17 benefit items and grand mean rating of the 16 challenge items were used. The following table presents the means and the t-test values.

Table 4.19: Comparison of mean of respondents rating of expected benefits and challenges of IPSAS

	Number of items	Mean	Std. Deviation	t	df	p-value
Mean of Benefits	17	4.106	.133	1.816	17.169	.087
Mean of Challenges	16	3.880	.480			

The table shows that, there is no statistically significant difference between the grand means of benefits (M=4.11, S.D=0.133) and the grand means of challenges (M=3.88, S.D=0.480). Therefore, it was found that, it is impossible to conclude that respondents were inclined neither towards benefits nor to the challenges. In general, they showed moderate agreement for both benefits and challenges even though literature highly stress the benefits of IPSAS.

Respondents are nearly equally distributed into two groups with respect to basis of accounting and readiness to adopt IPSAS. Considering IPSAS's transparency and accountability objective, the accrual basis of accounting is more close to IPSAS's objective in giving information about the financial position of an organization (PwC, 2013). Therefore, the transition to IPSAS for the charities who were already using the accrual basis could be less challenging. Hence, it is proper to check if the charities in this study which use accrual basis of accounting have a tendency of rating IPSAS benefits as more positively than those who use a cash/modified cash basis of accounting.

Taking their distribution into consideration, comparison of mean ratings of envisaged benefits and challenges were conducted to see if any of the sub groups lean towards either of the two. After running normality test for the mean ratings of each of the sub groups, it was found that only the mean ratings for expected challenges for the Accrual Basis of accounting was found to be different from normal distribution. Therefore, all comparisons except for the mean ratings of envisaged challenges with respect to Basis of Accounting were done with t-test. For comparison of mean ratings for envisaged challenges with respect to Basis of Accounting, Mann-Whitney Test was used. Nevertheless, no statistically significant difference between the respective grand means for Envisaged Benefits with respect to Accounting Basis and Readiness of Charities to adopt IPSAS were observed. And also, no statistically significant difference between the respective grand means for Envisaged Challenges with respect to Accounting Basis and Readiness of Charities to adopt IPSAS were found.

Albeit foreign charities in Ethiopia differ in any ways, it can be understood that, they do not have inclination to consider highly neither the benefits nor the challenges of adopting IPSAS. This is against those literatures (Diniz, Silva, Santos, & Martins, 2015); (Okoughenu & Domma, 2016) who defended that the IPSAS adoption brings more advantage than the investments made.

4.2 Discussion

The discussion tries to complete the objectives of the study and answer the research questions.

In this section, the results are discussed based on the data collected and the analysis done. The data collected using questionnaires were analyzed through descriptive statistics and frequency distribution analysis. The discussion attempted to accomplish the objectives of the study and answer the research questions which mainly assess the current accounting standards foreign charities in Ethiopia follow; level of awareness and preparedness of the foreign charities to adopt IPSAS; identify the envisaged benefits and challenges of IPSAS adoption and the comparison of the expected benefit and challenges.

The study found out that, the accounting standards the foreign charities in Ethiopia follow to prepare their financial reports are cascaded from their country of origin/incorporation. For 81% of the charities, following their headquarters accounting standard is mandatory. As their country of origin is diverse, these foreign charities use diverse accounting standards. Only 5 of the charities use IFRS/IPSAS. IFAC publication shows that, many countries have adopted or are in a process of adopting IPSAS. Regardless of this, considering their international characteristics, it was surprising to note that only 24% of foreign charities follow International Accounting Standards. Ethiopia did not have own official accounting standard until enactment of proclamation No. 847/2014 as of December 5, 2014 which states that Ethiopia will adopt the International Standards as set by the International Standard Setting Board for public sector entities. In this case, the charities will either have to change or adjust their own accounting standards to match with IPSAS requirements or follow both standards to be in line with the obligatory requirement set in Ethiopia. In this study, it has been seen that 19% of the charities would convert their accounting standard while 57.1% plan to use both standards. In terms of basis of accounting, little less than a half are following accrual basis and significant number of charities who are using cash or modified cash basis accounting will convert to using accrual basis of accounting when they adopt IPSAS. Obviously IPSASB favors the accrual basis although it gives mixed signal that both cash and accrual basis can be used. All the standards apart from one comprehensive cash-basis standard are issued under accrual basis (Toudas, Poutos, & Balios, 2013).

Therefore, it can be concluded that the foreign charities in Ethiopia are following a diverse accounting standard as set by their respective country of origin.

The next discussion focuses on foreign charities' awareness and readiness to adopt IPSAS. Awareness and preparedness play an important role in adopting IPSAS successfully. Tanjeh (2016) ranked knowledge and awareness as first among the factors influencing the acceptance and implementation of IPSAS in Cameroon. The current study result shows that half of foreign charities working in Ethiopia are not aware of the fact that they are required by law to start to adopt IPSAS as of fiscal year 2017 mainly because the proclamation was not well publicized. Even among those who claimed to be aware of the proclamation, half of them

got the information through self-reading. It can be assumed that enough information has not been provided by the concerned regulatory body which led to low awareness of these charities. Concurrently, the charities are expected to update themselves with laws and any issue related to their mandate in the country they operate. In the study of cost and benefit analysis of IPSAS adoption in Zimbabwe, Mhaka (2014) advocated that massive awareness of the transitional plan to IPSAS and its implications should be well organized and conveyed to the producers and users of financial statements to avoid resistance to change.

At the same time, 42.9% of the charities in Ethiopia are not ready to adopt IPSAS. Those who are ready are adopting IPSAS partly as a consequence of obligatory requirement from Ethiopian government (two third) and partly because it provides better accounting quality. However, these charities have not started preparation yet mainly because of lack of directive from the regulatory bodies' side on how to implement IPSAS and simultaneously they are waiting for go-ahead action from higher officials in their respective organizations. Only three (one-eighth) charities claimed that they started preparation but they are still at the stage of reviewing their policies and analyzing existing information systems for compatibility and synergy with IPSAS requirements. None of those charities who claimed that; they started training their staff. Nonetheless, about two-third of the charities in Ethiopia still plan to use their in-house expertise to adopt IPSAS.

In view of the current study finding and also as it is confirmed by majority of the respondents, there is no warranty that IPSAS will be adopted by the foreign charities as demanded by the proclamation within the set deadline.

Regarding the envisaged benefits foreign charities may get while implementing IPSAS; charities did not show any disagreement for any of the 17 benefit items listed though their degree of agreement on the Likert scale differs for each item. The study result depicts that, the most envisaged benefits of IPSAS are understandability, internal control and financial transparency. IPSASB intended to enhance the quality and transparency of public sectors financial reporting by providing better information for public sector financial management and decision making through the standards it sets. Different literatures (Tanjeh, 2016; Atuilik, Adafula, & Asare, 2016; Ofoegbu, 2014; Nkwagu, Okoye, & Nkwagu, 2016)

showed that transparency, accountability, comparability and credibility were the major benefits of IPSAS. With this respect to transparency respondents in this study confirmed the literature. Transparency as revealed from the result could help charities to gain the trust and confidence of resource providers, employees and beneficiaries (Boyd-Caine, 2016) as a result build better public image. Even though it is at second rate, charities also showed agreement with the rest of IPSAS's major benefits. The findings of this survey is consistent with the results of the survey carried out by Ijeoma N. B. (2014) in Nigeria and by Atuilik, Adafula, & Asare (2016) in their analysis of the benefits and challenges for African countries transitioning to IPSAS.

As far as the benefits of IPSAS are concerned, the foreign charities in Ethiopia agree with what is found in literatures.

Contrary to these benefits, the survey result shows adoption challenges such as few experience in adopting and implementing IPSAS; lack of proper guidelines from regulatory bodies on the adoption process and increase administrative, compliance or other costs. Earlier in this section, it was seen that 76.2% of the charities are following a different accounting standard than IPSAS and most of them plan to follow both their Headquarters accounting standard and IPSAS in parallel during adoption. It is expected that this alone increase the cost. More or less consistent with the findings of this study, Alshujairi (2014) found out that, big costs of implementation, scarcity of highly qualified professionals and trained human resources and unsatisfactory government accounting information technology system are challenges of IPSAS adoption in Iraq. Although these challenges are identified for the government sector, the same challenges were shared in the charities sector in Ethiopia. On the other hand, some challenges which are considered as a challenge in other countries such as resistance to changes (IPSASB, 2014), IPSAS are relatively unknown (Christiaens et al, 2014), shifting from cash to accrual accounting and the use of fair value (Legenkova, 2016) are not recognized as a challenge in the Ethiopian context. In addition, challenge items specific to the charities' operating context in Ethiopia were also not rated high by the charities. This may be because charities have not started to implement IPSAS yet.

Although there are some differences, the charities have confirmed the main challenges stated in the literature. From the result and from literatures, the challenges the charities expected to face during adoption are few IPSAS experience; scarcity of highly qualified professionals and trained human resources; lack of proper guidelines and increase of costs.

Okoughenu & Domma (2016), advocated that the benefits IPSAS prevail over the challenges of adopting it. Normally when an organization plans to make a system change, it is assumed that a cost benefit analysis is done and the benefits compensate the related challenges. However, the result in this study shows that there is no statistically significant difference between the grand means of benefits and challenges as perceived by the charities in Ethiopia. Therefore, it was found that it is impossible to conclude that respondents were inclined neither towards benefits nor to the challenges. Adopting IPSAS by foreign charities operating in Ethiopia is presumed to be rewarding at the same time challenging. Previously a result in this study showed that, the majority of the charities (76.1%) will adopt IPSAS either solely (20%) or in parallel with their respective headquarters standard (57.2%). However, we can conclude from this observations that, adoption of IPSAS by the charities is not because the benefits outweigh the challenges but because it is a mandatory requirement by the government.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS & RECOMMENDATIONS

5.1. Summary of findings

This research was motivated by the demand of the proclamation number 847/2014 of Ethiopian government about conversion of charities financial reporting standard to IPSAS by July 8, 2017 (FDRE, House of Council, 2014). As 383 foreign charities from 31 different countries are operating in Ethiopia with possibly as many different financial standards as their country of origin, it was expected that conversion to IPSAS will be challenging. Therefore, this study was to assess the prospect of adoption of International Public Sector Accounting Standards (IPSAS) in Ethiopia with particular reference to foreign charities. To assess the prospect, the following five research questions were raised:

1. What are the accounting frameworks/standards foreign charities follow to prepare their financial reports?
2. Are the foreign charities in Ethiopia aware that they have to adopt IPSAS in the fiscal year 2017 and are they ready to adopt it?
3. What are the envisaged benefits foreign charities may get while adopting IPSAS?
4. What are the envisaged challenges that foreign charities may encounter while adopting IPSAS?
5. Will the expected benefits outweigh the challenges?

By purposively selecting 29 charities, a survey questionnaire that was developed from literature was administered and quantitative data was collected from the total of 21 finance and deputy finance heads. Using descriptive statistics such as mean, standard deviations, and percentages and also with inferential statistics of parametric and non-parametric tests were used to find differences among subgroups in their perception of the benefits and challenges of IPSAS.

The major findings of the analysis are presented as follows.

- Majority of the foreign charities operating in Ethiopia are using National standards (either GAAP or specific standard for charities) as set by their national standard setting board of their country of origin, and five charities are using IFRS and IPSAS as set by the IASB and IPSASB respectively.
- Majority of the foreign charities have to follow mandatorily the accounting standard of their Headquarters.
- Foreign charities are divided almost equally to cash/modified cash basis and accrual basis of accounting.
- Foreign charities' financial sources are heavily dependent on donors and foreign governments.
- Foreign charities are required to produce multiple reports to their Headquarters, Donors and Ethiopian Government and prepare financial statements tailored to meet each institution's needs.
- All foreign charities need more time to produce tailored financial statements, few of them need additional Human Resource and Information Technology.
- Half of the foreign charities were aware of IPSAS adoption proclamation No. 847/2014 and the other half are not aware of the fact that they are required by law to adopt. Those who claimed to be aware of the proclamation, half of them got the information through self-reading and the other half from media, formal education and seminar. Those who are not aware was mainly because the proclamation was not well publicized and some other reasons which the charities do not know.
- Charities agree that, there is a need for specific accounting standard for charities. However, a little above half of the charities don't know or do not think that IPSAS is the standard for charities.
- A little less than half of the foreign charities are not ready to adopt IPSAS. Those who are ready are adopting IPSAS partly as a consequence of obligatory requirement from Ethiopian government and partly because it provides better accounting quality.

However, these charities have not started preparation yet mainly because of lack of directive from the regulatory bodies' side on how to implement IPSAS and simultaneously they are waiting for go-ahead action from higher officials in their respective organizations.

- Foreign charities would choose accrual basis IPSAS when they adopt IPSAS.
- The majority of the charities plan to use the in-house expertise to adopt IPSAS. Few will use domestic consultancy and one would use a foreign consultancy.
- The majority of the foreign charities think it is not feasible to finalize the adoption within the set deadline.
- The majority of the foreign charities would reconcile by using both their headquarters' standard as well as that of IPSAS if the standard their headquarters requires them to follow were different from that of IPSAS. Few of the charities claimed that they would totally convert their accounting standard to IPSAS.
- The three key concerns of charities in Ethiopia due to the envisaged adoption of IPSAS are: increase of cost, additional financial information system and tension due to conflicting standard between headquarters and IPSAS. In addition, revision from both sides were also expected by the charities.
- The most important benefits of IPSAS envisaged by the foreign charities are understandability, internal control and financial transparency and the three main envisaged challenges were: few experience in adopting and implementing IPSAS; lack of proper guidelines from regulatory bodies on the adoption process and increase administrative, compliance or other costs.
- It was found out that, it is impossible to conclude that respondents were inclined neither towards benefits nor to the challenges. In general, they showed moderate agreement for both benefits and challenges even though literature highly stress the benefits of IPSAS.

5.2. Conclusions

This study assessed the envisaged benefits and challenges of adopting IPSAS in foreign charities operating in Ethiopia. Based on the findings, it is concluded that the adoption of IPSAS in the expected deadline is not feasible. The foreign charities are using their own

national accounting standard to prepare financial statement as required by their respective headquarters. Accounting practices resulting from different standards which do not synchronize fully will require the foreign charities either converge to or use IPSAS alongside their own standard to respect the law of the land and also the law of their origin of country.

IPSAS adoption is a multifaceted change management process and requires coordinated plan and massive sensitization to those who should adopt it. This has not been accomplished so far from both the foreign charities' and also from the regulatory bodies' sides.

IPSAS presents several benefits, transparency and accountability being the main ones. This will heighten the general public, funders', regulators' and stakeholders' faith and confidence on foreign charities. In addition to these benefits: enhanced internal control, comparability, understandability and credibility leads to better resource management, better interpretation and acceptability of the financial report by the concerned bodies. This does not mean that IPSAS is free from challenges. Few experience in adopting and implementing IPSAS; scarcity of highly qualified professionals and trained human resources; lack of proper guidelines from regulatory bodies on the adoption process and increase administrative, compliance or other costs are the key challenges of IPSAS adoption in Ethiopia. These benefits and challenges are supported by literatures and also in this study. IPSAS is a new concept in Ethiopia and having the required technical expertise to apply and decipher IPSAS and exercise appropriate financial control is essential. The foreign charities agree on the identification of the benefits with literature. Despite the acknowledged benefits of IPSAS in the literature, the foreign charities in Ethiopia do not seem to endorse that the benefits of IPSAS outweigh its challenges in this study. This may be due to foreign charities lack of knowledge or lack of awareness regarding what might happen during IPSAS adoption as they have not started adoption yet. Therefore, adoption of IPSAS by the foreign charities in Ethiopia is not because the benefits outweigh the challenge but because it is a mandatory requirement by the government.

5.3. Recommendations

Based on the conclusions drawn from the study, the following recommendations are made to facilitate smooth adoption of IPSAS:

The government should

- revise the timeframe of adoption considering the level of readiness by the foreign charities and also give the necessary technical support to the foreign charities require.
- develop and communicate a regulatory framework (directives and regulations) which support IPSAS adoption and implementation.
- raise awareness of the foreign charities by organizing workshops, communication materials and the like on the existence of the proclamation, the benefits and challenges of adopting IPSAS and the possible effect of conversion to facilitate the adoption process and ease resistance.
- facilitate availability of training materials and facilities on IPSAS transition and implementation issues for accounting and finance professionals.

The charities should

- be proactive in being well informed of laws, regulations or any issues related to the sector not only at individual level but at organization level as the rule of the land governs.
- give due consideration about the adoption requirement and get fully engaged in for transition to IPSAS. The engagement should not only be for IPSAS but also whenever there is any conversion requirement.
- arrange and fund continually staff trainings to upgrade the staff's skill and build their capacity as there are regular updates of the existing IPSAS and also development of new ones. In addition, the foreign charities can collaborate to create a platform to fund and provide group trainings to their staff and at the same time bring expertise from abroad to train on the subject. This can be replicated whenever there is a new system or a change in the existing system.

5.4. Limitations of the Study

The study is limited to assess IPSAS adoption in foreign charities operating in Ethiopia before its implementation. It did not show the practical effects of IPSAS implementation. The effects will be seen in the years to come during implementation. What is more, the study was based on the study participants' point of view on IPSAS. The difference in perception among charities from the same country was also not studied.

Further study

A future study can be done to see the practical effects of IPSAS implementation on the foreign charities in the years to come. In addition to the perception of study participants, incorporating additional data could lead to a more exhaustive analysis and more robust conclusions about IPSAS adoption. And lastly, the difference in perception among charities from the same country can be studied.

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ANNEX – 1

SURVEY QUESTIONNAIRE

St. Mary's University, Department of Accounting and Finance

Addis Ababa, December 2016

Dear respondent,

Ethiopia plans to adopt the international public sector accounting standards as of July 2017, but some challenges and benefits of this new standard on foreign charities needs to be identified.

This research entitled “*Assessment of the Perception of Foreign Charities in Addis Ababa on the Benefits and Challenges of Adopting International Public Sector Accounting Standards (IPSAS) in Ethiopia*” is to be conducted by Mrs. Meseker Woldehawariat, for the partial fulfillment of the MBA.

The target respondents of these questionnaires are heads of financial departments in selected foreign charities. Please give due attention to respond. The response you give is considered to be the reflection of your organization's position.

Respondents will not be identified either by name or position. Your feedback will be treated as confidential at any stage of the research and it will be used purely for academic purpose.

I thank you for your valuable response, time and support. Please do not hesitate to contact the researcher, if you require further information about the research or have any question about the items in this questionnaire.

Yours sincerely;

Meseker Woldehawariat

Email: misikirw@yahoo.com

Tel. +251 911157721

INSTRUCTION: PLEASE TICK IN THE BOX FOR YOUR CHOICE

PART ONE – Respondents’ Information

1. Your Position in the organization (if the position name is different from below consider the equivalent)
Finance Head Deputy Finance Head Other _____
2. Educational Background
Diploma BA/BSC Degree MSc/MBA/MA Other _____
3. How long have you been working on charities financial management?
Less than 5 Years 5-10 Years 10-15 Years 15-20 Years Over 20 Years
4. Name of the organization you are working _____
5. What is your organization Headquarters’ country of origin (where is it incorporated)?

PART TWO – Current Accounting Practice

FOR QUESTIONS #6, #11, #13 and #14 YOU CAN SELECT MORE THAN ONE CHOICE

6. What is your organization’s main source of funding?
Organization’s own fund Individuals Foreign Government (like embassies)
International donors United Nations (UN) Agencies Other _____
7. Who issued the accounting reporting framework your organization is currently using to prepare financial reports?
National Standard Setting Board of the Country which the organization is incorporated
International Accounting Standard Board (IASB) for IFRS
International Public Sector Accounting Standard Board (IPSASB) for IPSAS
Other _____
8. Which accounting standard does your Headquarters (HQ) follow currently?
National GAAP of the country which the organization is incorporated (US GAAP, etc.)
Specific accounting standards applicable to charities in the country of origin
International Financial Reporting Standards (IFRS) applied in full
IFRS with reduced disclosures
International Public Sector Accounting Standards (IPSAS)
Other, please specify _____
9. Does your Ethiopia office follow the same accounting standard as your Headquarters?
Yes, it is mandatory to follow Yes, but it is not mandatory to follow
No
10. Which basis of accounting does your organization follow currently?
Cash basis Modified cash basis Accrual basis Other: _____

11. To whom your organization is supposed to provide financial statement?
 Headquarters Donors Ethiopian Government
 Other (please specify): _____
12. Are you preparing the same or different financial statements tailored to meet each of the above institutions' needs?
 Same to all Tailored to the need of each entity
13. If your answer to question # 12 is "same to all", what more is expected from your organization?
 Disclosure or notes as required by the accounting framework
 Other, please specify _____
14. If your answer to question # 12 is "Tailored to the need of each entity", what challenge does your organization face in producing separate statements/reports?
 Require more Human Resource Require more time
 Require more Information Technology system Other, please specify _____

PART THREE: Awareness and Preparedness in Adopting IPSAS

FOR QUESTIONS #16, 17, 21, 22, 26, 27, 29, 31 & 32 YOU CAN SELECT MORE THAN ONE CHOICE

15. Is your organization aware of proclamation No. 847/2014 dated December 5, 2014 about IPSAS adoption for public sector as of fiscal year 2017? Yes
 No
16. If your answer is "Yes", how did your organization come to be aware of the proclamation? Media Formal Education Seminar or Training
 Self-reading Other _____
17. If your answer is "No", what do you think is the reason for not being aware?
 It is not well publicized It does not concern us I don't know
 Other _____
18. Do you believe that there is a need for specific accounting standard for charities?
 Yes No I don't know
19. Do you think IPSAS is well-suited for charities /address specific issues of charities?
 Yes No I don't know
20. Is your organization ready to adopt and implement IPSAS in your accounting system?
 Yes No
21. If "Yes", why? (You can select more than one choice)
 Obligatory requirement by government It is in line with existing practice in HQ
 Better accounting quality (High-quality standards) Donor pressure
 Goes in line with the existing practice by the organization

Other, please specify _____

22. If “**No**”, why? (You can select more than one choice)

We don't know that we need to start adopting it

We don't have the required resources (HR, IT and time)

It is not compatible with the system at HQ

Other, please specify _____

23. Which basis of IPSAS are you going to adopt?

Cash Basis Accrual Basis

Please give your reason for choosing _____

24. If you had a choice would your organization chose otherwise?

Yes No I don't know

25. Have your organization already started preparing for adoption?

Yes No

26. If “**Yes**”, what preparatory works have you done so far?

Developed a plan Started reviewing policies and procedures

Started analyzing existing information systems for compatibility and synergy with IPSAS requirements Started training staff

Other, please specify _____

27. If “**No**”, what is the reason?

Waiting for action from higher officials

Difficulty in understanding how to adopt IPSAS

Lack of regulation on how to adopt and implement IPSAS

Other Specify _____

28. Does your organization use in-house (either in country or from HQ) expertise for the adoption of IPSAS? Yes No

29. Does your organization use consultancy for the adoption of IPSAS?

A domestic consultant/consultancy A foreign consultant/consultancy

No

30. Do you think it is feasible to finalize the adoption process within the set deadline?

Yes No

31. If the standard your Headquarters requires you to follow is different from that of IPSAS, how you are going to deal with it? (*Please also give due attention to the subsequent question*)

Keep on following that of the HQ

Follow IPSAS as in the proclamation

Follow both standards in parallel

32. What do you expect will be the consequence of your choice in question #31?
- Sanction even threat of closure from the government as a result of noncompliance
 - Threat of closure from the Headquarters as a result of noncompliance
 - Revision of the proclamation to address such cases
 - Revision from the Headquarters to consider adoption
 - Increase of cost
 - Additional Human Resource
 - Additional Financial Information System
 - Tension due to conflicting standard between Headquarters and IPSAS
 - No consequence

PART FOUR: Envisaged Benefits from the Adoption of IPSAS

The scale below will be applicable as a five-point scale ranging from “Strongly Agree”, “Agree” “Neither Agree Nor Disagree”, “Disagree” and “Strongly Disagree” as represented as follows; 5 = Strongly Agree 4 = Agree 3 = Neither Agree nor Disagree 2 = Disagree 1 = Strongly Disagree

Please tick in one of the boxes

The adoption of IPSAS	5	4	3	2	1
Enhance accountability of charities towards all stakeholders					
Enhance financial transparency of charities (e.g. in terms of quantity, quality and more financial transactions).					
Enhance the comparability of financial reports over time and over different organizations.					
Facilitate the consolidation of financial statements.					
Improves understandability of financial statement.					
Bring about high quality financial statements.					
Improves credibility of financial statement (acceptance of the report by the report receiving entities).					
Provides alignment with best accounting practices.					
Promotes standardization, harmonization & consistency.					
Increases funding opportunity from international organizations like UN due to increased transparency.					
Results in better management of financial resources.					
Improve the stewardship of assets and liabilities (gives better information about assets, liabilities and improved management of commitments, risks and uncertainties)					
Improves overall management and planning (better accounting practices for income and expenditure)					
Provides better information for management to make a decision and forecasting.					

(e.g clearer picture of liabilities, future asset and cash-flow needs).					
Strengthen internal control mechanisms (e.g. proper tracking and recording mechanisms to ensure that the asset is properly managed and depreciated over its useful life).					
Facilitate to be in line with Charities and Societies Agency (ChSA) requirements					
The benefits of adopting IPSAS justify its implementation costs.					

PART FIVE: Envisaged Challenges to be faced in the Adoption of IPSAS

5 = Strongly Agree 4 = Agree 3 = Neither Agree nor Disagree 2 = Disagree 1 = Strongly Disagree

Please tick in one of the boxes

	5	4	3	2	1
IPSAS is rather unknown in Ethiopia					
Resistance to changes by adopters and implementers					
Lack or shortage of the necessary internal technical expertise on IPSAS in the organization					
Lack or shortage of the necessary technical expertise on IPSAS in the country					
Few experience in adopting and implementing IPSAS.					
Lack of proper guidelines from regulatory bodies on the adoption process.					
Lack of full understanding of the issues involved.					
IPSAS is difficult or cumbersome.					
Some charities accounting issues are not addressed in IPSAS.					
Problem of using fair value in comparison to historical cost method in evaluating assets.					
Problem of transitioning from recording/registration under the cash/modified cash basis to the accrual basis					
Problem of presenting budget Information in Financial Statements					
Increase administrative, compliance or other costs (IT developments, costs for additional staff, training, advisory services, external audit, additional expertise/valuation)					
Uncertainties over re-configuration of the business processes					
Conflicting requirement between IPSAS and ChSA (e.g. asset definition, operational and admin cost presentation, etc.)					
Require additional reporting standard to produce report as per ChSA requirement					
Requires additional resource to be in line with different standards/expectations imposed by HQ, donors, ChSA and IPSAS					
IPSAS allows both cash & accrual basis of accounting. According to the choice an organization make in a specific year, the admin cost to be reported under the 70/30 classification could increase					
The cost of adopting IPSAS is too high compared to the benefits that will be enjoyed.					