



**ADDIS ABABA UNIVERSITY**

**COLLEGE OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**EFFECTS OF IMPLEMENTATION OF IPSAS ON THE QUALITY  
OF FINANCIAL REPORTS OF NGOS OPERATING IN ETHIOPIA**

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## DECLARATION

I, the undersigned affirm that this study entitled “**Effects of Implementation of IPSAS on the quality of Financial reports of NGOs operating in Ethiopia**” is my own original work. This study has not been submitted for any degree program in this or any other institutions and that all sources of materials used for this thesis have been dully acknowledged. I have undertaken the research work independently with the guidance of my research advisor.

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## **CERTIFICATION**

This is to certify that Bulcha Tasissa Negari has carried out this research work on the topic *“Effects of implementation of IPSAS on the quality of Financial Reports of NGOs operating in Ethiopia”* under my supervision. This research is his original work and has not been presented for a degree in any University, which all sources of materials used for the study have been fully acknowledged. Thus it is sufficient for submission for the partial fulfilment of the requirements for the award of Master of Science in Accounting and Finance.

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**ADDIS ABABA UNIVERSITY**

**COLLEGE OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**MASTERS OF SCIENCE PROGRAM**

**EFFECTS OF IMPLEMENTATION OF IPSAS ON THE QUALITY  
OF FINANCIAL REPORTS OF NGOS OPERATING IN ETHIOPIA**

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# **LIST OF ABBREVIATIONS & ACRONYMS**

- AABE - Accounting and Auding Board of Ethiopia.
- ACSO - Agency of Civil Societies Organization.
- ASB - Auditing Standards Board.
- AU - Africa Union.
- CF - Conceptual Framework.
- EU - European Union.
- FASB - Financial Accounting Standards Board.
- GPFR - General Purpose Financial Reporting.
- IASB - International Accounting Standards Board.
- IFAC - International Federation of Accountants.
- IFRS - International Financial Reporting Standards.
- IMF - International monetary Funds.
- IPSASB - International Public Sectors Accounting Standards Board
- IPSAS - International Public Sectors Accounting Standards.
- NGO - Non-governmental Organization
- NPO - Non- for profit Organization.
- SCF - Statement of Cashflow.
- SEC - Securities and Exchange Commission,
- SFP - Statement of Financial Position.
- SOCE - Statement of Changes in Equity.
- SOCI - Statement of Comprehensive Income.
- UN - United Nations.
- WB - World Bank
- FDRE- Federal Democratic Republic of Ethiopia

## ABSTRACT

*The increasing need for accountability and transparency in financial reports in today's public sectors and in other non-profit making organizations' has driven accounting standards into a new era of development. The outcome was the heightened pressure for harmonized accounting standards to enhance quality of financial information for its decision-usefulness. Implementing standards that embody such quality is not only important but also seen as an imperative in some jurisdictions. Following the publication of Financial Reporting Proclamation No. 847/2014 and related regulation in Ethiopia directing NGOs operating in the country to prepare and present their annual financial report on the basis of the standards, most of them have demonstrated their compliance to the regulation. Nevertheless, little effort is made to know the extent to which the desired quality is being achieved. The study aimed at ascertaining the quality differences between IPSAS based audited financial reports vs the old standard based audited financial reports of the NGOs. The study used descriptive design, and secondary data were collected from the sampled NGOs. Non-probability convenience sampling procedure was employed. The study used 5-points Likert scale to measure data collected on the primary qualitative characteristics(relevance and faithful representation) and on enhancing qualitative characteristics(understandability, comparability, and timeliness) to help assess qualities of the reports. The study used descriptive statistics and paired-sample t-test procedures to analyse the data and assess the statistical significance of the differences. STATA software is used in processing the data. Tables and appendices are used to present the data. The study results revealed that, when considered separately, relevance, faithful representation, comparability and timeliness of the financial reports are significantly improved due to application of IPSAS. However, quality difference on understandability, though showed positive change, is not statistically significant. However, overall quality of financial reports based on IPSAS showed significant improvement compared to those of the Old-standards. Thus, adoption of IPSAS provides more decision useful financial information. Yet, for the NGOS to effectively realize the maximum benefits from implementation of IPSAS , much effort need to be exerted by all stakeholders which in turn needs efficient coordination by the regulatory body.*

**Key words: Quality of Financial reports, NGOs, International Public Sector Accounting Standards(IPSAS).**

# **CHAPTER ONE: INTRODUCTION**

## **1.0. Introduction**

The report has four chapters. Chapter one is the introduction section, mainly focusing on the study background, statement of the research problem, questions that are to be answered in the study, objectives of the research study, what significance of the study is, variables and hypotheses, the study's scope and limitations. Chapter two looks at the theoretical and empirical evidence and literature framing the study, and the third chapter discusses the methodology and methods used to carry out the research. Chapter four deals with presentation, analysis and discussion of the results of the study, and Chapter five focuses on the summary of results, conclusion drawn on the basis of the findings, and recommendations.

## **1.1. Background of the Study**

Robert (2013) mentioned, “the recent global financial crisis and the severe fiscal challenges being experienced by many governments have initiated the need for governments to transparently report all their assets and liabilities.” The argument is that transparency and accountability are the main motives that called reforms in the financial management system of public sectors in most jurisdictions across the globe. Adamu (2008) claims, “the introduction of IPSAS formed an important part of public sector reforms, is a flagship of the global revolution in government accounting, and is in response to calls for greater government financial accountability and transparency.” The idea is that IPSAS is the turning point for the public sectors reforms in the financial management system of the sectors.

### **1.1.1. International public-Sector Accounting Standards(IPSAS)**

According to IASB conceptual framework (2010), globalization came up with dramatic change in different human activities, and thus it inevitably influences the accounting sector, and this has had effects on national accounting standards' harmonization with international standards. David(2003) claims, “IPSAS is a global revolution in government accounting.” This means the standards are set of systems that are applicable globally, rather than being designed to a particular

nation or region needs. An element of globalization is the development of cross- boundary capital markets that necessitated needs for financial information produced on the basis of a uniform accounting systems across the globe. Carolyn, Cordery, & Kevin(2015) argue, “One of the most significant changes in recent world history is the globalization of financial markets, which ended borders and compressed space. Ademola(2019) claims, “globalization has also enhanced the networking of activities related to economy and social issues among different countries around the world, particularly, it represents high degree of trades across boundaries, extended flows of capital and direct investments from foreign countries, which is complemented by fast loosening of government controls, and enhancements in technologies for information processing.”

According to IPSAS text Vol.1(2018), IPSAS based financial reports have significant role to play to both the reporting entity, and to the external users of the information because they provide information on the overall financial operations of the organization, and the information presented by the report enables the users to get useful information for decision making as to their current holdings, and future possible investment. Peggy, Hannes, & Tim(2014) argue, “IPSAS aims to significantly improve the quality of financial information for a wide range of stakeholders to improve economic decision-making regarding the allocation of resources, ensure more transparency in economic information, and increase the accountability of decision-makers.”

Literatures indicate that accuracy and quality of financial information increases when IPSAS are used for recording and reporting on the financial operations of entities. IFAC(2017) says, “IPSAS are highly rated worldwide accrual-based accounting standards that create qualitative and accurate financial information that enhances accountability and equally builds trust with citizens.” Ndum(2021) states, “IPSAS implementation guarantees tremendous operations of finance by increasing the degree of transparency and accountability.” Definitions of IPSAS are given in various literatures. IASB CFW(2018), defines “IPSAS consists of a set of financial reporting norms that public sectors entities apply in preparing their general purpose financial reports(GPFR) and is basically derived from International Financial Reporting Standards which are applicable by profit-making Organizations.” Sabrina(2014) states, “A separate set of tailored standards (IPSAS) is needed because the conceptual framework for private companies is incompatible with public sector entities.” Adamu( 2008) and Geoffrey(2010) mentioned that, “Standardized financial

reporting across the globe is believed to bring a significant improvement in the relevance of the information and comparability of the financial statements, establish accountability, enhance capital markets, and contribute to the development of the accounting profession. The increased accountability has led many governments and NGOs around the world to adopt IPSAS.”

### **1.1.2. Qualitative Characteristics of Financial reports**

The fact that financial information presented in the financial reports are useful for decision making purpose is documented in the literatures. According to IASB Conceptual framework(2018), for financial information to achieve its decision usefulness, needs to possess considerable degree of quality. Sónia, Silva, Susana, & Faustino (2017) state “local leaders’ capacity to take appropriate decisions is affected by the quality of information, which must be adequate, appropriate, up-to-date, accurate, and accessible.” The argument is that the governmental sectors systems of internal control have main objectives of confirming uniformity in the reporting of financial operations with rules and norms of the standards, thereby enhancing the transparency and responsibility in managing the use of resources entrusted by the public. IASB CFW(2010) claims, “all statements prepared in accordance with IPSAS must fairly present the financial position, financial performance, and cash flows of an entity, and in order to meet this requirement, a public-sector entities must first observe the general qualitative characteristics of financial reporting; such qualitative characteristics of financial reporting are fundamental principles for preparing financial statements in accordance with IPSAS.” Williams(2016) says, “the five principal qualitative characteristics are understandability, relevance, reliability, timeliness, and comparability.”

### **1.1.3. IPSAS and Quality of Financial Reports**

The fact that implementation of IPSAS enhances the quality of financial reports is well documented. Robert(2013) indicates, “If accounting reports are not prepared following the standards, then the meaning of comparisons between performance in different time periods and between entities is virtually impossible; the basic economic function of accounting standards is to provide confirmation as to how about trade deals are important to be taken up or not.” Mary (2006) says, “improvement in the quality of accounting will be brought by exclusion of alternative

systems that do not represent much an organization's financial operations, and which are used in managing earning by managers.”

Literatures also indicate that the benefits that application of IPSAS for financial reporting can bring to the quality of financial information of government sectors, and private non-profit making organizations. Luzi(2021) argues, “the importance of financial reporting standards are manifested in that the accounting numbers defined objectively, and they form basis for organization's contractual entitlements; better economic policy making are supported through improvement in transparency, and this in turn leads to governance improvement; financial reporting standards help to reduce confusing variations in the methods used to prepare financial statements; reporting standards motivate reporting entities to disclose critical issues in the financial statements that will lead to a better understanding of the financial information than that the reporting entities would otherwise be willing to do.” William(2016) claims “financial reporting standards enhance the comparability of financial statements among firms, force management to be disciplined, and bring credibility to the accounting profession.”

#### **1.1.4. Financial reporting of NGOs in Ethiopia**

In line with the Federal Democratic Republic of Ethiopia Negrit Cazetta, 20th year No.52, proclamation No 847/2014 and associated Council of Minsters regulation 332/2014, AABE governed IPSAS adoption process which took significant portion of time and financial budget of NGOs operating in the Country to ensure their compliance with the regulatory requirement. AABE's IFRS & IPSAS adoption roadmap(2017) indicates, “IPSAS are a single set of accounting standards which specify how certain transactions and other events should be reported in the financial statements; the roadmap also states the main purpose of these standards is to maintain stability and transparency throughout financial reports of the Country.”

The motive for centralizing and regulating the financial reporting system in Ethiopia is stated in those important documents including financial reporting proclamation, and the agency's road map for implementation of IFRS and IPSAS. According to AABE Road map(2017), the primary objective of the guidelines is to ensure promotion of transparency in the financial sector. FDRE financial reporting Proclamation No.847/2014(2014) indicated that: “IFRS and IPSAS must be

adopted in Ethiopia in order to create a reliable, intelligible, and appropriate financial reporting system for both the public and commercial sectors, increasing openness and accountability by centralizing the financial reporting system.”

Importance of social and economic contribution of NGO operations in Ethiopia is documented. Jalale(2018) claims, “ Charities in Ethiopia play an important role as change agents for social and economic development and, high quality financial reporting helps the NGOs to offer adequate accountability for the resources entrusted to them as stewardship. Good financial reporting addresses needs for information, reducing possibility of fraudulent actions, efficient use of funds granted by donors, establish uniformity among financial reports, increase confidences of fund providers(donors), and ensure sustainability of funding stream, thus the ultimate beneficiaries will be able to receive improved services” Jalale(2018).

## **1.2. Problem Statement**

Literatures show that IPSAS, as a system that underly high quality financial information for public sector entities gained attention of international level regulations. IPSAS Text Vol.1(2018), states, “IFAC , following its establishment in 1977, had a mission titled serve the public interest, which mandated the IPSASB to develop high quality international public sector accounting standards(IPSAS), and promote their implementation across the globe; the General purpose financial reports(GPFRs) include qualitative characteristics of financial information; qualitative characteristics are the attributes that make the information useful to users and support the achievement of the objectives of financial reporting.” The view is that those users of the general purpose financial reports(GPFR) need information that is useful for decision making purposes, and information provided in the financial report reflects discharging by management of their accountability to disclose about how resources entrusted to them are managed and used in accomplishing the organization’s objectives, and is useful information to evaluate whether that activities of the organization are sustainably be carried out to ensure long-term continuity of services.

The fact that NGOs using high-quality financial reporting systems in preparing and presenting their financial reports is in same way strategically positioning themselves in a good posture is

documented. Karanja & Karuti (2014) says, “financial sustainability is a measure of non-governmental organizations' (NGOs') self-sufficiency and determines the organization’s ability to meet all its resources and financial obligations.” Veronica and Paul(2018) mentioned, “financial monitoring and evaluation practices in non-governmental organizations with the aim of efficiently utilizing their resources are important to improve donor confidence on top of ensuring financial sustainability.” A study carried out by Ndum (2021) indicated that IPSAS implementation resulted in enhancing transparency, reducing corrupt actions, and establishing accountability in the public offices.

A study carried out on financial reporting and auditing practices in Ethiopia by world bank and International Monetary fund(2007) revealed that the Country lacks national accounting standards and uniform financial reporting practices. The study pointed out that Ethiopia, in spite of various reforms made in its economic policy, has weaknesses including lack of accounting standards in the Country. The report also indicated that many businesses run in the Country tended to use accounting provisions stipulated in the 1960’s commercial code of Ethiopia, proclamation No. 25/1992 of public enterprises, and proclamation 286/2000 of income taxes. The study also pinpointed that in none of these regulations is clearly indicated what sort of accounting standards are applied for financial reporting.

Consequently, the financial reporting proclamation No. 847/2014 and related regulation 332/2014 of Ethiopia came into existence on the premise that it is necessary to establish financial reporting infrastructure suitable to both private and public sector organizations in the Country. According to this proclamation, the regulatory framework is applicable to all entities established in Ethiopia and/or operating in Ethiopia. Accounting and Auditing Board of Ethiopia’s(AABE’s) establishment is based on the Council of ministers’ regulation No. 32/2014. According to the regulation, AABE, hitherto had been a body representing the government of Ethiopia to regulate matters of financial reporting and auditing issues in the Country.

According to AABE roadmap(2017), Ethiopia chose to follow the full adoption approach of the International Financial reporting standards(IFRS) for profit making organizations, and the International Public sector Accounting standards(IPSAS) for public sectors and NGOs in preparing and presenting their annual financial reports; and the schedule developed by the regulatory body

indicates that Charities, and NGOs operating in Ethiopia to commence adoption of the IPSAS from July 2018.

By now, it is obvious that many NGOs operating in Ethiopia have already gone-through implementing the Standards to report annually audited regulatory financial report to AABE. An important question associated with implementation of the IPSAS however, is whether the quality of information that the reports brought to the users of the information has shown improvement, and if it is found be showing improvement, to asses to what extent it is showing the improvement in adding value to the decision-usefulness.

Saron, & Sabela, (2021); Meseker(2017) conducted assessments of challenges and benefits of adopting and implementing IPSAS on selected NGOs in Ethiopia. Both studies revealed that there are improvements in the accountability, transparency, credibility of information provided by the financial reports. The studies however, did not consider the improvement in the quality of the financial information from the perspective of attributes that enhance the quality of the General Purpose Financial reports (GPFR) that IPSAS text (2018) defines. Rather, the focus of the study was on the aspect of financial report quality framework's significance in contributing to the benefits of transparency, accountability and credibility embedded in implementing the standards for financial reporting.

Literatures are documented about the attributes that enhance the quality of financial reports for decision usefulness of the financial information produced by the IPSAS. IASB CFW(2010) says, "qualitative characteristics of a general purpose financial report (GPFR) are the conceptual quality assessment framework to gauge how improvements in the quality of the information are being provided to users of the information through IPSAS based financial reports; the comprehensive multiple-item quality index used by Geert and Ferdy (2013) in their previous research is a tool that was very effective in capturing the data form the source."

In addition to differences in the study objectives and research questions of those few studies carried out in Ethiopia in relation to IPSAS, data measurement tools used to capture the study data in regards with the qualitative characteristics of the financial reports are also different from the one used in this study. Thus, the gap in identifying and assessing financial reports quality from the perspective of the preparers and presenters of the financial reports, as well as the regulators of the

financial reports as to the real improvement observed due to implementation of IPSAS in NGO sector operating in the Country is the driving force for the researcher to come with this issue. Therefore, the researcher intends to close the gap by ascertaining the effects of implementing IPSAS on the quality of financial reports of IPSAS implementor NGOs operating in Ethiopia through comparison of their IPSAS-based audited financial reports vs the Old standard based audited financial reports.

### **1.3. Research questions**

1. Has IPSAS implementation improved the quality of financial information of the NGOs implementing the standards compared to the reports under the old standards in Ethiopia ?
2. Has the information carried in the financial reports of IPSAS implementor NGOs operating in Ethiopia more relevance for decision making ?
3. Has the information carried in the financial reports of IPSAS implementor NGOs operating in Ethiopia more faithfulness in representing the transactions and events underlying the financial reports ?
4. Has the information carried in the financial reports of IPSAS implementor NGOs operating in Ethiopia more understandability for readers and users of the financial reports ?
5. Has the information carried in the financial reports of IPSAS implementor NGOs operating in Ethiopia more comparability between results of the same entity over different periods, or between results of different entities in the same period ?
6. Has the information carried in the financial reports of IPSAS implementor NGOs operating in Ethiopia more timeliness so as to provide useful information for decision making ?

## **1.4. Study objectives**

### **1.4.1. Overall objective**

To assess the effects of implementation of IPSAS on the quality of financial reports of NGOs operating in Ethiopia, who implemented the standards in preparing and presenting their annual financial reports in comparison to their financial reports prepared and presented under the OLD standards.

### **1.4.2. Specific objectives:**

1. To assess whether information contained in IPSAS-based financial reports of NGOs in Ethiopia has more relevance for decision-making.
2. To assess whether information contained in IPSAS-based financial reports of NGOs in Ethiopia has more faithfulness in representing real economic phenomena for decision-making.
3. To assess whether information contained in IPSAS-based financial reports of NGOs in Ethiopia has more understandability for readers and users of the information for decision-making.
4. To assess whether information contained in IPSAS-based financial reports of NGOs in Ethiopia has more comparability to help readers and decision-makers identify similarities and differences among the items in the reports.
5. To assess whether information contained in IPSAS-based financial reports of NGOs in Ethiopia has more timeliness for decision-making.

## **1.5. Variables and hypotheses**

Uma and Roger(2010) state, “variable is anything that can take on differing or varying values; meaning values of variables can differ for the same object or persons at various times, and for different objects or persons at the same time; variables can be classified as independent or dependent: an independent variable is one that influences the dependent variable in either positive or negative ways, the dependent variable is the variable of primary interest to the researcher; the researcher’s goal is to describe and explain the dependent variable, explain its variability, or predict it.” In this study, the independent variables are relevance, faithful representation, understandability, comparability and timeliness, while the dependent variable is the quality of information in the financial reports in its decision-usefulness terms.

Kothari(2004) mentioned that: “hypothesis as a proposition or a set of propositions set forth as an explanation for the occurrence of some specified group of phenomena, either asserted merely as a provisional conjecture to guide some investigation or accepted as highly probable in the light of established facts.”

### **1.5.1. Relevance**

The IASB conceptual framework(2010) observes that the predictive value or the confirmatory values of financial information for decision making or both emanates from the relevance aspect of that information. This is to say, if financial information is relevant, it is capable of making difference in the economic decisions made by users of the information.

*Hypothesis 1:* Relevance of financial information under IPSAS is more positively & significantly correlated with the quality of financial reporting.

### **1.5.2. Faithful representation**

ISAB CFW(2010), argues, “Information must be complete, neutral, and free from error. Financial reports represent economic phenomena in words and numbers. To be useful, financial information must not only represent relevant phenomena but also faithfully represent the phenomena that it purports to represent.”

**Hypothesis 2:** Faithful representation of financial information under IPSAS is more positively & significantly correlated with the quality of financial reporting.

### **1.5.3. Comparability**

The IASB conceptual framework (2010) states the definition of comparability as the attributes that contribute to the ability of users of the financial information to comprehend similarities and differences among items in the financial reports. This is to mean information about the operating results and financial position of the reporting entity tend to be more useful when it can be compared with similar information of the same entity over periods, or with that of other entities for the same period.

*Hypothesis 3:* Financial information's comparability of IPSAS based financial report is positively & significantly correlated to the quality of financial reporting for decision usefulness.

### **1.5.4. Timeliness**

According to IASB's Conceptual Framework (2010), usefulness of information is reduced if it is not reported in time. The framework says a balance should be maintained between the timeliness and reliability of financial information. The argument is that if information is reported in time while not all aspects of the relevant transactions are not known, there is a probability that it would be incomplete, or not free from error. Conversely, if detail information about every aspect of the transaction is known, publishing the information may be already too late and it becomes irrelevant. The superseding consideration therefore, is to focus on how best to meet the needs of the users of the information for economic decision making.

*Hypothesis 4:* The timeliness of financial reporting under IPSAS is positively & significantly correlated to the quality of the financial reporting.

### **1.5.5. Understandability**

The IASB conceptual framework(2010) argues that financial reports are prepared for users who have reasonable knowledge of organization's operations and economic activities, who review and analyze the information diligently. However, there may be cases when there are events which are

characteristically difficult and cannot easily be understood. Ignoring such information might make it understandable. However, without it, the reports tend to be incomplete and thus would be misleading. For this reason, issues should not be avoided from the financial statements just due to their complexity. This is so because, knowledgeable and diligent users, even, seldom tend to need support from consultants or advisors to comprehend information related to complex transactions and phenomena.

**Hypothesis 5:** Understandability of financial reports under IPSAS is more positively & significantly correlated to the financial reporting quality.

**Hypothesis 0 :** No significant differences between the means of populations of IPSAS based audited financial reports and the OLD standard based audited financial reports pertaining to the qualitative characteristics of relevance of financial information; faithful representation of the transactions, events and situation of the reporting entities; understandability of the financial information; Comparability of information contained in the financial reports; and Timeliness in providing financial information to users.

**Hypothesis 6:** Overall quality of Financial information in the financial reports of NGOs operating in Ethiopia is positively and significantly correlated to implementation of IPSAS standards.

## **1.6. Significance of the study**

Literatures show that decision usefulness of information conveyed by the financial reports necessitates attributes that enhance the quality of that information. The attributes, to be effective in enhancing the quality of the information need to be systematically assessed. Obara, Chukwuma, Nangih, & Efeeloo (2017) argue, “the need for quality financial reporting increases due to the increased requirement for useful information for accountability and decision-making.” Related to this argument is that financial reporting quality is a broader concept covering not only financial aspect, but also non-financial aspect’s disclosure, and thus certain qualitative criteria are set against which the qualities of the information are evaluated so that it would be possible to avoid poor quality in achieving the very purpose of financial reporting. IASB CFW (2010) says “high quality is achieved by adhering to the objectives and qualitative characteristics of financial

reporting information; qualitative characteristics are the attributes that make the financial information useful to users of the information in making economic decisions.”

In the aftermath of a study report from the World Bank (2007) in relation to Ethiopia's financial report issues, the Ethiopian house of representatives enacted law for Financial Reporting (Proclamation No. 847/2014). The Council of Ministers Regulation following this event enacted the Financial reporting regulation(Regulation 332/2014). This put the Country in a new era of having a regulatory framework guiding the adoption and implementation of international financial reporting standards (IFRS) applicable to profit-making organizations, and International Public Sector Accounting Standards (IPSAS) applicable to public sectors, and NGOs operating in the country(AABE, 2017).

Williams(2016) states, “IPSAS are norms that govern the recognition, measurement, presentation, and disclosure requirements in relation to transactions and events in general purpose financial statements.” David(2003) mentioned, “due to the globalization of public sector and organizations' operations, the need for the development of unified accounting standards to ensure comparability of financial reports across countries has been the primary driver of IPSAS's usefulness as a financial reporting system for public sector entities.”

Though there is no evidence that Ethiopian government public sector entities, for which the IPSAS are ideally suitable, have adopted IPSAS to prepare and present their financial reports, the road map prepared by AABE (2017) clearly states that charities operating in the country are expected to adopt IPSAS and apply them to prepare and present their annual financial reports starting from July 2018.

Following the announcement of the roadmap, most charities and NGOs operating in the country were registered with the regulatory body (AABE) and started to adopt IPSAS as part of demonstrating their compliance with the regulatory requirement rather than observing the benefits that can be derived from adoption of the standards (Meseker, 2017). In parallel to the significance of adoption costs, including time, human resources, and financial budgets involved in installing the standards, the NGOs should also leverage the benefits that the standards embody. AABE, as a supervisory body, is also presumably interested in the benefits of the application of the IPSAS by NGOs in their financial reports. This is in terms of the added value that the quality of the

information can bring to the aid economy by providing useful financial information that contributes to supporting resource allocation and efficient utilization of scarce resources by the NGOs aid sector in the country.

This study thus is intended to provide report that would be of use both theoretically and practically to the relevant stakeholders. Theoretically, it contributes to the body of knowledge for the research community. Practically, it would provide useful information to the charities and NGOs operating in Ethiopia to properly understand the qualitative characteristics of financial information and thus potential benefits that the standards can bring to them, particularly in strengthening donor relationships as part of ensuring sustainable of funding to finance their operations. The research report would also contribute to supporting the regulatory body, AABE, in its effort in benefit realization through assessing and monitoring how effective the application of the standards by NGO sectors is in contributing to the improvement of quality of financial information, and ultimately adding value to the economic development of the Country.

## **1.7. Scope of the study**

Marilyn and Jim(2013) states,“ study scope is the parameters under which the study will operate. This implies study scope should reflect clarity as to what to be studied, which factors to be in the ranges accepted for the study. Scope needs to be as clear as possible about what will be studied and what factors are within the accepted range of the study” (Marilyn & Jim, 2013).

### **1.7.1. Conceptual scope**

To conduct the study, the researcher accomplished various tasks, including gathering two years audited financial reports(one prepared under IPSAS and the other under the old standards) from each of the sampled twenty IPSAS implementor NGOs. The study followed a quantitative approach to data gathering through a descriptive research design was used to rate data gathered through reviewing the financial reports. Data analysis would be carried out using descriptive statistics and paired t-tests using the STATA data analysis package. The results for both standards were compared to identify differences in quality levels that led to conclusions. The statistical significances of the differences were assessed using the paired T-test results.

The study, thus, assessed attributes contributing to the qualitative characteristics of financial reporting using 25-items of qualitative characteristics of financial reports( relevance=9, faithful representation= 5, understandability= 5, comparability= 5, and timeliness = 1). Secondary data were gathered by reviewing the audited financial reports of sampled NGOs from the NGOs population operating in Ethiopia. The gathered data were organized and measured using a 5-point Likert scale.

### **1.7.2. Time scope**

The research was conducted over the period of January- May 2023. Data were gathered from the month of March to mid of April 2023, and analysis of the gathered data was conducted in April 2023. Based on the results from the analysis, the first draft research report was prepared and presented for comment in May 2023. Feedback on the draft report was received in May 2023, and the final report incorporating the feedback was submitted in May 2023. The presentation of the research report is conducted in June 2023. IPSAS based financial reports included in this study are those audited ones from July 2018 to 2022, and the old-standards report included are those audited financial reports from 2016-2017, that were being submitted to ACSO annually in line with Proclamation NO. 621/2009.

### **1.7.3. Geographical scope**

The study focused on the NGOs operating in Ethiopia, whose main offices are based in the capital city, Addis Ababa. Though of their operations are conducted across the country, most of the NGOs' country-level head offices are based in the Capital. Therefore, the researcher considered those financial reports prepared centrally by the head offices of the sampled NGOs of which the financial reports were audited and signed by the external auditors.

## **1.8. Limitation of the study**

Given the unaccustomedness with the application of IPSAS standards in Ethiopia to prepare and present financial reports in general, and newness of adoption of the standards in NGOs sectors in particular, there was tendency of lower level awareness from the implementor NGOs about the benefits that implementation of the standards brings to their managerial decision making process,

and this somehow affected the data collection process. i.e., most NGOs found it difficult to understand the value that assessment on improvement in the quality of the financial information brought to them due to their implementation of IPSAS, and tended to be somehow reluctant to provide the requested data or report. On top this, internal rules on information confidentiality of some NGOs restricted them from providing their financial information disclosures to third parties. This is also one of the main reasons for lack of sector-specific comparative data.

In addition, IPSAS normally provides options to select alternative ways of treating measurement of some items in the financial reports, and the subjective judgments involved in accounting estimates are the issues that made difficult comparability between the reports of different entities. NGOs previous audited financial reports that are based on the old standards are not guided by a centrally regulated framework (World Bank, 2007). Different NGOs had followed different regulations that they considered suitable to their specific circumstances when preparing the old-standard based reports. This casted some doubt on the uniformity of the standards on which these OLD standards financial reports are based.

## **1.9. Organization of the report**

The next part of the report has four chapters. The second chapter discusses theoretical aspect of the study, literatures related to the study, industrial and organizational factors that affect IPSAS implementation, benefits of IPSAS implementation, and the study variables. Chapter three presents methodology/ approach of the research study, methods employed in data gathering , sampling procedure and sample size, techniques of data analysis of results of the study. Chapter four deals with presentation, analysis and discussion of the study result mainly focusing on tabulation, content analysis, paired sample t-test based variables level analysis and financial reports level analysis. The fifth chapter presents summary of the study results, conclusions drawn based on the study results, and suggests practical ways for improvement to the limitations identified during the study.

# **CHAPTER TWO: LITERATURE REVIEW**

## **2.0. Introduction**

According to IASB(2010), the crucial stage for tendency in increased uniformity of standards guiding preparation and presentation of financial reports to enhance comparability of the reports over periods of time for the same entity or for the same period with those of other entities is derived by globalization of operations. Some literatures show that development levels of nations influence types of information the users need, and this in turn, justifies disparity in the nature of the standards underlying the reports. Daniel & Karim(2006) state, “accounting information produced according to developed countries accounting systems is not relevant to the decision models of less-developed countries.” This study is framed by six theoretical concepts including stewardship theory, stakeholders theory, isomorphism theory, accounting theory, positive accounting theory and normative accounting theory. These are briefly discussed in the following sections.

## **2.1. Theoretical review**

A theoretical framework for research work is an opening review of existing theories that serve as roadmap for developing arguments, draw relations and make predictions. Existing theories that support the study are explained showing the paper is grounded in established ideas.

### **2.1.1 Stewardship theory**

Literatures indicate that donor relationship management need to be strategized by NGOs focusing on the achievement of providing the donor with accurate financial information on how the donations are managed and used. Richard, Denise, and Natalie(2013) say, “in order to develop favorable fundraising relationships with their donors, non-profit organizations should follow four strategies: reciprocity, responsibility, reporting, and relationship nurturing. Of the strategies, reporting is related to the process where non-profit making organizations provide their donor with accurate financial information that depicts how they used resources provided to them by the donors.” International NGO Journal (2011) indicates, “the more accurate and timely the financial

information provided to the donors, the greater the boost in the donors confidence in operations of the reporting NGO and their tendency to continue funding those operations.’’

### **2.1.2. Stakeholders theory**

The need to meet the interests of the stakeholders is the central idea that providers of financial information should give priority to is documented. Ushi, Mominul, & Aila(2021) state about stakeholder theory in the context of financial reporting in that the reports are used to present useful economic information that is needed by its users based on their interests. The argument is that the theory addresses disclosure in the context of fulfilling the needs for information and the models of disclosure required by the users. Donors use that financial information as a decision making factor as to whether to continue their funding relationship with the NGO or not (Ushi, Mominul, & Aila, 2021). IPSAS provides standards prescribing how to record and report financial information reflecting qualitative characteristics defined in the IASB framework(IASB CFW, 2010).

### **2.1.3. The isomorphism theory**

The theory of isomorphism is defined by Antwi(2010) saying, “the constraining process that forces one unit in a population to resemble other units facing the same set of environmental conditions. [This also indicated that the practical implication of the theory is that the features of an organization can be tailored to some extent for the sake of compatibility and uniformity to suit the surrounding environment of the organization in question(Antwi, 2010). The theory of isomorphism can be analyzed as follows: Coercive isomorphism, mimetic isomorphism, and normative isomorphism.

#### **2.1.3.1. Coercive Isomorphism**

According to Mueller, Gernon, and Meek(1994), influences from political pressures and conformity to the rule of law drives acceptance of new systems, and this may take a form of formal prescribed or unprescribed pressures levied on the entities by influential organizations up on which the entities survive, as well as the environment in which operations of the entities are run. In this sense, to a greater degree , the implementation of IPSAS by developing countries of the world is pushed by factors that are external to the entities. For instance, pressures from investors

from other countries, accounting firms that operate on international scales and international financial institutions (Mueller, Gernon, and Meek, 1994).

### **2.1.3.2. Mimetic Isomorphism theory**

Antwi(2010) says, “as such, uncertainty in the government and NGOs financial systems in managing their finances and their inability to match financial assets and liabilities in terms of amounts and timing might have necessitated the government and the NGOs to compete with other public entities that are more legitimate and successful.” Mimetic isomorphism theory is about universal reactions to ambiguity. That is, the level of ambiguity is the major issue that drives conformity to the extent that an organizations wishes to implement others systems that result in both effective and meaningful adoption of the systems(Antwi, 2010).

### **2.1.3.3. The normative Isomorphism theory**

Antwi(2010) argues, “normative isomorphism theory is attributable to professionalization, which is defined as the collective struggle of individuals of similar occupations organizing in a professional realm to promote an intellectual base, diffuse shared orientations and organizational practices, and legitimize their occupational autonomy. The argument is that professional bodies demonstrate the same characteristics to their counterparts in the same professional domain, to show replication among each other. And, those professional bodies tend to highly influence their counterparts. In view of this, either of those organizations may imitate the other as example where certain system is seen to work for them” (Antwi, 2010).

### **2.1.4. The theory of Accounting**

Franklin (2008) declares “the theory of accounting, as a dynamic process, is dealing with enhancing financial accounting and reporting from the perspective of general point. In essence, generally accepted accounting principles(GAAP) be used as part of avoiding irregularities that may occur. Meaning, the first criterion is to ensure the conformity of accounting with the basic truths on the basis that the economic system operates: at hand practices of the economy and business and the relevant law as stipulated in the legislative regulations or common law. As a result, it is crucial that consistency be maintained in the practices of accounting and reporting

process. This indicates the ever increasing degree and difficulty of the economic system is contemporarily requirement in the process of the adaptation in accounting and reporting that is effective to enable capturing information that is relevant to economic undertakings.’’ (Franklin, 2008).

### **2.1.5. Positive accounting theory**

According to Watts and Zimmerman(1990), positive accounting theory is concerned with accounting practice’s explanation. Its design is not to prescribe which method an organization should use, rather it explains and predicts which firms will not use a particular method. It focus is on how various individuals interact to provide resources to an organization, and accounting is used to assist in functioning those interactions.

The idea is that the basis of positive accounting is the central economics based assumption that self-interest is the diver of actions of individuals. These individuals are always acting in an opportunistic manner to the extent that their actions will result in increasing their wealth(Watts and Zimmerman, 1990).

### **2.1.6. Normative accounting theory**

Cardao(2023) states that normative accounting is an accounting theory that deals with differences between alternative accounting systems, and ways in which one system may be better than the other. The focus of those people who develop and use normative accounting theory is to strive to know the objectives of accounting in practice, compare between systems to identify the system that is better to meet those objectives. Normative accounting is more of prescriptive. The existence of value judgment is the essential feature of normative accounting

It tends to impose responsibility on accountants to determine what should be reported rather than what someone has requested to be reported. Its premise is that value is subjective to the user. The accounting treatment comes following identification of users of the accounts and their intent decisions(Cardao, 2023).

## **2.2. Determining factors of the quality of financial reports**

Literatures show that there are a number of sectorial and organizational factors that affect quality of financial report. For example, Helena & Ivana(2009) say, “at the industrial and institutional levels, the quality of financial statements is affected by many factors, including the incentives of managers and auditors, company characteristics, and the quality of accounting standards comprising generally accepted accounting principles selected by the jurisdiction, industry, or institution.”

### **2.2.1. Organizational characteristics and industry affiliation**

The two major organizational factors that affect quality of financial reports are documented to be the size of the organization and sectorial/industrial affiliation. Anthony(2008) states, “the two potential company characteristics largely affecting the quality of financial reports are industry affiliation and company size.” Stephen(2000) says, “when it comes to industry affiliation, the banking industry seems to have higher quality financial statements; and company size is widely proven to be closely related to timeliness and, consequently, to the quality of financial reporting. This is due to the fact that larger companies are commonly audited by big audit firms, which have more experience and resources ” (Stephen, 2000).

Evidences show that quantity of financial information required influences quality of the financial information. Adamu(2008) says “the quality of financial statements is significantly affected by the quantity of the information, which in this context refers to the number of financial analysts involved. The argument is that in the case the company is followed by a number of analysts, the quantity of information strongly influences the quality of the financial statements. This also indicates a small earnings surprise. Clearly, by having an increased quantity and quality of financial information, stock prices can adjust more quickly” (Adamu, 2008). Rezarta & Julian (2010) claim, “third parties’ lack of demand for financial information is one reason for low-quality financial statements, and a lack of professional experts and poor best practice incentives supported by authorities can lead to an absence of high-quality data.” In the case of Ethiopia, the fact that AABE’s guidelines requiring audited and confirmed financial reports be submitted to the agency supports this argument(Proclamation No. 847/2014).

### **2.2.2. Agency Costs**

There are sources indicating that the more the agency costs, the more the quality of information. Because, close monitoring necessitates requirement of information reflecting the entity's agency cost issues. Michael & William(1976) confirm, "the presence of agency costs gives rise to a demand for monitoring, and the information that the firm's financial statements provide may be used to mitigate agency costs. Highly leveraged firms have higher agency costs and thus a greater demand for monitoring. Therefore, reporting quality varies with a firm's capital structure. If the financial information provided in the firm's annual report is complementary to the monitoring information debt providers use, more leveraged firms will provide financial information of higher quality" (Michael & William, 1976).

### **2.2.3. Corporate Governance**

Mixed views are observed on quality of financial reports when it comes to various aspects of corporate governance. For instance, Nesrine (2011) indicates, "corporate governance and financial information quality have been connected in the past, and the subject is widely debated and researched. This noted that the characteristics of the board and the ownership decrease the quality of financial statements, but companies facing control from financial institutions or the state have better quality disclosures. Since the state and institutional investors are present on the boards, they have the possibility of guaranteeing the quality of reporting and the monitoring of management. On the other hand, the power of families affects the quality of reporting, indicating that they want to protect their wealth and make decisions that are based on their own personal goals" (Nesrine, 2011).

### **2.2.4. The international and national standards**

The international and national accounting standards are issues that deal with the quality of financial statements. Latrids(2010) and Barth et al, (2008) say, "there are two reasons that might worsen the positive impact of accounting standards. Firstly, they state that IAS could be to some extent of lower quality than national standards, e.g., when standards reduce management discretion, resulting in accounting measurements that do not reflect performance and financial position as

well as domestic standards. Secondly, the quality improvements arising from IAS could be offset by other characteristics of financial reporting systems other than standards'' (Latridis, 2010; Barth et al, 2008).

### **2.2.5. Complexity of Standards**

Sources indicate that the complexity of standards due to regulatory requirements is documented to be a factor that affects quality of information in a positive way as the organizations efforts increase to ensure their compliance to the requirements. However, this entails some practical challenges. For instance, Amy (2015) says, "as a result of security and exchange commission(SEC's) new filling requirements in 2003, the increased complexity of accounting and auditing standards has raised concerns about the auditor's and company's ability to meet the requirements while shortening lags. This was the point of introduction by SEC of a shorter filling time for the companies and the demand for the greater quality of financial reporting. The point is that the Sarbanes-Oxley Act of 2012 has resulted in reporting challenges. However, the possible conflicts between faster reporting and the quality of financial statements seem not to exist since long audit reporting lags were not associated with lower quality accruals'' (Amy, 2015).

### **2.3. Benefits of adoption of IPSAS in developing Countries**

Evidences show that adoption of IPSAS has so many benefits. Abdullah& Ferdous (2020) claim, "adoption of IPSAS increases the level of accountability and transparency in the public sectors in developing countries. Governments officials' commitment, international organizations support, and trained professionals speed up the level of IPSAS implementation. Adoption of IPSAS will provide useful information for better management and decision for greater public responsibility." Goeff & Peter(2009) indicate, "international funding organizations , donors, and creditors require the host country to prepare financial statements with IPSAS to make their decisions."

IPSAS text Vol.1 (2018) states "IPSAS requires recording and presentation of additional details of assets, liabilities, revenues and expenses of an organization. For example, the standard requires presentation in the financial statements of all assets acquired including real property, equipment, and intangible assets, and their gradual depreciation or amortization over their useful lives; such detailed requirements will necessitate improved stewardship of organization's assets." IASB

conceptual framework(2010) says, “IPSAS adoption will also lead to more accurate recognition of liabilities resulting from past transactions and events including comprehensive recognition of all employee benefit liabilities. These changes will require improvements in the organization’s control framework and will allow for enhanced management of resources and improved decision-making. More comprehensive information about revenue and expenses will better support strategic planning and result-based management.”

The IASB conceptual framework(2010) remarks, “adoption of IPSAS by public sector entities will improve both the quality and comparability of financial information reported by the entity around the world. Financial statements are structured representation of the financial position of an entity and the transactions undertaken by it. The objectives of general purpose financial reports are to provide information about the financial position, performance, and cashflows of an entity that is useful to a wide range of users in making and evaluating decisions about the allocation of resources. Specifically, the objectives of general purpose financial reports in the public sector should be to provide information useful for decision making and demonstrate accountability of the entity for the resources entrusted to it by:

- a) Providing information about the sources, allocation, and uses of the financial resources;
- b) Providing information about how the entity financed its activities and met its cash requirements;
- c) Providing information that is useful in evaluating the entity’s ability to finance its activities and meet its liabilities and commitments;
- d) Providing information about the financial condition of the entity and changes in it; and
- e) Providing aggregate information useful in evaluating the entity’s performance in terms of service costs, efficiency, and accomplishments.”

The IASB CFW(2010) also claims, “the general purpose financial reports play a predictive or prospective role in providing information useful in predicting the level of resources required for

continued operations, the resources that may be generated by continued operations, and the associated risks and uncertainties.” The IPSAS text Vol.1(2018) says, “financial reporting may also provide users with information such as:

1. Indicating whether the resources are obtained and used in accordance with the legally adopted budget; and
2. Indicating whether resources are obtained and used in accordance with legal and contractual requirements, including financial limits established by the appropriate legislative authorities.”

## **2.4. Variables of the study**

The IASB conceptual framework(2010) states that the usefulness of the financial information provided by the financial reports is based on the level of quality of the information. And factors underlying quality of the information consists of primary qualitative characteristics(relevance, and faithful representation), and enhancing qualitative characteristics(understandability, comparability and timeliness).

### **2.4.1. Relevance**

Evidences show that relevance forms an important part of the usefulness of financial information for decision making. IASB CFW(2010) indicates, “relevance of information is affected by its nature and its materiality.” According to Ferdy, Geert, & Suzanne(2009), using fair value in an entity as a basis for measurement is an indicator of a high level of relevance in financial reporting information. Annual reports are the means through which the level of relevance disclosed by providing forward-looking information, providing information about opportunities and risks, and providing major market events, and transactions that significantly affect organizations (Ferdy, Geert, & Suzanne, 2009).

### **2.4.2. Faithful representation**

Literatures show that faithful representation is the idea that reflects the real economic situation of the financial information in the financial reports. According to IASB CFW(2010), faithful

representation, as a factor of quality that should reflect neutrality, which is about objectivity and balance. Hedi & Marleen(2008) claim that the auditor's report add value to financial reporting information by providing reasonable assurance about the degree to which the annual report represents economic phenomena faithfully; how business organizations are controlled and directed affects the faithful representation quality; this in fact, is represented as a corporate governance factor when there is extensively disclosed information on corporate governance issues in the annual reports(Hedi & Maleen, 2008). Feerdy, Geert & Suzanne(2009) indicate that, the annual report clarifies assumptions and estimates and explains clearly the consistency of accounting principles in the reporting entity. The IASB CFW(2010) claims "information must be complete, neutral, and free from error; financial reports represent economic phenomena in words and in numbers, and to be useful, the financial information must not only represent the phenomena that it purports to represent. Complete depiction includes all information necessary for a user to understand the phenomena being depicted, including all necessary descriptions and explanations."

### **2.4.3. Understandability**

Literatures witness that understandability is one of the essential qualities of the information in the financial reports. For example, Esther, Elaine, & Sue(2010) say, "the better the understanding of the information by its users, the higher the quality that will be achieved." Feerdy, Geert & Suzanne(2009) showed that understandability is one of the enhancing qualitative characteristics that will increase when information is presented and classified clearly and sufficiently. When annual reports are well organized, users can comprehend what their needs are (Feerdy, Geert & Suzanne,2009).

IASB CFW (2010) indicates "financial reports are prepared for users who have a reasonable knowledge of business operations and economic activities and who can review and analyze the information diligently, some phenomena are inherently complex and cannot be easily understood. Excluding information on those phenomena might make the information easier to understand, but without it those reporting will be incomplete and thus misleading. Therefore, matters should not be left out of financial statements simply due to their difficulty as even well-informed and diligent users may sometimes need aid of advisors to understand information about complex economic phenomena."

IASB CFW (2010) says, “the cost constraint on useful financial reporting is a pervasive constraint, not a qualitative characteristic. When information is provided, its benefits must exceed the costs involved in obtaining and presenting it, and this is a subjective area, and there are other difficulties. Meaning, not the intended users may gain a benefit; also, the cost may be paid by someone other than the users, it is therefore, difficult to apply a cost-benefit analysis.”

#### **2.4.4. Comparability**

Among enhancing the qualitative characteristics is comparability, which enables users to easily comprehend similarities and variations among items in the financial statements. IASB conceptual framework (2010) states that comparability is the concept allowing users to compare financial statements to determine the financial position, cashflow, and performance of an entity ,and the comparison allows the users to compare the entity’s reports across time and among other companies in the same period. Other sources indicate that comparability is a useful process to enable users understand the financial situation of entities in an easier way. For example, Esther, Elaine, and Sue (2010) mentioned “comparability demands the identical events and situations be reflected by identical accounting facts and figures, and various events will be reflected by different accounting facts and figures in a way that quantitatively reflects those differences in a comparable and easily interpretable manner. Those notes to the financial reports should disclose and explain all the changes in accounting policies and the implications of these changes; relevant accounting policies and principles can be compared with the ones from the previous periods. Presenting financial index, numbers and ratios contributes to the comparison with other organizations” (Esther, Elaine, and Sue, 2010).

The IASB CFW(2010) says “information about a reporting entity is more useful if it can be compared with similar information of other entities and with similar information of the same entity for another period or another time. The framework’s qualitative characteristics of financial information also mentions about consistency, which, though related to comparability, is not the same. Rather, it refers to the use of the same methods for the same item either from period to period within a reporting entity or in a single period across different entities.”

Literatures also indicate that comparability does not necessarily mean uniformity. For example, IASB CFW(2010) says “the disclosure of accounting policies is particularly important here; users must be able to distinguish between different accounting policies in order to be able to make a valid comparison of similar items in the accounts of different entities. Comparability is not the same as uniformity. Entities should change their accounting policies if those policies become inappropriate. Corresponding information for proceeding periods should be shown to enable comparison overtime.”

### **2.4.5. Timeliness**

Evidences show that timeliness is an important element of the enhancing characteristics of the financial information in that if information is not provided to the users in timely manner, it losses its power. For example, IASB CFW(2010) mentioned, “timeliness illustrates that information must be available to decision makers before losing its power and influence. Information may become less useful if there is a delay in reporting. There is a balance between timeliness and the provision of reliable information. If information is reported on a timely basis when all aspects of the transaction are not known, it may not be complete or free from error. Conversely, if every detail of the transaction is known, it may be too late to publish the information because it has become irrelevant. The overriding consideration is how best to satisfy the economic decision-making needs of the users.”

Feerdy, Geert, & Suzanne(2009) conclude, “when assessing the quality of reporting in an annual report, timeliness is evaluated using the period between the year-end and the issuing date of the auditor’s report- the number of days it took for the auditor to sign the report after the financial year end.”

## **2.5. Empirical Literature review**

Financial reports quality takes different views depending in the context of the users of the information, and the quality measurement methods vary as well. Herenia, Elena, Dorel & Geanina(2016) state that as methods of evaluating the quality of financial reporting, numerous sorts of techniques for measurements have been developed.

Literatures also show that the adoption of International Public Sector Accounting standards brought improvement in the quality of financial reports. For example, a study conducted by Patricia, Isabel, & Maria (2019) in Portugal and Spain, who have harmonized their national standards with IPSAS, revealed that the adoption of IPSAS resulted in a significant improvement in the quality of the financial reports. Explanation of introduction of IPSAS in both Countries was based on institutional theory, as a process of isomorphism with the private sectors. This is to mean, the introduction of IFRS in private sectors has been an important stimulus for introduction of IPSAS.

Another, study carried out by Prosper (2018) on the effects of IPSAS adoption on the quality of financial reports in the case of African Union, focusing on the factors that led the Organization to adopt the standards, indicated that there are significant improvements in the reporting in terms of transparency, information comparability, resource management and informed decision making processes. In the study, the primary data were gathered from source while, the secondary data were collected from the financial statements of the organization. The study also identified practical issues that the organization should work on for improvement, including aligning its financial year with its operational systems, address needs of its partners, make donors attracted, focus on the way of attaining its comparability with other international organizations in the spirit of competition. The study also identified some practical challenges affecting adoption of the standards including lack of ongoing and focused training to the key staff, lack of permanent technical team to review technical and operational issues, recommend policy changes and look after enforcement of the policy changes as major contributors to the slow progress in implementation of the standards.

According to Ahmad & Pasqualina (2020) study on the effect of adoption of IPSAS on the financial reporting and internal controls systems of United Nations agencies using quantitative research approach, with descriptive survey design. Online questionnaire was used to gather the data. The data gathered from the study sample through the questionnaire were measured using 5-point Likert scale from the respondents point of view. In , indicated that implementation of the standards significantly improved the financial reporting of the United nations agencies, making their financial statements understandable by all stakeholders and enhancement in the comparability among the agencies. The agencies also saw betterment in internal control system.

The study also identified practical challenges facing implementation of the standards in the agencies that need to be considered such as the cost of introduction and implementation of the standards, availability of qualified accountants, complexity of the standards, incompetent accounting systems and resistance to change.

Robert (2016) conducted a survey study on the effects of adoption of IPSAS on the quality of financial reports in the public sector of 19 Ministries of the National Government of Kenya. All of the 19 ministries were selected as the sample as the number is too small to select a sample from. To conduct the study, the researcher used secondary data of audited financial reports under IPSAS in comparison with audited financial reports under the previous standards from 19 ministry offices of the Country. The data analysis was carried out using descriptive approach, and paired t-test method to examine differences in quality. 5-point Likert scale was used to measure the data from the researcher point of view. Results of the study showed that there are significant improvements in all qualitative characteristics of the financial reports except for the understandability where by the difference is not statistically significant. However, the IPSAS implemented in the ministries are on cash-basis rather than on accrual basis. The study finally suggested that the ministries to see more improvement in the transparency and accountability of the public finances should adopt accrual based IPSAS.

Nzewi & Enuenwemba (2020) conducted a study on the effects of adoption of IPSAS in the public sectors of Delta state in Nigeria. The study was carryout using a sample of 185 respondents selected form the study population of 343 staff members of the state ministries, departments and agencies. Survey research design was used, data were gathered using a questionnaire administered on the sample. 5-points Likert scale was used to measure the data, and hypothesis that was formulated for the study was tested using regression analysis. The result of the study revealed that adoption of the standards significantly boosted accountability and transparency across the public offices in the ministries of the state. The study also proposed that the Nigerian government, to seriously tackle corruption in the Country should provide necessary requirements for full implementation and sustenance of the Standards in the public sector.

In Addis Ababa, Ethiopia, a study conducted by Saron & Sabela(2021) on challenges and benefits of adoption and implementation of IPSAS for selected NGOs in Ethiopia. The study employed a

mixed research approach(quantitative and qualitative) with descriptive research design. Both primary and secondary data were used in the study. The primary data were collected using close-ended unstructured interview questions to the respondents while the secondary data are collected from the secondary sources such as financial statements, written documents of the Organizations, reports and other materials. The study selected a sample of 51 NGO's staff members from five NGOs who have implemented IPSAS, and these are purposively selected. Interview method of data collection was used to gather the data from the sampled respondents including some officials from AABE. Data analysis was based on the descriptive statistics and content analysis. The study results revealed that adoption of the standards by the NGOs resulted in the accountability and transparency to be enhanced in that timely and clear financial reports are provided. The study also revealed practical challenges associated with adoption of the standards including additional costs involved in adopting and handling the process, lack of appropriate trainings, shortage of adequate human power in the market, low level commitment within the adopter organization themselves, difficulty in setting a suitable method of recognition, measurement and valuation of assets, delay in amendment in local regulation, low level of coordination and communication among stakeholders.

According to a study conducted by Mensah (2021) in Ghana, on the adoption of IFRS by manufacturing firms listed on the Countries stock exchange resulted in improvement of the financial management quality. The study used correlation analysis as well as regression analysis and ordinary list square techniques. The study was done in manufacturing companies, and the conclusion, indeed, may not be directly related to NGOs. However, as IPSAS which is basically suitable to public sectors have been derived from IFRS, its potential to bring improvement in financial information of the public sectors and/ or NGOs can be viewed equally.

Another study carried out by Quota(2011) in Kenya using quantitative approach and document analysis, showed improvement in quality of financial reports. However, the study also revealed that effectiveness of the standards hinges on factors such as the quality of the standards, country legal and political systems, and financial reporting incentives including financial market development, capital structure, ownership and tax system. The study finally suggested that for IFRS to achieve its objectives in an effective manner, top management, external auditors, and

regulators being the key players in the standards, need to work together and strengthen the impact that IFRS could bring on the quality of the financial reports.

Christiaens, Vanhee, Manes-Rossi, Aversano, & Van (2015) carried out a study on the effects of IPSAS on reforming government financial reporting of European Countries. They, having stated that IPSAS has become the international reference for the development of public sectors accounting systems worldwide, indicated that the standards deserves attention of accounting-policy makers, practitioners and scholars, showed that transition towards IPSAS necessitates a long period of implementation where by existing local business accounting hinder jurisdictions to implement international standards, and these are the said to be the practical issues that play significant role in the success of the standards.

Musa(2019) study findings revealed that adoption of IFRS has positive impact and increased the quality of financial reporting among companies across the borders. The study also mentioned country-specific differences that affect implementation of IFRS such as business and financial culture; accounting culture; auditing culture; regulatory culture; level of shareholder protection; jurisdictional setting across countries; conflict between information preparers and standards. The study also suggested that concentration on financial reporting incentives is possibly the simplest way to achieve further improvement in the financial reporting quality.

Sombo (2022) carried out a study on the effect of IPSAS on the quality of financial reporting in Ministries, Departments and Agencies(MDAs) of Benue state, Nigeria. The study used descriptive survey research design, revealed that IPSAS adoption has significantly impacted the faithful representation and understandability of financial reporting quality which significantly enables various stakeholders have a clear understanding of the contents such reports. The study also suggested that producers of financial reports should provide more valid explanations to support their decisions for certain assumptions and estimates in the annual reports, and in their discussions of the actual results.

## 2.6. Conceptual framework

Description of factors affecting quality of Financial reports:



Source: own design/July 2

# **CHAPTER THREE: RESEARCH DESIGN**

## **3.0. Introduction**

Included in this chapter are details about what study approach was used, what design was followed, where the study was carried out, what type of data were collected, where the required data could be found, what periods of time the study took, what and how the sample design was formulated, what techniques of data collection were employed, how the data were analyzed, and what analysis packages and tools were used.

Literatures show that research design is important in managing the study project in an efficient and effective way. Kothari (2004) says, “research design is the conceptual structure within which research is conducted, it constitutes the blueprint for collection, measurement and analysis of data and includes an outline of what the researcher will do, from writing the hypothesis of data and their operational implications to the final analysis of the data.”

## **3.1. Methodology of the study**

According to Kothari(2004), quantitative inferential approach to research is useful to form data base that can be used to draw conclusion about the study population’s relationships. The study used the approach of quantitative inference to draw conclusion about the qualitative characteristics of financial reports of one hundred ninety one NGOs population. Twenty sampled NGOs were used to collect the data

## **3.2. Research design**

Kothari(2004) indicated the importance of research design as a method that helps in streamlining numerous operations of research are run smoothly, thereby ensuring efficiency in the process, producing information to the maximum level while, minimum effort in terms of time, cost and efforts are achieved. This study used descriptive research design because it is to describe the qualitative characteristics of financial reports.

### **3.3. Research method**

#### **3.3.1. Data**

Secondary data were collected from the sample units, particularly focusing on audited financial reports prepared and presented under both IPSAS and the old standards. The financial reports were carefully reviewed by the researcher and rates were given on the basis of 5-points Likert scale (5= strongly agree, 4= agree, 3=undecided,2=disagree, and 1=strongly disagree) comparing IPSAS-based audited financial reports with those of the old standard based ones. The sampled NGOs were approached with official communication means to facilitate their cooperation in providing the researcher with the relevant reports.

#### **3.3.2. Target population**

The population of interest in this regards is related to all non- government not-for profit organizations operating in Ethiopia, who have implemented IPSAS to prepare and present their annual financial reports in accordance with the Financial Reporting Proclamation No.847/2014, and in line with AABE's adoption schedule, and those who are recognized and licensed by ACSO in line with the Country's Charities and Societies Proclamation No. 621/2009.

#### **3.3.3. Sampling frame and sampling procedure**

The sampling frame of the study consists of all local and international NGOs operating in Ethiopia who present their IPSAS based annual audited financial report to AABE. The sample universe consists of 191 NGOs in Ethiopia who have implemented IPSAS. Non-probability sampling approach with convenience sampling procedure was used. This sampling method involves selectin of samples based on the ease of access. The researcher used the procedure as he considered is convenient for secondary data collection and are relatively representative of the population.

### **3.3.4. Sampling technique**

Under non-probability approach, convenience sampling is the technique employed to determine sample units to help get a relatively balanced proportion between local NGOs and international NGOs in the sample representatives.

### **3.3.5. Sample size**

Data were collected from 20 NGOs in the sample, and the sampling elements were audited finance reports of two years from each NGO in the sample, i.e., one from any IPSAS based report from January 2018- December 2022, and the other from any of the old standard based report from January 2016- December 2017 of the organization. The sample size was determined considering the symmetrical nature of the study subjects(audited financial reports), credibility of the data in that all financial reports are prepared and presented based on full adoption of IPSAS as required by AABE, the sample audit reports have passed through external audit procedures which are governed by International Standards on Auditing(ISA).

### **3.3.6. Analysis and Evaluation**

Editing and coding of the gathered data was carried out before recording the same for analysis purpose. The STATA data analysis package and Excel spreadsheet were used to facilitate the analysis process. Analysis of the study results was carried out using descriptive statistics and paired sample T-test techniques. Tables and appendices were used to organize the data in a clear and understandable manner. Data about financial and non-financial aspects were gathered using a questionnaire containing different dimensions of the independent variables through 25 items (relevance= 9 items, Faithful representation= 5 items, understandability= 5 items, comparability= 5 items and timeliness= 1 item) detailing the qualitative characteristics of financial reports. These items are operationalized to help rating of the data gathered through reviewing the audited financial reports of the sampled NGOs.

### **3.3.7. Data Analysis Model and Tool**

This task was based on items from quality indices that were comprehensive, and provided by the conceptual framework of IASB(2010). In practice, it was based on items that Gafarov(2010) used in his previous research work. Each individual financial report based index was calculated in respect of qualitative characteristics. To this end, summation of qualitative characteristics based scores for individual items were made, and then the indices were computed by dividing the sums by the relevant categories' maximum number of items. To determine measurement items disclosure scores average individually, descriptive statistics was used. Mean scores difference between IPSAS based audited financial reports and the OLD standards based audited financial reports were computed using descriptives statistics, thereby their comparison and analysis were done.

### **3.3.8. Operational definitions of variables and key terms**

***Relevance***- is an attribute that makes the financial information influence users of the information making difference in their decision.

***Faithful representation*** – this is quality of financial information in an entity's financial report that makes the information reflect economic reality of the entity presenting financial report.

***Understandability***- attributes that make financial information in the financial report of an entity clear, and comprehensible to the readers of the information.

***Comparability*** - is one of the enhancing qualitative characteristics of financial report that enables users of the financial information easily identify similarities and differences between the current and previous period results of the same entity, or between the current results of the entity with results of other entities in the same period.

***Timeliness***- This is an attribute that enables users of financial information get

information in time for use in making economic decision.

***Predictive value***- potential of the information to make difference in the decisions taken by users of that information.

***Confirmatory value***- ability of information in making difference in the decisions made by users of that information.

***Financial information***- data about the monetary transactions of NGOs operating in Ethiopia.

***Non-financial information***- Information about Environmental, Social, Corporate Governance and sustainability of NGOs operating in Ethiopia.

***Fair value***- this implies the market value of items indicated in the statement of financial position of an NGO.

***Historical cost***- monetary cost price based on the original purchase price of items shown in the statement of financial position of an NGO.

***Corporate social responsibility***- a practice by NGOs operating in Ethiopia of coordinated concern on reducing environmental and social related risk incidental to their operations.

***Statement of Cashflow***- is an element of financial statements presenting a summarized data pertaining to all inflows of cash that an NGO receives in association with its ongoing operations, and/ or donations; and all outflows of cash that the NGO pays in association with its operations and grants during a particular accounting period.

***Statement of Financial position***- is an element of financial statements of an NGO in which records of assets, liabilities and balances of funds are indicated at a particular balance sheet

date.

**Statement of financial performance-** is a component of annual financial statements of an NGO that presents records of income, expenditures, and change in net fund during an accounting period.

**Statement of change in fund balance-** is a constituent of annual financial statement of an NGO that presents year-to-date net fund or deficit balance from the NGO's start date of operation, and balance of financial resource available.

**Off-balance sheet item-** are those items not recorded in the statement of financial position of an NGO.

**Going concern-** is the assumption that an NGO continues in its operation, and has no any intention to liquidate its assets or stop its operations in the predictable future time.

**Accrual basis-** is an idea that an NGO records revenue when earned rather than when receiving cash, and records expenses when incurred rather than when paying out cash.

**Cash basis-** is a method by which revenues are recognized by an NGO when receiving cash, and expenses are recognised when paying cash out.

**Tangible asset-** is an asset of an NGO which has a fixed value expressed in monetary terms, and existing in its material form.

**Intangible asset-** is an NGO's asset that is identifiable from other assets, and is without physical existence.

**Finance structure-** is portfolio of funding in an NGO that reflects funding from short-

term sources and long terms sources, and from general fund or restricted fund of financial resources.

***Auditors' report-*** is a document containing professional judgement from an independent auditor on whether the NGO's financial statements are free from material misstatement, and is in compliance with the IPSAS, and other related regulation/s.

***Accounting policy-*** is a guidance document of an NGO containing rules and principles prescribing how items in the financial statement should be recognized, measured, presented and disclosed in line with IPSAS.

***Accounting estimate-*** is recognition, measurement, and disclosure of a transaction or an event involving assumptions that are subjective and of estimations that are uncertain.

***Corporate governance-*** is a method that provides an NGO with a framework for directing and controlling its operations.

***Contingent assets-*** are possible assets of an NGO, the existence of which are confirmed by appearance or non-appearance of future events that are uncertain and are not wholly in the realm of the NGO's Control.

***Contingent liabilities-*** is possible loss to an NGO, the existence of which is based on an occurrence/ a result of a specific situation or event.

***Organization's vision-*** is an intense abstract view envisaging, on the basis of its aspirations and goals, what an NOG aim to see its operations to be at a point of time in the future,

***Organization's mission-*** is a broad and brief statement about goals of an NGO , and ways to meet those goals.

***Organization's strategy-*** long-term plan that allows how an organization plans

to use its resources to support operational activities.

**Financial statements disclosure-** is a method of communicating information not presented on the face of the financial statements that is relevant to users of the financial information

**NGO sector-** is a category of private not for profit organizations that is independent from direct control by the government.

**IPSASB-** is a standard- setting body that is independent, and working on improvement of public sector financial reporting by developing accounting standards that are accrual based and are of international nature.

**IPSAS-** are packages of accounting standards that IPSASB issues for use by a public sector/ an NGO operating in Ethiopia in its annual financial statements preparation and presentation.

**IFRS-** set of accounting standards intended for profit making entities for use in their financial statements preparation and presentation with the aim of producing transparent, comparable, and consistent financial information worldwide.

**Qualitative characteristics-** are attributes that make financial information presented in the financial reports useful to users in their decision making.

**Restricted fund-** A restricted fund is any cash balance of an NGO that has been earmarked for specific or limited use. Often associated with funds held by donations to nonprofit organizations

**General fund-** is an NGO fund not associated with special-purpose funds. The activities being paid for through the general fund constitute the core administrative and operational tasks of the NGO.

### **3.3.9. Measurement tool quality assurance**

#### **3.3.9.1. Validity**

Literatures indicate that data validity is of paramount importance in ensuring the quality of data measurement instrument. For example, Kothari (2004) says, “data validity is the most critical criterion for data quality assurance and indicates the degree to which an instrument measures what it is supposed to measure. Validity can also be thought of as utility. In other words, validity is the extent to which differences found with use of a measuring instrument reflect true differences among the items being tested” (Kothari, 2004).

##### **3.3.9.1.1. Spearman’s rank correlation for validity test**

The study used Spearman’s rank coefficient to determine the validity of the measurement instrument. Accordingly, the test result is stated as follows. Based on the rule of thumb, most scholars agree that spearman rank correlation of between 0.70- 0.89 indicates a strong validity. As indicated in (table 1), the spearman rank coefficient is 0.70 showing that the instrument has strong content validity.

**Table 1: Spearman's rank correlation for validity test**

<b>Variable</b>	<b>IPSAS</b>	<b>Rank</b>	<b>OLD STDD</b>	<b>Rank</b>	<b>Difference</b>	<b>Difference square</b>
Relevance	2.5167	5	2.2389	5	0	0
Faithful representation	2.8500	4	2.5800	2	2	4
Understandability	3.1700	1	2.8800	1	0	0
Comparability	3.0600	2	2.4300	3	-1	1
Timeliness	2.9000	3	2.300	4	-1	1
<b>TOTAL</b>						<b>6</b>
<b>Using spearman coefficient formula <math>\Rightarrow = 1-(6*6)/(5(25-1)) = 0.70</math></b>						

### **3.3.9.2. Reliability**

Of the major factors to be considered in the quality assurance of data measurement, literatures show that reliability plays a significant role in reducing bias. For instance, Kothari(2004) mentions, “in a descriptive study strategy, accuracy becomes a major consideration, and a research design that minimizes bias and maximizes the reliability of the evidence collected is considered a good design. The reliability of the measuring instrument is an essential consideration for the results of the study to be healthy. Therefore, researchers should ensure that the measuring instrument used is reliable.”

#### **3.3.9.2.1. Cronbach’s alpha for reliability test**

In this study, to determine the extent of the measurement instrument’s reliability of scales used in this empirical study, the researcher used Cronbach’s alpha method. Hence, the test results are shown as follows: in commonsense, many scholars believe that the alpha test should be greater than 0.70 to conclude that the instrument is internally consistent. Table 2 indicates a Cronbach’s alpha values ranging from the lowest of 0.7413 for understandability to the highest of 0.9937 for faithful representation. The scores indicate that there is very good internal consistency among those 5-point Likert scale items or variables, and the tool used thus is reliable.

**Table 2: Cronbach's alpha for reliability test**

<b>Variable</b>	<b>Number of items</b>	<b>Cronbach's alpha</b>
Relevance	9	0.8237
Faithful representation	5	0.9937
Understandability	5	0.7413
Comparability	5	0.8813
Timeliness	1	0.9867

### **3.3.10. Expected Results and Output of the Study**

The fact that effectively communicating a study results is as important as other operations of the research work is documented. For example, Kothari(2004) states, “pursuant to collecting and analyzing the data, the researcher has to accomplish the task of drawing inferences, followed by report writing. This has to be done very carefully; otherwise, misleading conclusions may be drawn and the whole purpose of doing research may be weakened. It is only through interpretation that the researcher can expose the relationships and processes that underlie his/her findings. All of this analytical information and consequential inferences may well be communicated, preferably through a research report, to the consumers of the research results as information, who may be either an individual or a group of individuals or some public or private organizations.”

This suggests that for a research study to be effective, interpretation of results should be made very carefully lest misleading conclusions are drawn. On top of this, the research result and its conclusion should be communicated to the consumers of the research study information, in essence, users of the information through a well-structured research report.

The study results and findings from this research project formed the basis for the researcher’s discussion of the results and led to a conclusion. The results are presented using tables and graphs. In aggregate, a standard research report is prepared, reflecting what were planned and what were performed; what methodology was used to carry out the study; what type of data were collected from what sorts of sources; and what limitations were there in the process, conclusions were drawn based on the results of the study and suggestions for improvements were proposed on practical challenges observed in the study on IPSAS adoption process of NOGs in the Country.

# **CHAPTER FOUR: DATA PRESENTATION, ANALYSIS AND DISCUSSION**

## **4.0. Introduction**

Included in the chapter are presentation and analysis of study results on quality differences of IPSAS based audited financial reports and OLD standard based audited financial reports at individual item levels based on 25 items from all qualitative characteristics of the reports, interpretation of the results, assessment of the differences on quality at the reporting standards levels, and discussion of the statistical significance of the differences observed between the reports based on the results from the Paired sample -t test statistics procedure. The chapter summarizes the report findings and related issues, indicates limitations of the study, and culminates with conclusions and recommendations.

## **4.1. Analysis and discussion of results**

### **4.1.1. Data gathering and analysis process**

The study data were collected from 20 sampled NGOs selected from 191 study population. Initially, twelve of the NGOs each provided the researcher with their audited financial reports of different years: one from any IPSAS based reports falling between 2018-2022, and the other from the any old standards based reports falling between 2016-2017. However, eight of the sampled NGOs, regardless of the official letters from Addis Ababa University which the researcher presented to them, were found to be reluctant to give away their financial reports due to their internal policy on confidentiality and restriction on information provision to third parties. Hence, the researcher approached them for cooperation to get the audited financial reports for review being in their respective offices rather than taking the reports away for collecting the data. Those financial report documents were carefully reviewed by the researcher to gather the data that were then rated using a predefined rating tool based on 25 items being framed by a 5-point Likert scale. The data gathered were edited, coded, recorded, and organized in the tables and appendices to make them clearly understandable. STATA software and excel spreadsheets were used for analyzing the data.

Descriptive statistics, including sample means, standard deviations, and standard errors of the mean, were used to conduct the content analysis of the items under all qualitative characteristics of the sampled audited financial reports. Besides, a paired sample t- test was conducted to test the quality differences between qualities of IPSAS based audited financial reports, and the old standard-based audited financial reports of the samples, and to determine the statistical significance. Table 3 shows the assessment of qualities of financial reports based on 25- items. Table 4- 13 reflect the quality differences: Table 4-11 show variable level differences, Table 12- 13 show report (IPSAS based audited financial reports vs the old standard based audited financial reports) level differences. The tables also depict the significance of the quality differences at both levels( Variables and reports).

The study used content analysis on the basis of indices computed for variables under individual financial report. To this end, having aggregated scores for each category under each financial report, indices were calculated by dividing the sums by each categories maximum items number. Descriptive statistics is used in computing average scores of disclosures on specific items and the mean and standard deviation differences of IPSAS based audited financial reports, and the old standard based audited financial reports.

## **4.1.2. Content based quality analysis**

### **4.1.2.1. Relevance(R)**

The study result revealed on the relevance Characteristics (R) that items regarding forward-looking information (R1), non-financial information including opportunities and risks (R2), information on safeguarding (R4), analysis concerning cashflows (R5), disclosure of off-balance sheet activities (R6), and disclosure of intangible assets (R8) on average had higher scores on IPSAS based audited financial reports than on the old standards based audited financial report. Nevertheless, on items of fair value measurement (R3), information on the NGOs going concern (R7), and disclosure of financing structures (R9), the study showed that IPSAS based audited financial report scored nearly the same as that of the old standards-based audited report. This indicates that most NGOs used historical cost measurement basis under IPSAS based financial

reports, as was the case under the old standards. Indeed, IPSAS allows alternative treatment methods for certain items in the financial statements, and it is up to the entity implementing IPSAS to choose which model of measurement to use. In spite of this, literatures state that the historical cost measurement basis is less relevant in decision-making compared to the fair value measurement principle. There is also less detailed information on the financing structures of the NGOs that normally depicts the overall picture of the nature of financing activities of the entities. When viewed individually, the items under the primary characteristics of relevance showed mixed results as indicated below.

#### **4.1.2.1.1. Forward looking information(R1)**

On forward-looking information (R1), the result revealed that IPSAS based audited financial reports, on average, had higher scores than the Old standard based audited financial report. The reason for this is the fact that some NGOs presented their future income forecasting in the report, and other strategic information under the IPSAS based report, while this is essentially missing under the OLD standard based reports.

#### **4.1.2.1.2. Non-financial information(R2)**

Pertaining to disclosure of non-financial information(R2), the result showed that IPSAS based audited financial report on average had higher scores than the Old standard based audited financial report. Most of the NGOs disclosed issues related to exchange rate risks, credit risks and markets risks in their IPASS based audited financial statements whereas this is missing in the old standards report. However, in rare cases are opportunities issues disclosed even, in IPSAS based reports.

#### **4.1.2.1.3. Measurement of Fair value(R3)**

On measurement of fair value(R3), the result revealed that both IPSAS based audited financial reports and the Old standard based audited financial reports have the same scores. IPSAS give options, but does not require to adopt fair value measurement approach to treat certain statement of financial position items. As well, AABE's guideline also does not prescribe any specific measurement approach. Hence, the NGOs did not show tendency to take this approach. Most of them adopted the historical cost approach, which they were using to prepare the OLD standard

based reports. Despite the relevance for decision making of the fair value measurement approach, mostly because of lack of well-established market at the national level, and the limited local technical capacities to provide effective asset valuation services compounded by costs involved in the process, practicality of adopting this measurement approach in the foreseeable future even, is unlikely in the NGOs sector in Ethiopia.

#### **4.1.2.1.4. Information on safeguarding(R4)**

As the study result indicated in regards with information on safeguarding(R4), IPSAS based audited financial report on average had higher scores than the Old standard based audited financial reports. This is ascribable to the fact that some NGOs indicated their organizational values and ethics, and their core thematic approaches to protecting children and other at risk groups, while such disclosures are missing when it comes to the OLD standard based reports.

#### **4.1.2.1.5. Cash flows(R5)**

On information on analysis of cashflows(R5), the study result pointed out that IPSAS based audited financial reports on average had higher scores than the Old standard based audited financial reports. The very reasons for this are: first, presentation of historical cash flow statement is prescribed by IPSAS as one of the statement that must be presented by any entity applying the standards in its GPFR. Almost all NGOs in the sample used indirect methods in their presentation of the cashflow statements. The second reason is that detail break-downs of cashflows are analyzed clearly in the disclosure section as part of notes to the financial statements. The old standard based financial reports, on the other hand, did not present cashflow statements as a component of their standard annual financial reports, neither did they disclosed the details on consistent basis.

#### **4.1.2.1.6. Off-balance sheet activities disclosure(R6)**

The study result portrayed that on disclosure related to off-balance sheet activities(R6), IPSAS based audited financial reports on average had higher scores than the Old standard based audited financial reports. The most off-balance sheet activities observed in the disclosures of the sample NGOs are related to leased administrative offices. Most of those leased offices are treated on the

basis of operating leased approach. In the old standard based reports, disclosure of such information is not observed

#### **4.1.2.1.7. The NGOs going concern(R7)**

On disclosure of going concern(R7), the study result depicted that both IPSAS based audited financial report and the Old standard based audited financial report had the same scores. This is because of the requirement to indicate going concern issues of the reporting entity under IPSAS which is also a requirement under GAAP or any other Standard used to prepare the GPF. On top of this, whatever the standard used for financial reporting may be, it is one of the area that the external auditors tend to review in assessing the validity of the basis for financial recording, and reporting of the audited entity. Hence, the study result showed that the proper disclosures of going concern issue are made under both IPSAS based audited financial report and the OLD standard based audited financial reports nearly at the same level.

#### **4.1.2.1.8. Intangible assets(R8)**

The study result on disclosure of intangible assets(R8) indicated that IPSAS based audited financial report on average had higher scores than the Old standard based audited financial reports. This is ascribable to the fact that some NGOs were observed to disclose their intangible assets such as accounting software package in IPSAS based financial reports. However, no disclosure was observed to be made in relation to these assets under the OLD standard based financial reports.

#### **4.1.2.1.9. Financial/Capital structure(R9)**

On disclosure of the financing structure(R9), the study result showed that both IPSAS based audited financial reports and the Old standard based audited financial reports have the same average scores. Because, all sampled NGOs did not plainly show their financing structures. Nonetheless, summarized information on sources of income are observed from the face of statement of financial performances of most of them. This, however, does not depict a clear picture on whether the income streams are of short- term or long-term nature, or of general fund or restricted fund nature.

#### **4.1.2.2. Faithful representation(F)**

On faithful representation (F), the study result showed that items pertaining to the provision of valid arguments to support assumptions and estimates (F1), types of audit opinions included in the report (F2), the extent of information on corporate governance (F3), level of disclosure on contingent assets and contingent liabilities (F4), and disclosure of information pertaining to bonuses for directors board and/or senior officials (F5), IPSAS based audited financial report on average scored higher compared to the old standard based audited financial reports. This is an indication that the NGOs are using IPSAS recommended formats and reporting contents to demonstrate their compliance with the relevant regulation. In addition, it implies that the completeness, accuracy, and freedom from bias attributes of the financial records and reports are enhanced by implementing IPSAS. Looking further in to the items one by one reveals the extent of the average variances between IPSAS based audited financial reports and the OLD standard based audited financial reports.

##### **4.1.2.2.1. Arguments supporting assumptions and estimates(F1)**

On arguments supporting assumptions and estimates(F1), the result showed that IPSAS based audited financial reports had higher scores than the OLD standard based audited financial reports. This is attributed to the disclosures of methods and rationales for selecting a particular depreciation methods, amortization methods, and writing-off long overdue donation income receivables under the IPSAS based reported observed in the sampled NGOs reports.

##### **4.1.2.2.2. Audit opinion(F2)**

On type of audit opinion included in the audit report(F2), study result revealed that IPSAS based audited financial reports had slightly higher scores than the OLD standard based audited financial reports. This is because of scoring by most sampled NGOs of unqualified audit opinion in the financial reports prepared under both of the standards. This is of importance because, donor use opinions in the audited financial reports as one of the NGOs indicators of financial management effectiveness. Hence, in principle, it may be seen as a decision making factor from the donor perspective, on account of this, the NGOs are motivated and tend to consistently strive to secure

the unqualified auditor opinion in their annual financial statement as part of attaining donors attention, and maintaining good relationships.

#### **4.1.2.2.3. Information on corporate governance(F3)**

On disclosure of information on corporate governance(F3), the study result showed that IPSAS based audited financial reports had higher scores than the OLD standard based audited financial reports. This is attributed to disclosures under IPSAS based financial reports of the NGOs' values, principles, standards of behavior, and their code of conduct approaches to treatment of various stakeholders that they come across in the courses of their operations. This was not clearly depicted in the reports based on the OLD standards when compared to that of the IPSAS based ones.

#### **4.1.2.2.4. Contingent assets and contingent liabilities(F4)**

For disclosure on contingent assets and contingent liabilities(F4), the study result portrayed that, on average, IPSAS based reports had higher scores than the old standards based reports. This disclosure of the cases for both contingency assets and liabilities are minimal under both the IPSAS based and the OLD standard based reports. However, most NGOs disclosed the general definitions of the contingency concepts in the IPSAS based financial reports as part indicating accounting policy disclosure relevant to their circumstances, while this is basically missing in the OLD standard based reports.

#### **4.1.2.2.5. Bonuses of Board of directors/Senior management (F5)**

The findings of the study showed on disclosure of bonuses of board of directors/ senior management(F5), that IPSAS based audited financial reports on average had higher scores than the old standards based audited financial reports. Under the IPSAS based financial reports, most sample NGOs disclosed summaries of their senior management annual salaries and benefits rather than bonus of the board of directors. Some international NGOs even does not have board of directors at the Country office level. And, major strategic decisions are being made at the head quarter level abroad. Hence, they cannot disclose bonuses of the board of directors at the country office level as to do so is out of their realm of control. In the case of local NGOs, whose board of

directors are at the national level, even, such disclosures are not observed in both standards' reports.

### **4.1.2.3. Understandability(U)**

Pertaining to characteristics of understandability (U), on the items of whether the financial report was presented in a well-organized manner (U1), presence of tables and graphs in the reports(U2), size of glossary in the reports(U4), and the extent to which the reports contain information in regards to the mission and strategy of the NGOs(U5), the IPSAS based audited financial reports on average scored higher than the OLD standard based audited financial reports. This is attributed to the fact that the IPSAS based financial reports contain more detail information not only on financial issues, but also on non-financial issues of the reporting organization to enhance clarity of that information. Nevertheless, on the item of technical jargons that the financial reports contain from the researcher point of view(U3), IPSAS based audited financial reports on average scored by far less than the old standard-based audited financial reports. This implies that the level of technical jargons that IPSAS based financial reports contain are relatively complex and increased in number when compared to the old standards based financial reports. Items under understandability are analyzed turn by turn in the following sections.

#### **4.1.2.3.1. Well-organized report(U1)**

On the extent to which the annual financial reports are presented in a well-organized manner(U1), the result revealed that IPSAS based audited financial reports on average had higher scores than the OLD standard based audited financial reports. Because, one of the requirement of the IPSAS standards focus on the content and format of the financial reports. Following the format prescribed by these standards resulted in presenting the report in a well-organized manner. Whereas, there is no such prescribed format and content in the case of the OLD standard based financial report. Hence, the IPSAS based reports are relatively a well-organized ones when compared to the Old standards based reports.

#### **4.1.2.3.2. Graphs and tables(U2)**

Pertaining to use of tables and graphs used for clarity of information(U2), the results showed that IPSAS based audited financial reports on average had higher scores than the OLD standard based audited financial reports. Because, included in most of the sampled NGOs IPSAS based financial reports are tables used as a means of disclosing details of financial statements figures presented on the face of the statement. Thus, number of tables under the IPSAS based reports are higher than the numbers of the tables used under the OLD standard based reports. Use of graphs are not observed in both types of the financial statements to enhance clarity.

#### **4.1.2.3.3. Technical jargons in the report(U3)**

On the extent of the technical jargons in the perception of the researcher(U3), the result showed that IPSAS based audited financial reports on average scored lower than the OLD- standard based audited financial reports. This implies that IPSAS based financial reports used complex technical words that the Old standard based financial reports did not use. This results in difficulty to understand information in the financial report by the users of that information for decision making purpose. However, the standard prescribes that any information should not left out because of their difficulty to understand as those users of the financial information having a reasonable knowledge of the business operations and economic activities even need expertise advisory service to support in understanding complex transactions for use in making economic decisions(IASB CFW, 2010).

#### **4.1.2.3.4. Size of glossary(U4)**

Concerning the size of glossary in the finical reports(U4), the findings from the study revealed that IPSAS based audited financial reports had higher scores than the OLD standard based audited financial reports. In fact, both standards scored below average scores. However, some IPSAS based reports included sizable glossary terms compared to the Old standard based reports.

#### **4.1.2.3.5. Mission and strategy of NGOs(U5)**

The study result revealed, on mission and strategies(U5), that IPSAS based audited financial reports on average had higher scores than the OLD standard based audited financial reports. Most of the audited financial reports under IPSAS of the sampled NGOs included the Organization's strategic objectives, missions, vision and approaches to varying degrees. Yet, most of the information related to mission and strategies were disclosed in the IPSAS based financial reports.

#### **4.1.2.4. Comparability (C)**

On comparability(C),accounting policy change related disclosure(C1), accounting estimates change related disclosure(C2), extent of the annual report containing information on accounting policy change effects(C3), extent to which indices, numbers and ratios are presented in the financial reports(C4), IPSAS based audited financial reports on average scored higher than the OLD-standards based audited financial reports. This is attributable to the fact that IPSAS prescribes for disclosure of any change in accounting policies and accounting estimates and its requirement to use comparative information as part of the annual financial reports. However, when it comes to the item of the extent of using industrial/ sectorial bench mark information for comparison purposes (C5), the IPSAS-based reports scored the same as that of the old standards ones. NGOs view their audited financial reports as a sensitive information, and are mostly found to be reluctant to share such information with third parties, and this is the very reason to miss such benchmarking information in the reports. The five items of the Comparability characteristics are further analyzed in the following sections.

##### **4.1.2.4.1. Change in accounting policy(C1)**

On disclosure of change in accounting policy(C1), the study findings showed that IPSAS based audited financial reports on average had higher scores than the OLD standard based audited financial reports. The reason for this is that the extensive disclosure required by the IPSAS motivated the NGOs to indicate their relevant accounting policies, and changes in the policies.

#### **4.1.2.4.2. Accounting estimates(C2)**

On accounting estimates change related disclosure(C2), the study result portrayed that that IPSAS based audited financial reports on average had higher scores than the OLD standard based audited finance reports. This means the extensive disclosure requirement by IPSAS motivated the NGOs to indicate changes in accounting estimates to enhance the users comprehension of the financial information.

#### **4.1.2.4.3. Effect of accounting policy change(C3)**

Regarding disclosures on effects of change in accounting policy(C4), the research result showed that IPSAS based audited financial reports on average had higher scores than the OLD standard based audited reports. Those IPSAS based financial reports during the adoption years showed extensive disclosures on the effects of changes in accounting policies associated with transition from the OLD standard to the IPSAS based ones. The disclosures presented details about the affected items along with their effects on the elements in the financial statements.

#### **4.1.2.4.4. Indices, numbers and ratios(C4)**

On the item of the extent to which the indices, numbers and ratios are presented in the audited financial reports(C4), the results pointed out that the IPSAS based audited financial reports on average had higher scores than the OLD standard based audited financial reports. This indicates that IPSAS based financial reports contain much analytical information useful for comparison of current year's performance with the NGO's previous year performance, or with current performance of other NGOs. Using comparative information in preparing annual financial report based on IPSAS is among the basic requirement by the standards, and this makes the trend analysis of information a common practice in the NGOs environment.

#### **4.1.2.4.5. Sectorial benchmark information(C5)**

The study result, on the extent of the annual report containing the benchmark information concerning competitors/ sector(C5) showed that both IPSAS based audited financial reports and the OLD standard based audited financial reports had scores that are the same. Indicated by the

result is that all sampled NGOs scored below average rates on this item. This is due to the reluctance of NGOs in the sector to share information among themselves on account of the confidentiality of the information. In addition, the NGOs are ranging in their working styles, sizes and mode of operations that make their operating results difficult to be easily compared to draw a meaningful result.

#### **4.1.2.5. Timeliness(T)**

On timeliness enhancing characteristics(T), the only item related to days that it took for the financial reports to be signed by the auditor after end date of the year(T1), the study result indicated that IPSAS based audited financial reports on average had higher scores than the OLD standard based audited financial reports. This implies that the NGOs are preparing their financial reports and presenting the same to auditors in a timely manner. This in turn is ascribable to the ACSO's regulatory requirement that specifies submission of the annually audited financial report not later than the end date of the set deadline in the relevant regulation. On top of this, the fact that annual financial reports, having been audited by the external auditors, should be endorsed by AABE before being considered as the final one, is an issue that take priority for preparing the report in due time and calling auditors to audit the accounts, and sign the report containing an audit opinion.

**Table 3: Items based quality assessment- Descriptive statistics**

ITEM	N	IPSAS		OLD STDD		DIFFERENCE	
		MEAN	STDD DEV.	MEAN	STDD DEV.	MEAN	STDD DEV.
R1	20	2.0500	0.2236	2.0000	-	0.0500	0.2236
R2	20	2.6000	0.5026	2.0000	-	0.6000	0.5026
R3	20	2.0000	-	2.0000	-	-	-
R4	20	2.1500	0.3663	2.0000	-	0.1500	0.3663
R5	20	2.9000	0.3078	2.3000	0.4702	0.6000	(0.1624)
R6	20	2.7000	0.4702	2.1000	0.3078	0.6000	0.1624
R7	20	2.8000	0.4104	2.8000	0.4104	-	-
R8	20	2.5000	0.5130	2.0000	-	0.5000	0.5130
R9	20	2.9500	0.2236	2.9500	0.2236	-	-
<b>R</b>	<b>20</b>	<b>2.5167</b>	<b>0.3353</b>	<b>2.2389</b>	<b>0.1569</b>	<b>0.2778</b>	<b>0.1784</b>
F1	20	2.7000	0.4702	2.1000	0.3078	0.6000	0.1624
F2	20	4.9000	0.4472	4.7500	0.5501	0.1500	(0.1029)
F3	20	2.2000	0.4104	2.0000	-	0.2000	0.4104
F4	20	2.1500	0.3663	2.0000	-	0.1500	0.3663
F5	20	2.3000	0.4702	2.0500	0.2236	0.2500	0.2466
<b>F</b>	<b>20</b>	<b>2.8500</b>	<b>0.4329</b>	<b>2.5800</b>	<b>0.2163</b>	<b>0.2700</b>	<b>0.2166</b>
U1	20	4.4000	0.4920	3.4500	0.5104	0.9500	(0.0184)
U2	20	3.3500	0.5735	2.8000	0.4104	0.5500	0.1631
U3	20	3.0000	-	3.9500	0.2236	(0.9500)	(0.2236)
U4	20	2.4000	0.5026	2.0000	-	0.4000	0.5026
U5	20	2.7000	0.4702	2.2000	0.4104	0.5000	0.0598
<b>U</b>	<b>20</b>	<b>3.1700</b>	<b>0.4077</b>	<b>2.8800</b>	<b>0.3110</b>	<b>0.2900</b>	<b>0.0967</b>
C1	20	2.9500	0.5104	2.1500	0.3663	0.8000	0.1441
C2	20	3.0000	0.4588	2.1500	0.3663	0.8500	0.0925
C3	20	4.1000	0.3078	3.1000	0.3078	1.0000	-
C4	20	3.2000	0.5231	2.7000	0.5712	0.5000	(0.0481)
C5	20	2.0500	0.2236	2.0500	0.2236	-	-
	<b>20</b>	<b>3.0600</b>	<b>0.4048</b>	<b>2.4300</b>	<b>0.3671</b>	<b>0.6300</b>	<b>0.0377</b>
T1	20	2.9000	0.7469	2.3000	0.4702	0.6000	0.2768
<b>T</b>	<b>20</b>	<b>2.9000</b>	<b>0.7469</b>	<b>2.3000</b>	<b>0.4702</b>	<b>0.6000</b>	<b>0.2768</b>

Source: own design/May 2023

### **4.1.3. Paired sample t-test based quality differences analysis**

#### **4.1.3.1. Variables based**

The paired t-test sample results at the variables levels, with the exception of understandability, indicated that IPSAS based audited financial reports have on average higher quality differences than the old standard based audited financial reports. However, in relation with the overall financial reports level, IPSAS based financial reports showed statistically significant mean differences than the OLD standard based financial reports. Details of the paired t- test results on each variable are discussed in the following sections followed by that of the overall financial reports level at the end.

##### **4.1.3.1.1. Relevance**

The study revealed informative descriptive statistics including mean and standard deviations of relevance under IPSAS based audited financial reports, and the OLD standard based audited financial reports. The study also displayed the factual results from paired t-test procedure. The results of the paired t-test indicated the mean difference = 0.28, standard deviation = 0.2873, the mean standard error = 0.0958, confidence interval at 95% ranges from 0.05690 to 0.4987, and with degree of freedom of 8, and the statistical significance (2-tailed P-value) of the paired-test ( $P\text{-vale}(|T|>|t|)$ ) under the mean difference critical value of 0.0000. T-test statistics indicated by the result is 2.9001, and the p-value stands 0.0199. Given the p-value is lower ( $0.0199 < 0.05$ ), the research concludes that there is a strong evidence that is statistically significant as to an increase in the mean average of qualitative characteristics of relevance of IPSAS based audited financial reports compared to the OLD standard based audited financial reports. Hence, there is sufficient evidence to reject the claim of the null hypothesis 0. Consequently, sufficient evidence is there to support the claim of hypothesis 1 stating that: relevance of financial information under IPSAS based audited financial reports is more positively & significantly correlated with the quality of financial reporting. Therefore, we reject the null hypothesis 0 stating that : there is no significant differences between the means of populations of IPSAS based audited financial reports and OLD standard based audited financial reports pertaining to the characteristics of relevance of financial information.

This study result coincides with empirical study conducted by Robert(2016), that indicated improvement in the relevance of financial information as a result of implementation of IPSAS for preparing and presenting financial reports of the public sectors in Kenya.

**Table 4: Relevance quality difference: Paired t-test**

		<b>N</b>	<b>MEAN</b>	<b>Std. Dev.</b>	<b>Std. error</b>
<b>Pair 1</b>	<b>IPSAS BASED Relevance</b>	<b>9</b>	<b>2.52</b>	<b>0.3666</b>	<b>0.1222</b>
	<b>OLD-STD BASED Relevance</b>	<b>9</b>	<b>2.24</b>	<b>0.3756</b>	<b>0.1252</b>

**Table 5: Significance differences scores of relevance - Paired t- test**

		Paired difference					t	d/f	p-value (2-tailed)
		Mean	Std. Dev.	Std. Dev.	95%- Confidence interval				
					Low	High			
<b>Pair-1</b>	<b>IPSAS-Based Relevance  Old-STDD- based Relevance</b>	<b>0.28</b>	<b>0.2873</b>	<b>0.0958</b>	<b>0.0569</b>	<b>0.4986</b>	<b>2.9001</b>	<b>8</b>	<b>0.0199</b>

#### **4.1.3.1.2. Faithful representation**

Useful descriptive statistics shown by the study are the mean and standard deviations of faithful representation under IPSAS based audited financial reports, and the OLD standard based audited financial reports. The study also revealed the true-life results from paired t-test method. The results of the paired t-test indicated the mean difference = 0.27, standard deviation = 0.1891, the mean standard error = 0.0846, confidence interval at 95% ranges from 0.0352 to 0.5048, and the degree of freedom of 4, and the statistical significance (2-tailed P-value) of the paired-test (P-value( $|T| > |t|$ )) under the mean difference critical value of 0.0000. T-test statistics indicated by the result is 3.1931, and the p-value stands 0.0331. As the p-value is lower ( $0.0331 < 0.05$ ), the research concludes that there is a strong evidence that is statistically significant that there is an increase in the mean average of qualitative characteristics of faithful representation of IPSAS based audited financial reports compared to the OLD standard based audited financial reports. Hence, there is sufficient evidence to reject the claim of the null hypothesis 0. Consequently, sufficient evidence is there to support the claim of hypothesis 2 stating that: faithful representation of financial information under IPSAS based audited financial reports is more positively & significantly correlated with the quality of financial reporting. Therefore, we reject the null hypothesis 0 stating that : there is no significant differences between the means of populations of IPSAS based audited financial reports and the OLD-standard based audited financial reports pertaining to the characteristics of faithful representation of the financial information.

The study result is in agreement with the study carried out by Robert(2016) which revealed that the primary qualitative characteristics of faithful representation is positively and significantly correlated to the adoption of IPSAS in Kenya by 19 public sector offices.

**Table 6: Faithful representation quality difference: Paired test**

		<b>N</b>	<b>MEAN</b>	<b>Std. dev.</b>	<b>Std. error</b>
<b>Pair-1</b>	<b>IPSAS BASED Faithful rep.</b>	<b>5</b>	<b>2.85</b>	<b>1.1662</b>	<b>0.5215</b>
	<b>OLD-STD BASED Faithful rep.</b>	<b>5</b>	<b>2.58</b>	<b>1.2138</b>	<b>0.5428</b>

**Table 7: Significance differences in Quality scores of Faithful Representation Paired test**

		Paired-difference					Td/f	df	p-value (2-tailed)
		Mean	Std. Dev.	Std. error	95%- CI				
					Low	High			
<b>Pair 1</b>	<b>IPSA-Based Faithful rep.  Old-STDD- based Faithful rep.</b>	<b>0.27</b>	<b>0.1891</b>	<b>0.0846</b>	<b>0.0352</b>	<b>0.5048</b>	<b>3.1931</b>	<b>4</b>	<b>0.0331</b>

#### **4.1.3.1.3. Understandability**

Mean and standard deviation of understandability under IPSAS based audited financial reports, and the OLD standard based audited financial reports are revealed by the study. There are also realistic results shown from paired t-test techniques. The results from the paired t-test indicated the mean difference = 0.27, standard deviation = - 0.7241, and the mean standard error = 0.3238, and at 95%, confidence interval ranges from -.6090 to 1.1890 with degree of freedom of 4, and statistical significance (2-tailed p-value) of the paired t-test( $p\text{-value}(|T| > |t|)$ ) under the mean critical value of 0.0000. The results indicate that t-statistics is 0.8956 and the p-value stands 0.4211. Because the p-value is very higher( $0.4211 > 0.05$ ), the study concludes that, even though there is a positive correlation between implementation of IPSAS and increase in understandability of financial information, there is no evidence that this is statistically significant as a proof that a mean average increases in quality of understandability characteristics of IPSAS based audited financial reports compared to the OLD standard based audited financial reports. Therefore, the evidence is not sufficient to reject the null hypothesis 0. Consequently, there is insufficient evidence to support the claim of hypothesis 5 stating that: understandability of financial information under IPSAS based audited financial reports is more positively & significantly correlated to the financial reporting quality. For this reason, we fail to reject the null hypothesis 0 stating that: there is no significant differences between the means of populations of IPSAS based audited financial reports and, the OLD-standard based audited financial reports pertaining to the characteristics of understandability of the financial information.

This is in an accord with a study carried out by Robert(2016) in that the study result revealed no significant improvement seen in understandability of Financial information resulting from adoption of IPSAS in Kenya by public sectors offices.

This is mostly attributed to the presence of more technical jargons in the IPSAS based financial report, and is the area where old standard based reports outperformed by (32%). This contributed to dramatically reducing of the average mean differences of the variables between IPSAS based report and the old standard based reports.

**Table 8: Understandability quality difference: Paired t-test**

		<b>N</b>	<b>MEAN</b>	<b>Stdd. dev.</b>	<b>Stdd. error</b>
<b>Pair-1</b>	<b>IPSAS BASED Understandability</b>	<b>5</b>	<b>3.17</b>	<b>0.7727</b>	<b>0.3455</b>
	<b>OLD-STD BASED Understandability</b>	<b>5</b>	<b>2.88</b>	<b>0.8236</b>	<b>0.3683</b>

**Table 9: Significance differences in Quality scores of Understandability- Paired t-test**

		Paired-differences					t-value	D.F.	P value (2 tailed)
		Mean	Std. dev.	Stdd. error	95%- CI				
					Low	High			
<b>Pair-1</b>	<b>IPSA-Based Understandability</b> <b>Old-STDD- based Understandability</b>	<b>0.29</b>	<b>0.7241</b>	<b>0.3238</b>	<b>-0.6090</b>	<b>1.1890</b>	<b>0.8956</b>	<b>4</b>	<b>0.4211</b>

#### **4.1.3.1.4. Comparability**

The study revealed informative descriptive statistics including mean and standard deviations of comparability under IPSAS based audited financial reports, and the OLD standard based audited financial reports. The study also displayed the factual results from paired t-test procedure. The results of the paired t-test indicated the mean difference = 0.63, standard deviation = 0.3962, the mean standard error = 0.1772, confidence interval at 95% ranges from 0.1380 to 1.1220, and with degree of freedom of 4, and the statistical significance (2-tailed P-value) of the paired-test (P-value( $|T| > |t|$ )) under the mean difference critical value of 0.0000. T-test statistics indicated by the result is 3.5553, and the p-value stands 0.0237. Given the p-value is lower ( $0.0237 < 0.05$ ), the conclusion from the study is that there is a strong evidence that is statistically significant that there is an increase in the mean average of qualitative characteristics of comparability of IPSAS based audited financial reports compared to the old standard based audited financial reports. Hence, there is sufficient evidence to reject the claim of the null hypothesis 0. Consequently, sufficient evidence is there to support the claim of hypothesis 3 stating that: comparability of financial information under IPSAS based audited financial reports is more positively & significantly correlated with the quality of financial reporting. Therefore, we reject the null hypothesis 0 stating that : there is no significant differences between the mean of populations of IPSAS based audited financial reports and old-standard based audited financial reports pertaining to the characteristics of comparability of the financial information.

This is in line with a number of empirical studies confirming that IPSAS adoption resulted in a significant improvement of comparability of the financial information. For instance, a study carried out by Prosper(2028) on African Union showed that IPSAS adoption, among other things, brought significant improvement in the financial information's comparability. William(2016) says, "financial reporting standards enhances the comparability of financial statements among firms, force management to be disciplined, and bring credibility to the accounting profession."

**Table 10: Comparability quality difference: Paired t-test**

		<b>N</b>	<b>MEAN value</b>	<b>Stdd. dev.</b>	<b>Stdd. error</b>
<b>Pair-1</b>	<b>IPSAS BASED Comparability</b>	5	3.06	0.7309	0.3269
	<b>OLD-STD BASED Comparability</b>	5	2.43	0.4536	0.2029

**Table 11: Significance differences in Quality scores of comparability-  
Paired t-test**

		Paired differences					t- value	D.F	P value (2 tailed)
		Mea n	Std. dev.	Std. error	95%- CI				
					Low	High			
<b>Pair 1</b>	<b>IPSA-Based Comparability  Old-STDD- based Comparability</b>	<b>0.63</b>	<b>0.3962</b>	<b>0.1772</b>	<b>0.1380</b>	<b>1.1220</b>	<b>3.5553</b>	<b>4</b>	<b>0.0237</b>

#### **4.1.3.2. Paired sample t-test- IPSAS based reports vs old standard based reports**

With regards to financial reports, the study revealed informative descriptive statistics including mean and standard deviations of both IPSAS-based audited financial reports, and the old standard based audited financial reports. The study also displayed the factual results from paired t-test procedure. The results of the paired t-test indicated the mean difference = 0.404, standard deviation = 0.4630, the mean standard error = 0.0926, confidence interval at 95% ranging from 0.2129 to 0.5951, and with degree of freedom of 24, and the statistical significance (2-tailed P-value) of the paired-test ( $P\text{-value}(|T|>|t|)$ ) under the mean difference critical value of 0.0000. T-test statistics indicated by the result is 4.3630, and the p-value stands 0.0002. Given the p-value is lower ( $0.0002 < 0.05$ ), the conclusion from the study is that there is a strong evidence that is statistically significant confirming an increase in the mean average of qualitative characteristics of IPSAS based audited financial reports compared to the old standard based audited financial reports. Hence, there is sufficient evidence to reject the claim of the null hypothesis 0. Consequently, sufficient evidence is there to support the claim of hypothesis 6 stating that: Overall quality of Financial reports of NGOs operating in Ethiopia is positively and significantly correlated with implementation of IPSAS. Therefore, we reject the null hypothesis 0 stating that : there is no significant differences between the means of populations of IPSAS based audited financial reports and the old standard based audited financial reports pertaining to the characteristics of relevance of financial information; faithful representation of the transactions, events and situation of the reporting entities; understandability of the financial information; Comparability of information contained in the financial reports; and timeliness in providing financial information to users.

The study result is in line with empirical studies strengthening that implementing IPSAS resulted in significant improvement of the financial reports information quality that is useful in decision making. For example, IASB (2010) argues that the level of quality in the financial information provided by the financial reports determines the usefulness of information for economic decision making; to achieve this, the concept of qualitative characteristics of the financial reports: providing relevant information, fair presentation of the economic reality of the organization, organization of the reports in an understandable manner, ensuring comparability of items in the financial statements, and timely providing the information to the users are of paramount importance.

According to a study conducted by Patricia, Isabel, and Maria (2019) in Portugal and Spain who implemented IPSAS by reforming their national level standard, considerable improvement in the quality of the financial reports was observed following their adoption of IPSAS.

Indeed, practical issues pose a significant influence on success or failure of implementation of IPSAS. For example, in the case of NGOs operating in Ethiopia, the adoption of IPSAS is not only at its earlier stage, but also lack of sufficient awareness raising initiatives about the benefits of IPSAS, and low level commitment paid the by managements of most of the implementor organizations are among the identified issues by the a recent survey study conducted (Saron, and Sabela, 2021)

**Table 12: IPSAS based vs Old standards based reports quality  
differences: Paired sample t-test**

		<b>N</b>	<b>MEAN value</b>	<b>Stdd. Dev.</b>	<b>Stdd. error</b>
<b>Pair-1</b>	<b>IPSAS BASED FINACIAL REPORT</b>	25	2.838	0.7295	0.1459
	<b>OLD-STD BASED FINANCIAL REPORT</b>	25	2.434	0.7100	0.1420

**Table 13: Significance differences of quality of IPSAS based vs old  
Standard reports - Paired sample t-test**

		Paired-differences					t- value	D.F	P value (2 tailed)
		Mean diff.	Stdd. dev.	Stdd. error	95%- CI				
					Low	High			
<b>Pair- 1</b>	<b>IPSA-Based Report  Old-STDD- based report</b>	<b>0.404</b>	<b>0.4630</b>	<b>0.0926</b>	<b>0.2129</b>	<b>0.5951</b>	<b>4.3630</b>	<b>24</b>	<b>0.0002</b>

# **CHAPTER FIVE: SUMMARY RESULTS ,CONCLUSION AND RECOMENDATIONS**

## **5.0. Introduction**

This last chapter focuses on summary of results produced by the study, conclusions drawn on the basis of empirical evidences, and hands-on recommendations that are reasonable for practical actions. Thus, it highlights major findings of the study, bring together those related issues and topics, categorizes issues and topics, and draws conclusion based on those topics and issues. Finally, the chapter proposes recommendations on the effective ways that lead to tapping benefits that implementation of IPSAS can potentially bring to decision usefulness of NGOs sector, and to other relevant stakeholders.

## **5.1. Summary results**

The descriptive results of the study showed that the quality differences of IPSAS based audited financial reports on average scored higher than those of the old standards based audited financial reports. In other words, as compared to old standards based financial reports, the IPSAS based financial reports, disclosed information that are more relevant; presented fairly real economic situations of the NGOs; enables the organization to present financial information in an organized and understandable manner; discloses financial figures in a way that enable users to easily identify similarities and differences; and the financial reports are prepared and audited in a timely manner.

The study results revealed that IPSAS based audited financial reports have differences that are significant statistically when compared to the old standards based audited financial reports in providing information that are relevant to decision making, fairly presenting real transactions, events and situation of the NGOs, producing comparable information, and timely preparation and presenting for audit of the financial statements. However, pertaining to the characteristics of understandability, the mean differences due to adoption of IPSASs, though found to be positively correlated, is not statistically significant.

This results of the study is in conformity with the literatures in that they revealed IPSAS based audited financial reports' superiority in terms of enhancing of financial information quality for decision usefulness. Vitality of financial reports prepared and presented according to IPSAS for establishing detailed and quality information is demonstrated by the empirical evidences, and this is in conformity with most of the literatures reviewed. For instance, Patricia, Isabel, & Maria (2019) in Portugal and Spain, who have harmonized their national standards with IPSAS, revealed that the adoption of IPSAS resulted in a significant improvement in the quality of the financial reports. Robert (2016) conducted a survey study on the effects of adoption of IPSAS on the quality of financial reports in the public sector in 19 Ministries of the National Government Kenya, that revealed the adoption IPSAS brought significant difference in the quality of the financial reports of the government ministries based on the paired sample t-test statistics. All of the 19 ministries were selected as the sample as the number is too small to select a sample from. To conduct the study, the researcher used secondary data of audited financial reports under IPSAS in comparison with audited financial reports under the previous standards from 19 ministry offices of Kenya. The data analysis was carried out using descriptive approach, and t-test method to examine differences in quality. 5-point Likert scale was used to measure the data from the researcher point of view. Results of the study showed that there are significant improvements in all qualitative characteristics of the financial reports except for the understandability where by the difference is not statistically significant. Mensah (2021) in Ghana, on the adoption of IFRS by manufacturing firms listed on the Countries stock exchange resulted in improvement of the financial management quality. Sombo (2022) carried out a study on effect of IPSAS on the quality of financial reporting in Ministries, Departments and Agencies (MDAs) of Benue state, Nigeria using a descriptive survey research design, revealed that IPSAS adoption has significantly impacted the faithful representation and understandability of financial reporting quality which significantly enables various stakeholders have a clear understanding of the contents of the such reports

The adoption of IFRS/IPSAS by Ethiopia was basically derived from world bank report (2007) which recommended to the government to enact law supporting a centrally coordinated framework for Financial reporting which is the first step in the effort to improve the process of reporting on financial matters in the history of the Country. This was followed by enacting proclamation No

847/2014, and associated Council of Ministers regulation 332/2014 which laid ground for adoption of the standards(both IFRS and IPSAS) in the Country.

## **5.2. Conclusion**

The study argues that implementation of IPSAS for preparation and presentation of financial reports by NGOs operating in Ethiopia, driven by the factors underlying the primary qualitative characteristics(relevance and faithful representation) , and enhancing qualitative characteristics( comparability and timeliness), resulted in an overall significant improvement in the quality of financial information contained in the audited financial reports. Nevertheless, IPSAS adoption, though showed a positive mean difference from that of the old standard based reports, revealed no statistically significant difference on the enhancing qualitative characteristics of understandability of the financial information.

On aggregate, quality differences scored on IPSAS based audited financial reports exceeded that of the old standards based audited financial reports in meeting decision usefulness criterion. Nonetheless, the management and monitoring processes of implementation of IPSAS based financial reports by NGOs in Ethiopia is still at its infant stage.

Granting of extension of IPSAS adoption deadline to NGOs by AABE paved a way for some NGOs to relax in prioritizing the adoption task, and is compounded by complexity of the standards, sizable costs involved in its implementation process, and low appetite of the implementor organizations to observe the standards' benefits, could be hinderance for the NGOs to exhaustively observe the full benefits that adoption of the standards could bring to them in particular, and to the economy in general. Concurrently, most NGOs are operating in the very stiff competitive funding environment, and tend to view adoption of IPSAS as an extravagant exercise, but merely to demonstrate their compliance with the regulatory requirement. There is no evidence that there have been a higher level formal evaluation of the standards implementation progress by the regulatory body.

Limitation in the availability of qualified professionals in the NGOs who can easily understand the literal meaning of the jargons of IPSAS standards and to interpret them to the required level.

However, the researcher, to overcome this challenge, could use his competency and practical experiences in dealing with IPSAS based financial reports in the NGOs environment.

Evidences gathered through the study concludes that there exists a statistically significant differences between IPSAS based audited financial reports and the old standards based audited financial reports. Therefore, adoption of IPSAS has significant effect on the quality of financial information conveyed by the financial reports prepared and presented in accordance with the standards.

### **5.3. Recommendations**

Given the conclusions reached on the basis of the study results, the doer of the research suggests possible and practical actions as follows:

- All relevant stakeholders including NGOs Senior management, AABE's senior officials and experts, and donors and other key stakeholders should have a discussion as to the real benefit that the adoption of IPSAS can bring to the development agenda of the Country, hence motivate commitments from all concerned.
- AABE, as a national regulatory body on the financial reporting process should facilitate formal evaluation of IPSAS implementation progress in Ethiopia; the extent of suitability of the standards to the NGOs, and communicate the results to all stakeholders signifying the next step of the process and select and promote the best course of action, to improve transparency and accountability in the aid economy.
- There should be well- established and effective process for IPSAS financial reports quality assurance at the regulatory body's organizational level with functions of defining types and extent of information that IPSAS report should contain within the framework of the standards, and enable the stakeholders to yield the maximum benefits from adoption of the standards.
- Consistent refresher training should be given to management and finance professionals of the NGOs to raise their awareness to the level that they could understand the adoption of

IPSAS for preparing and presenting financial report is more than just striving to ensure compliance with the regulatory requirements.

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## APPENDIX: A

### Operationalized qualitative characteristics

<i>Relevance</i>			
Question No.	Question	Operationalization	Concept/ Criteria
R1. (1)	To what extent does the presence of the forward- looking information(projected cashflow, revenue and expenses grow , funding strategy) help forming expectations and predictions concerning the future of the NGO?	<p>1= No forward-looking information</p> <p>2=Forward-looking information not apart subsection</p> <p>3 = Apart subsection</p> <p>4 = Extensive predictions</p> <p>5 = Extensive predictions useful for making expectation</p>	Predictive value
R2. (2)	To what extent does presence of non-financial information ( such as information on compliance with regulatory requirements, donor requirements, and internal policies and procedures) terms of opportunities and risks complement the financial information of the NGO?	<p>1= No non- financial information</p> <p>2= Limited non-financial information, not very useful for forming expectations</p> <p>3 = Sufficient useful non-financial information</p> <p>4 = Relatively much useful non-financial information, helpful for developing expectations</p> <p>5 = Very extensive non-financial information presents additional information which helps developing expectations</p>	Predictive value

R3.(3)	To what extent does the entity use fair value (current market value) as measurement basis of its assets and liabilities instead of historical cost?	1= Only Historical cost 2= Most Historical cost 3= Balance fair value and Historical cost 4= Most Fair value 5 = Only fair value	Predictive value
R4.(4)	To what extent does the annual report of the NGO contains information on Safeguarding( information on empowerment, protection, partnership and accountability to children or those at risk group ?	1= No information on Safeguarding 2 = Limited information on Safeguarding 3 = Sufficient information on Safeguarding	Predictive value

		4 = Very much information on Safeguarding 5 = Very extensive information on Safeguarding	
R5. (5)	To what extent does the annual report of the NGO contains an analysis (detail information) concerning the organization's historical cash flows ?	1= No analysis 2= Limited analysis 3= Sufficient analysis 4 = Very much analysis 5 = Very extensive analysis	Predictive value
R6. (6)	To what extent are the "off-balance" activities(any form of leases and loans) that are not reported on the face of the financial statements of the	1= No disclosure 2= Limited disclosure 3= Sufficient disclosure 4= Very much disclosure	Predictive value

	NGO are disclosed?	5 = Very extensive disclosure	
R7.(7)	To what extent does the annual report contains information concerning the NGO's going concern?	<p>1= No information concerning going concern</p> <p>2= Limited information concerning going concern</p> <p>3= Sufficient information concerning going concern</p> <p>4= Very much information concerning going concern</p> <p>5= Very extensive information concerning going concern</p>	Predictive value
R8.(8)	To what extent are the intangible assets(such reputation, Relationship and goodwill) of the NGO are disclosed ?	<p>1= No disclosure</p> <p>2 = Limited disclosure</p> <p>3 = Sufficient disclosure</p> <p>4 = Very much disclosure</p> <p>5 = Very extensive disclosure</p>	Predictive and confirmatory value
R9.(9)	To what extent is the financing structure (mix of general fund and restricted fund, short term and long-term funding streams of the NGO) disclosed?	<p>1= No disclosure</p> <p>2= Limited disclosure</p> <p>3= Sufficient disclosure</p> <p>4= Very much disclosure</p> <p>5= Very extensive disclosure</p>	Predictive and confirmatory value
<b><i>Faithful Representation</i></b>			

F1.(10)	To what extent are valid arguments provided to justify the decision for certain assumptions and estimates( deprecation, amortization, write-offs) in annual report of the NGO ?	1= No valid arguments 2= Limited valid arguments 3= Sufficient valid arguments 4= Very much valid arguments 5 = Very extensive valid arguments	Verifiability
F2.(11)	Which type of auditors' report(audit opinion) is achieved by the NGO and included in the annual financial report?	1= Adverse opinion 2= Disclaimer of opinion 3= Qualified opinion 4= Unqualified opinion: financial figures 5= Unqualified opinion: financial figures + internal control	Free from material error, verification, neutrality, and completeness
F3.(12)	To what extent does the NGO provide information on corporate governance(risk management process, independence of board of directors, audit committee and ethical issues) of the NGO ?	1= No description of corporate governance 2= Limited description of corporate governance 3= Sufficient description of corporate governance 4 = Very much description of corporate governance 5 = Very extensive description of corporate	Completeness, verifiability, and free from material error

		governance	
F4.(13)	To what extent does the annual financial report contains presentation/ disclosures related to both positive (contingent assets) and negative	1= No disclosure 2= Limited disclosure 3= Sufficient disclosure 4= Very much disclosure	Completeness and verifiability

	Contingent (contingent liabilities) of the NGO ?	5= Very extensive disclosure	
F5.(14)	To what extent does the annual report contain information concerning bonuses of the board of directors/ Senior Management of the NGO ?	1= No information concerning bonuses 2=Limited information concerning bonuses 3=Sufficient information concerning bonuses 4= Very much information concerning bonuses 5= Very extensive information concerning bonuses	Neutrality
<b><i>Understandability</i></b>			
U1.(15)	To what extent is the annual financial report of the NGO presented in a well-organized manner ?	1= Very bad presentation 2= Bad presentation 3= Poor presentation 4= Good presentation 5= Very good presentation	Understandability
U2.(16)	To what extent does the presence of graphs and tables clarify the presented information of the NGO ?	1 = No graphs/ tables 2 = 1-5 graphs / tables 3 = 6-10 graphs /tables 4 = 11-15 graphs /tables 5 = > 15 graphs /tables	Understandability
U3.(17)	To what extent does the annual financial report of the NGO contains technical jargons in the perception of the researcher ?	1 = Very much jargon 2 = Much jargon 3 = Moderate use of jargon 4 = Limited use of jargon 5 = No/hardly any jargon	Understandability

U4.(18)	What is the size of the glossary of terms in the annual financial report of the NGO ?	1 = No glossary 2 = Less than 1 page 3 = Approximately 1 page 4 = 1-2 pages 5 = > 2 pages	Understandability
U5.(19)	To what extent does the annual report contain information concerning mission and strategy of the NGO ?	1= No information concerning mission and strategy 2= Limited information concerning mission and strategy 3= Sufficient information concerning mission and strategy 4= Very much information concerning mission and strategy 5= Very extensive information concerning mission and strategy	Understandability
<b><i>Comparability</i></b>			
C1.(20)	To what extent are changes in accounting policies of the NGO disclosed in the annual financial report ?	1= No disclosure 2= Limited disclosure 3= Sufficient disclosure 3= Very much disclosure 4= Very extensive disclosure	Consistency
C2.(21)	To what extent are changes in accounting estimates of the NGO disclosed in the annual financial report ?	1= No disclosure 2= Limited disclosure 3= Sufficient disclosure 4= Very much disclosure	Consistency

		5= Very extensive disclosure	
C3.(22)	To what extent does the annual financial report contains information concerning comparison of the NGO's results over different period , and the effects on the financial statement of changes in accounting policy ?	1= No comparison 2= Actual adjustments (1 year) 3= 2 years 4= 3 years 5= 4 or more years	Consistency
C4.(23)	To what extent does the NGO presented financial index numbers and ratios as financial performance indicators in its annual financial report ?	1= No ratios 2= 1-5 ratios 3= 6-10 ratios 4= 11-15 ratios 5= > 15 ratios	Comparability
C5.(24)	To what extent does the annual financial report contains benchmark information from the NGO for comparison purpose ?	1= No benchmark information 2= Limited benchmark information 3= Sufficient benchmark information 4= Very much benchmark information 5= Very extensive benchmark information	Consistency
<b><i>Timeliness</i></b>			
T1.(25)	How many days did it take for the auditor to sign the auditors' report after book-year end of the NGO ?	Natural logarithm of amount of days: 1= 5-5.99 (148- 365 days) 2= 4-4.99 (55- 147 days) 3= 3-3.99 (21- 54 days) 4= 2-2.99 (8- 20 days) 5= 1-1.99 (3- 7days)	Timeliness

## APPENDIX: B

### Questionnaire for rating items of qualitative characteristics of financial reports

The scale is based on 5-points Likert scale (5= strongly agree 4= agree 3= undecided 2= disagree 1= strongly disagree.)

<i>Variables and Items under the variables</i>	5		4		3		2		1	
	IPSAS based	Old-Standard based	IPSAS based	Old-Standard based	IPSAS based	Old-Standard based	IPSAS based	Old-Standard based	IPSAS based	Old-Standard based
<b><i>Relevance</i></b>										
1. To what extent does the presence of the forward- looking information(projected cashflow, revenue and expenses grow , funding strategy) help forming expectations and predictions concerning the future of the NGO?										
2. To what extent does presence of non-financial information ( such as information on compliance with regulatory requirements, donor requirements, and internal policies and procedures) terms of opportunities and risks complement the financial information of the NGO?										
3. To what extent does the entity use fair value (current market value) as measurement basis of its assets and liabilities instead of historical cost?										
4. To what extent does the annual report of the NGO contains information on Safeguarding( information on empowerment, protection, partnership and accountability to children or those at risk group ?										

5. To what extent does the annual report of the NGO contains an analysis (detail information) concerning the organization's historical cash flows ?										
6. To what extent are the "off-balance" activities(any form of leases and loans) that are not reported on the face of the financial statements of the NGO are disclosed?										
7. To what extent does the annual report contains information concerning the NGO's going concern?										
8. To what extent are the intangible assets(such reputation, Relationship and goodwill) of the NGO are disclosed ?										
9. To what extent is the financing structure (mix of general fund and restricted fund, short term and long-term funding streams of the NGO) disclosed?										
<b><i>Faithful Representation</i></b>										
10. To what extent are valid arguments provided to justify the decision for certain assumptions and estimates( depreddation, amortization, write-offs) in annual report of the NGO ?										
11. Which type of auditors' report(audit opinion) is achieved by the NGO and included in the annual financial report?										
12. To what extent does the NGO provide information on corporate governance(risk management process, independence of board of directors,										

audit committee and ethical issues) of the NGO ?										
13. To what extent does the annual financial report contains presentation/ disclosures related to both positive (contingent assets) and negative Contingent (contingent liabilities) of the NGO ?										
14. To what extent does the annual report contain information concerning bonuses of the board of directors/ Senior Management of the NGO ?										
<b><i>Understandability</i></b>										
15. To what extent is the annual financial report of the NGO presented in a well-organized manner ?										
16. To what extent does the presence of graphs and tables clarify the presented information of the NGO ?										
17. To what extent does the annual financial report of the NGO contains technical jargons in the perception of the researcher ?										
18. What is the size of the glossary of terms in the annual financial report of the NGO ?										
19. To what extent does the annual report contain information concerning mission and strategy of the NGO ?										
<b><i>Comparability</i></b>										
20. To what extent are changes in accounting policies of the NGO disclosed in the annual financial report ?										

21. To what extent are changes in accounting estimates of the NGO disclosed in the annual financial report ?										
22. To what extent does the annual financial report contains information concerning comparison of the NGO's results over different period, and the effects on the financial statement of changes in accounting policy ?										
23. To what extent does the NGO presented financial index numbers and ratios as financial performance indicators in its annual financial report ?										
24. To what extent does the annual financial report contains benchmark information from the NGO for comparison purpose ?										
<b><i>Timeliness</i></b>										
25. How many days did it take for the auditor to sign the auditors' report after book-year end of the NGO ?										

# APPENDIX: C

## ITEMS BASED ANALYSIS OF DATA

ITEM	1		2		3		4		5		6		7		8		9		10		11		12		13		14		15		16		17		18		19		20		
	IPSAS-BASED	OLD-STDDS	IPSAS-BASED	OLD-STDDS	IPSAS-BASED	OLD-STDDS	IPSAS-BASED	OLD-STDDS	IPSAS-BASED	OLD-STDDS	IPSAS-BASED	OLD-STDDS	IPSAS-BASED	OLD-STDDS	IPSAS-BASED	OLD-STDDS	IPSAS-BASED	OLD-STDDS	IPSAS-BASED	OLD-STDDS	IPSAS-BASED	OLD-STDDS	IPSAS-BASED	OLD-STDDS	IPSAS-BASED	OLD-STDDS	IPSAS-BASED	OLD-STDDS	IPSAS-BASED	OLD-STDDS	IPSAS-BASED	OLD-STDDS	IPSAS-BASED	OLD-STDDS	IPSAS-BASED	OLD-STDDS	IPSAS-BASED	OLD-STDDS			
R1	2	2	3	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2		
R2	3	2	3	2	3	2	3	2	2	2	3	2	3	2	2	2	2	2	3	2	2	2	2	2	2	3	2	3	2	3	2	3	2	3	2	2	2	3	2		
R3	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2		
R4	3	2	3	2	3	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2		
R5	3	2	3	3	3	2	3	2	3	2	3	2	3	3	3	2	3	2	3	2	3	3	2	3	3	2	2	3	2	3	2	3	2	3	2	2	3	3	3		
R6	3	3	3	2	3	2	3	2	3	2	3	3	3	2	3	2	3	2	3	2	3	2	2	3	2	3	2	2	2	2	2	2	3	2	2	2	2	2	2		
R7	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	2	2	3	3	3	3	3	3	3	3	3	3	3	2	2	3	3	2	2	2	2	3	3		
R8	2	2	2	2	3	2	3	2	3	2	3	2	3	2	3	2	3	2	2	2	3	2	3	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	3	2	
R9	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	2	2	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	
	24	21	25	21	25	20	24	20	23	20	24	21	24	21	23	20	22	19	23	20	23	21	22	20	21	20	21	20	22	20	21	19	23	20	21	19	19	20	23	21	
	2.6667	2.3333	2.7778	2.3333	2.7778	2.2222	2.6667	2.2222	2.5556	2.2222	2.6667	2.3333	2.6667	2.3333	2.5556	2.2222	2.4444	2.1111	2.5556	2.2222	2.5556	2.3333	2.4444	2.2222	2.3333	2.2222	2.3333	2.2222	2.4444	2.2222	2.3333	2.1111	2.5556	2.2222	2.3333	2.1111	2.1111	2.2222	2.5556	2.3333	
F1	2	2	3	3	2	2	3	2	3	2	3	2	3	2	2	2	3	2	3	2	3	2	2	2	3	2	3	2	3	2	2	2	2	2	2	3	3	3	2		
F2	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	3	3	5	5	5	4	5	5	5	5	5	5	5	5	4	5	5	5	4	5	5	
F3	2	2	3	2	2	2	3	2	3	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	3	2	2	2	2	2	2	2	2	2	2	2	2	2	2	
F4	2	2	3	2	2	2	2	2	2	2	3	2	2	2	2	2	2	2	2	2	2	2	2	2	2	3	2	2	2	2	2	2	2	2	2	2	2	2	2	2	
F5	2	2	3	2	3	3	2	2	3	2	3	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	
	13	13	17	14	14	14	15	13	16	13	16	13	14	13	13	13	14	13	14	13	13	11	15	13	13	12	16	13	14	13	14	13	13	13	12	13	13	14	13	14	13
	2.6	2.6	3.4	2.8	2.8	2.8	3	2.6	3.2	2.6	3.2	2.6	2.8	2.6	2.6	2.6	2.8	2.6	2.8	2.6	2.6	2.2	3	2.6	2.6	2.4	3.2	2.6	2.8	2.6	2.8	2.6	2.6	2.4	2.6	2.6	2.8	2.6	2.8	2.6	
U1	4	4	4	4	3	3	4	4	3	3	4	4	4	4	3	3	3	3	3	3	3	3	3	3	4	4	3	3	3	3	3	3	4	4	4	4	3	3	4	4	
U2	4	3	4	3	4	3	4	3	4	3	4	3	4	3	4	3	3	2	3	3	3	3	3	3	3	3	2	3	3	3	2	2	3	3	3	3	2	3	3		
U3	3	4	3	4	3	4	3	4	3	4	3	4	3	4	3	4	3	4	3	4	3	4	3	4	3	4	3	4	3	4	3	3	3	4	3	4	3	4	3	4	
U4	3	2	3	2	2	2	2	2	3	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	3	2	2	2	2	2	2	2	3	2	2	3	2	3	2	2	
U5	3	2	3	2	3	2	3	3	2	2	3	2	3	2	2	2	3	2	3	3	2	3	2	2	2	2	2	3	2	3	3	3	2	2	2	2	2	2	3	3	
	17	15	17	15	15	14	16	16	15	14	16	15	16	15	14	14	14	13	14	15	14	14	14	14	15	15	13	13	14	14	15	14	14	14	14	15	15	14	13	16	16
	3.4	3	3.4	3	3	2.8	3.2	3.2	3	2.8	3.2	3	3.2	3	2.8	2.8	2.8	2.6	2.8	3	2.8	2.8	2.8	2.8	3	3	2.6	2.6	2.8	2.8	3	2.8	2.8	2.8	2.8	3	3	2.8	2.6	3.2	3.2
C1	3	2	3	2	3	2	3	3	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	3	2	
C2	3	2	3	2	3	2	3	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	3	2
C3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	2	2	3	3	3	3	3	3	3	3	3	3	3	3	3	3
C4	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2
C5	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2
	13	11	13	11	13	11	13	12	11	11	11	11	11	11	11	11	11	11	11	11	11	13	11	14	11	11	11	10	10	11	11	13	12	11	11	12	11	14	11	14	11
	2.6	2.2	2.6	2.2	2.6	2.2	2.6	2.4	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
T1	2	2	3	3	3	3	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2
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	2	2	3	3	3	3	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2