Addis Ababa University

School of graduate studies

College of Business and Economics

Department of Accounting and Finance

MSC :-Project

Challenges of financial reporting practice in public sectors in Ethiopia.

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A Project submitted to the Department of Accounting and Finance College of Business and Economics Presented in partial fulfillment of the requirements for the degree of Master of Science in Accounting and Auditing

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<u>Statement of Declaration</u>

I, the undersigned declare that these entitled “challenge of financial reporting in public sector in Ethiopia ‘ is my own work.

I have carried out independently the research work with the guidance and support of the research Advisor. This study has not been summited for any degree/Diploma in this or any other institution. It is done in partial requirement of the MSC degree in accounting and auditing

Alehegn Mewahagn

Date March,2018

Addis Ababa University

School of Graduate Studies

This is to certify that the Project prepared by Alehegn Mewahagn entitled: Challenges of Financial Reporting in public sector in Ethiopia and Submitted in partial fulfillment of the requirements for the degree of Master of Science in Accounting and auditing complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

Approved by:

Advisor: G/Medehen G/Hiwot (Ato) Signature________________ Date_______

Addis Ababa University

College of Business & Economics

Department of Accounting & Finance

(Graduate Program)

Challenge of financial reporting in public sector in Ethiopia: A critical challenges as institutional, infrastructure, political and socio-economics for public sector financial reporting

By: -Alehegn Mewahagn

Approved by the Board of Examiners:

Advisor:

Ato G/medihin G/Hiwet ____________----- ---------------

Examiner Signature Date

Internal Examiners

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Examiner Signature Date

Chief Person

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Examiner Signature Date

Abstract

The purpose of this study is to assess the Challenges of financial reporting in public sector in Ethiopia. The primary data was collected using questionnaire while the secondary data were collected from files, office manuals, circulars and policy papers then the collected data are analyzed using statistical analysis then presented using tables, graphs, charts and descriptive statistics. The study found that challenges of financial reporting by Ethiopia would improve the quality of accounting so as to make judgmental decision among users of accounting information. One of the foremost requirements to operate a public finance successfully is to have a good financial reporting system in place.

The study was conducted taking the sample through which included institutional, political infrastructural as well as socio- economic that hamper the effectiveness, efficacy and accuracy as well relevance of financial reporting in the study areas.

The accuracy and relevance of public financial report has to increase its level of accuracy by avoiding measurement, process and preparation errors and formulating high standardized reporting procedures and system supported with infrastructure for the real time decision making. This would have shed light to increase the standard of public financial reporting in the public sector to maintain accuracy reliability and timeliness and punctuality for real time decision making on the basis of financial reporting.

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Acronyms

FASB	Financial Accounting Standard Board
GPER	Government Financial reporting
PDRE	Peoples Democratic Republics of Ethiopia
EPAAA	Ethiopian Property and Asset administration Agency
ECEA	Ethiopian Commodity Exchange Authority
IFRS	International Financial Reporting Standards
NBE	National Banks of Ethiopia
MO FED	Ministry of Finance and Economic Development
SPSS	Statistical Packages for Social Science
CPER	Central Public Financial Report
IIA	Institute of internal Auditor
ASE	Accounting Society of Ethiopia
CFR	Challenges of public sector financial reporting
IPSASB	The International Public Sector Accounting Standards Board
IFSB	International financial standard board
OPP	Obligatory Passage Point
CICA	The Canadian Institute of Chartered Accountants

CHAPTER ONE

1. INTRODUCTION

This part of the project presents the background of the study, statement of the problem, research objective, research questions, and significance of the study, scope, limitation and organization of the paper.

1.1 Background of the Study

Public sector financial reporting is a sizzling issue at the moment (FASB, 2006). It is vital to secure economic growth and development by capitalizing on the efficient use of limited public finance (Abdu, 2014). Public sector financial reporting is getting due emphasis as it is one of the ways to understand how public entities account for their stewardship of public money and other assets. (Arotake,2016). The Canadian Institute of Chartered Accountants (CICA 2003) underlines that financial report in the public sector has important consequences for the capacity of nation in managing public sector spending and to introduce actions to enhance accountability and transparency. One of the key aspects of the Public Finance reporting is to provide information on a regular basis to management, the appropriate Minister, the National Treasury, Cabinet and Parliament. Fourie (2002:120) argues that reporting can be considered according to two basic principles. Firstly, there is reporting with regard to strategic issues on a quarterly basis to the Minister; this reporting must evaluate the extent to which the objectives have been met against the performance indicators that were set in the budget documents to Parliament. This reporting also forms the basis of the annual report of the department to Parliament. Secondly, we have reporting to the Minister and accounting director on a monthly and quarterly basis on expenditure and revenue figures against the budgetary provisions. Government accounting has attracted considerable attention for several reasons:-some of these are

A. The scale and functions of modern governments, in both relative and absolute terms (World Bank, 1997).More money requires more financial accounting. Managing with less money necessitates different kind of accounting—cost accounting—for improving efficiency and economy

B. Financial reporting is regarded as a weapon against fraud and waste in government. Do not nations and international organizations have realized the value of accounting in maintaining sound financial systems.

Financial reporting helps in decision-making and in increasing accountability, openness, transparency, and trust in the public sector (Arotake, 2016). Specifically, Daniel (2010) notes that the objectives of general purpose financial reporting in the public sector is to generate information useful for decision-making and demonstrate the accountability of an entity for the resources entrusted to it, by providing statistics on the allocation and uses of financial resources, on how an entity financed its activities, and on the measurement of an entity's performance in respect of the set goals. The public sector is made up of a diverse range of organizations and agencies, including government departments, local authorities, state-owned enterprises, education institutions and other public entities. These public entities are funded by money from taxpayers, donors, and lenders to achieve their intended outcomes. In turn, public entities are accountable to the providers of money and to the recipients of the goods and services (Basheka and Phago, 2014).

The main objective of public entities is to deliver services to the public and present valid financial reports ((Basheka and Phago, 2014). In the meantime, people outside the public entity are interested to understand how the public entity is spending public money including knowing whether the entity is performing effectively to achieve what was intended with public money (Basheka and Phago, 2014). It is in recognition of the need to have quality financial reports and other benefits such as its ability to significantly improve the comparability of entities and giving better access to up to date financial information (Fikru, 2012).

There are several studies conducted on public financial management and IFRS adoption in Ethiopia. The available literature indicates that, Ethiopia has given emphasis on financial reforms (Abdu, 2014) such as public financial management (MoFED, 2010), IFRS adoption (Fikru, 2012). Thus, there is lack of adequate empirical inquiries conducted on the challenges and perspectives of public sector financial reporting in Ethiopia that creates knowledge gap. This study is therefore motivated to examine the challenges and perspectives of public sector financial reporting at federal level in Ethiopia.

1.2. Problem Statement

The management and reporting of public finances remains an area of substantial leakages of public resources unless it is given due emphasis (Basheka and Phago, 2014). Public entities continue to struggle with the increasing complexities of public financial management and reporting (ACCA, 2010). They are expected to have established institutions to manage public finances effectively. However, these institutions in Africa are perpetually at fault as the amount of public resource leakage remains unacceptably high.

At this juncture, financial reports in public sector plays significant role to properly manage scarce public financial resources (Daniel, 2010). According to Bergmann (2009) public sector financial reports are backbones of financial reform programs as they help to evaluate the level of achievement and can be used as a common platform for dialogue between public entities and tax payers. Likewise, in its financial accounting series, (FASB, 2006) notes that public sector financial reporting provides information that is useful in making investment and credit decisions , in assessing cash flow prospects, and information about an entity's Resources and claims.

In order to properly achieve the aforementioned roles, objectives and functions, public sector financial reports need to meet national and international standards (IASB, 2008). Specifically, public sector financial reports need to be relevant, faithful, neutral, complete, accurate consistent, timely and understandable (FASB, 2006). However, in producing quality and timely financial reports, public accountants have been faced with many challenges and associated problems. For instance, challenges related with immateriality of financial reports and increasing costs compared with benefits gained constrained the usefulness of financial reports in decision making (FASB, 2006). Besides, the increasingly complex financial management landscape, the problems of the lack of strong leadership and political support, staff shortages, training and retention, lack of knowledge and expertise, poor reward systems, lack of motivation and the lack of appropriate accounting information technologies are key challenges that exacerbate the problems of public sector financial reporting by compromising on its quality, relevance, accuracy, effectiveness, and efficiency (FASB, 2006; The Association of Chartered Certified Accountants, 2010; Arotake, 2016).

Despite these versatile problems and challenges, yet, financial reports are important sources of decision making and play critical role to bring about accountability and equity in the use of public money. So as to address the challenges of public sector financial reporting, Ethiopia has made various financial reforms related with public budgeting, expenditure, and auditing (Abdu, 2014). Despite the coordinated efforts exerted on implementing multitude of financial reforms, there are limited empirical evidences (Fikru, 2012; Abdu, 2014) on the challenges and perspectives of public sector financial reporting in Ethiopia. In the Ethiopian context, it is not clearly known how far the available challenges constrain the quality, relevance, accuracy, effectiveness, and efficiency, and timelines of financial reports in the public sector. It needs an investigation and is an important issue that is capable of addressing challenges of financial reporting at selected federal offices. In this regard, this paper attempts to investigate the challenges and perspectives of public sector financial reporting at federal level in Ethiopia.

1.3. Objective

1.3.1. General Objective

The principal objective of the study is to investigate challenges and perspectives of public sector financial reporting at federal level in Ethiopia.

1.3.2. Specific Objectives

The specific objectives of the study include:

1. What does it look likes the institutional, infrastructural, political, and socio-economic challenges that affect public sector financial reporting?
2. To identify the different process in the preparation, use and evaluation of public sector financial reports;
3. To examine the quality, relevance, accuracy, effectiveness, efficiency, and timelines of public sector financial reports

1.4. **Research questions**

The study aims to answer the following questions:

1. What are the institutional, infrastructural, political, and socio-economic challenges that affect public sector financial reporting?
2. What are the different process in the preparation, use and evaluation of public sector financial reports?
3. Do public sector financial reports fulfill required quality? or are public sector financial reports are quality oriented?

1.5. **Significance of the Study**

The study has many advantages for all practitioners and academicians by providing useful information about challenges and prospective of financial reporting practice in public sector and issues relate to its acceptance. It was also be useful for organization's management by providing information about the theoretical and actual benefits and challenges of financial reporting. It was also very important for academic purpose by providing information empirical evidences on the challenges and perspectives of public sector financial reporting in Ethiopia. The study was also be used as an initiation for those who are interested to conduct a detailed and comprehensive study regarding the CFR in Ethiopia. And it was enable the governing body, specifically the higher responsible body, and the managements of public sector to be aware of the perceive and actual benefits of Financial Reporting's and give insight on how to adopt these financial reporting most efficiently.

1.6. Scope of the study

The general aim of the study is to assess the challenges of financial reporting in Ethiopia limiting its scope to public sectors adopting this standard. Owing to the broad and the complex nature of Financial Reporting Standards, this study were focus on the factors that could explain the challenges of financial reporting in Ethiopia by Ethiopian public sectors, the economic benefits of financial reporting in Ethiopia and the challenges as well. In light of the limited research that exists on Financial Reporting Standards and its adoption within the Ethiopian context, the study is built on the current body of knowledge and studies conducted in other countries context.

1.7. Organization of the paper.

The first chapter states background of the study, research problem, research objectives, research questions, significance, limitation and scope of the study. Chapter two presents the literature review regarding the research area of Challenges of Financial Reporting in public sector in Ethiopia and therefore will set out the theoretical foundations for the research. The third chapter outlines the research methodology. The research results are presented in chapter four. The last chapter draws conclusions and recommendation and wind up the report by highlighting future research areas.

CHAPTER TWO

2. Literature Review

This part of the project provides a bird's eye view on the conceptual, theoretical, empirical evidence and analytical frameworks of the study. The conceptual framework presents contextual definition of the basic concepts, measures and indicators to establish a logical perspective on the way how they are twined to be used in the proposed study. The conceptual framework is followed by the theoretical framework, which presents the set of appropriate theories that would enable deeper insights to understand the issue of public sector financial reporting. Finally, the strong bond between the theoretical and conceptual frameworks paves the way to formulate the basic assumptions and analytical framework of the study

2.1. Conceptual Frameworks

The first step in setting up a research strategy is to define its scope in a conceptual framework. Researchers' original conceptual framework influences the way how to plan and conduct the study. To this end, terms, concepts, measures and indicators that are deemed important and will come in handy in the are initially discussed from a wider view followed by an operational definition that specifies how each term/concept is planned to be used in the proposed study.

As it is defined, financial reporting as used in accounting standards is a conceptual issue of some complexity and one not firmly resolved. When defining financial report and reporting, the IFRS Conceptual Framework currently equates these terms with general purpose financial reports (GPFRs) and the act of presenting those reports. IFRS itself means International Financial Reporting Standards (Financial Reporting Council, 2012). Consistent with the Conceptual Framework employed in IFRS, in the context of this study, financial reporting can be said to be the periodic process of providing information in financial statements about the financial position and performance of selected federal reporting entities to assist financial information users in making informed decisions about allocating scarce resources (set the documents prepared usually by government agencies at the end of an accounting period. It generally contains summary of accounting data for that periods, with background notes, forms and other information).

2.2. Theoretical frameworks of financial reporting

This section was presents a review of related literature to challenges and perspectives of Financial Reporting and its adoption (acceptance). It consists of general overview about

Financial Reporting practice in public sector, benefits and challenges of FR in Ethiopia, factors affecting the FR and development of accounting in Ethiopia.

Since 1980 international organizations are raising concern to implement public sector accounting reforms in the developing countries (Adhikari et al. 2013). Not only developing countries, but also developed nations are giving concern for the implementation of reformed public-sector accounting. The European parliament has already taken the initiatives to mandate the member states to apply accrual accounting in the public sector (Ball & Pflugrath, 2012). It has been claimed by the researchers that the rationale for adopting accrual accounting in the public sector is grounded on neo-institutional theory (Pina, Torres, & Yetano, 2009; Pollanen & Loiselle-Lapointe, 2012). However, from theoretical conception to implications, differences and challenges are visible. It has been identified that there are heterogeneous development paths and attitudes towards NPM reforms around the world regarding strategy and content (e.g., Pina & Torres, 2003).

As a result, in these years, an increased number of researches are trying to reveal the implementation initiatives and scenario of accrual accounting in the public sector (e.g., Carpenter & Feroz, 2001; Adhikari et al. 2012). Therefore, a number of papers have been developed on practical experience regarding public sector accounting. Apart from these two board areas– theory conception and practice revealer, a number of researches are being devoted to the standards development scenario of PSA (e.g., Freeman & Allison. 2006; Benito et al., 2007; Attmore et al., 2008; Parry & Wynne 2009; Roybark et al., 2012a,b). Financial reporting involves reporting on a government's financial condition and its financial performance.

Non-financial performance reporting reports the outcomes of government actions and programs. Since the beginning of the early 1990s, the Ethiopian Government has been undertaking economic reforms (Mihret and Bobe, 2014) to induce private sector and foreign direct investment to the Ethiopian economy. In line with these reforms and the effect of globalization, Ethiopia has attracted foreign investors for the last two decades. Consistent with the founding rationale of IFRS, foreign companies operating in Ethiopia require IFRS financial reporting infrastructure to produce quality and comparable financial reports.

As per the AABE draft structure and operating document dated Feb 2010, strong, transparent and understandable financial reporting by corporate entities in the public and private sectors will contribute to the development of Ethiopian economy in various ways. In light of the importance of strong financial reporting infrastructure to the socioeconomic development of the country, a lot of efforts have been made to establish the required regulatory and institutional frameworks supporting the development and strengthening of the financial reporting systems of Ethiopia. Ethiopia's accounting regulatory landscape was diagnosed and suitably overhauled in this translation process. Improved financial reporting environment supported by IFRS was viewed as a key Obligatory Passage Point (OPP) for Ethiopia's access to external finance and this in turn led to development of a streamlined national accounting regulatory system through translation of institutions into a framework suitable for IFRS-based financial reporting.

Purposes of Government Accounting

Government accounting has three purposes. Its basic purpose is to safeguard the public treasury by preventing and detecting corruption and graft. Corruption in government exists in various forms, and is nurtured by incentives (Rose-Ackerman,1978).This is an acute problem in poor, developing countries, but corruption is not limited to them (Rose-Ackerman.1999).Gating are center port by the International Monetary Fund(IMF) and the International Development Association, Thomas(2001,p.38)observed that heavily indebted, poor countries' lac the practices and procedures necessary for budgeting, monitoring, Andre porting on the use of public resources'

The intermediate purpose of government Accounting is to facilitate sound financial management. Financial management includes activities such as collecting taxes other revenues, paying bills, borrowing and repaying debts. In a well-run government, these activities are budgeted or otherwise planned. Their execution through duly authorized transactions is recorded In the financial accounting system. Reformers want governments to operate in an economical, efficient and effective manner. In That case, governments will also need a Management or cost accounting system to find out the cost—or better still, the least cost—of Providing government services.Almost50)ears ago, Her bert Simon and his associate counseled corporate controllers to go beyond their score-keeping function to direct management' s attention to problem are a sand help solve problems (Simonetal.,1954). that advice may well apply to government accountants, who face competition from other professionals eager to provide information and financial services to government advanced purpose of government. Accounting is to help government discharge its public accountability. Public accountability Exists in three levels of principal-agent relationship: accountability} to the chief executive, of the government to the people. This purpose can be better achieved) \increasing the agent's incentive to disclose and by lowering the principal's information costs. (Downs,1957) has cautioned that it is rational for voters to begin or an the cause of the high cost of becoming informed

2.3. **Empirical Evidence of the Study**

Empirical evidence is the form evidence derived from observations and practical demonstration to complement theoretical conceptual of the study conducted by different individual scholars and organization in the field of public sector financial reporting. This has contextualized as perceived in a diverse areas of public sector financial management administration as an evidence to support for this study.

The framework for the public sectors financial performance has guided by the basic principles set out in the financial management of each individual country .According to (Baryne, 2012) entities or institutions that have difficulty in producing financial information are more likely to encounter problems in producing non-financial information. Such qualifications impact on the reporting entity that covered by the relevant reporting and assurance framework that has been put in place. This could, for example, require the underlying issues giving rise .The qualification of report to be addressed be reproduced or an explanation of the reasons for the problems to be disclosed. This is due to different factors such as institutional as well as infrastructure used for public sector financial reporting. The overall financial reporting environment has supported with the Ex- and Post- reporting jurisdiction through providing the government in standard setting for the public sectors.

In recent years there has been a proliferation of empirical studies based on social science theories, namely on the organizational theory, seeking to explain organizational change and reforms adopted in the public sector, including those of financial management and accounting systems (Brignall & Modell, 2000; Burns & Scapens, 2000; Caccia & Steccolini, 2006; Lapsley & Pallot, 2000; Scapens, 1990, 1994; Ter Bogt, 2008; Ter Bogt & Van Helden, 2000). More precisely, the authors have attempted to understand the reasons for the existing gap between regulations and accounting practices adopted by organizations, aiming to understand whether the reforms in the scope of the New Public Financial Management (NPFM) were introduced in order to overcome the real limitations of accounting information and reporting systems or simply to comply with legislative requirements The decision-making process tends to be similar in all organizations, even if decisions concern particular issues of organizations either in the public or in the private sector. The effectiveness of decision models depends on the circumstances that shape the organization (Tarter & Hoy, 1998). Organizational changes in public entities, faced with the new demands of NPM/NPFM, triggered new information needs for decision-making. Decision-makers now need useful and opportune information to be able to make the most suitable decisions, highlighting the importance of the paradigm of information users and their needs. Nevertheless, organizational changes can potentially be affected by a series of external and internal factors that should be considered in the decision-making process (Haldma & Lääts, 2002). Here, contingency and institutional theories can be used to explain the reforms in public sector accounting, particularly to explore factors possibly affecting information usefulness in the decision-making process in the context of public sector entities, namely local authorities

The process of public financial management infrastructures in the processes of working well and it made significant improvements to the public financial management finance progress. This was a further refinement to enhance effectiveness and efficiency of standards-setting for public financial management administration and accounting as well. Most importantly, it is believed that the financial reporting system would be best served in recognizing the pre-eminence of the perspective. The primary users of financial reports have also guided using an important system as important infrastructures (USSEC, 2008). Furthermore; as per the (Mcknenen, 2006) in common wealth secretariat the institutions need to be empowered to operate autonomously from government. These include political factors a range of oversight bodies, institutions provided with full legal (or constitutional) underwriting to do their job without interference, clear and transparent mandates, sufficient financial resources and human capital talent to operate efficiently, with the political space to carry out their work. These have complemented with different perspective such as preparation, use as well as knowledge and skill of the working force in the public sector financial reporting.

2.4 **Analytical framework of the study**

The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework) establishes and makes explicit the concepts that are to be applied in developing International Public Sector Accounting Standards (IPSASs) and Recommended Practice Guidelines (RPGs) applicable to the preparation and presentation of general purpose financial reports (GPFRs) of public sector entities. IPSASs are developed to apply across countries and jurisdictions with different political systems, different forms of government and different institutional and administrative arrangements for the delivery of services to constituents. The International Public Sector Accounting Standards Board (IPSASB) recognizes the diversity of forms of government, social and cultural traditions, and service delivery mechanisms that exist in the many jurisdictions that may adopt IPSASs. In developing this Conceptual Framework, the IPSASB has attempted to respond to and embrace that diversity

1 **Role of the Conceptual Framework**

1.1 The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework) establishes the concepts that underpin general purpose financial reporting (financial reporting) by public sector entities that adopt the accrual basis of accounting. The International Public Sector Accounting Standards Board (IPSASB) will apply these concepts in developing International Public Sector Accounting Standards (IPSASs) and Recommended Practice Guidelines (RPGs) applicable to the preparation and presentation of general purpose financial reports (GPFRs) of public sector entities. Authority of the Conceptual Framework

1.2 The Conceptual Framework does not establish authoritative requirements for financial reporting by public sector entities that adopt IPSASs, nor does it override the requirements of IPSASs or RPGs. Authoritative requirements relating to the recognition, measurement and presentation of transactions and other events and activities that are reported in GPFRs are specified in IPSASs.

1.3 The Conceptual Framework can provide guidance in dealing with financial reporting issues not dealt with by IPSASs or RPGs. In these circumstances, preparers and others can refer to and consider the applicability of the definitions, recognition criteria, measurement principles, and other concepts identified in the Conceptual Framework. General Purpose Financial Reports

1.4 GPFRs are a central component of and support to enhance the transparent financial reporting by governments and other public sector entities. GPFRs are financial reports intended to meet the information needs of users who are unable to require the preparation of financial reports tailored to meet their specific information needs.

1.5 Some users of financial information may have the authority to require the preparation of reports tailored to meet their specific information needs. While such parties may find the information provided by GPFRs useful for their purposes, GPFRs are not developed to specifically respond to their particular information needs.

1.6 GPFRs are likely to comprise multiple reports, each responding more directly to certain aspects of the objectives of financial reporting and matters included within the scope of financial reporting. GPFRs encompass financial statements including their notes (hereafter referred to as financial statements, unless specified otherwise), and the presentation of information that enhances, complements and supplements the financial statements.

1.7 The scope of financial reporting establishes the boundary around the transactions, other events and activities that may be reported in GPFRs. The scope of financial reporting is determined by the information needs of the primary users of GPFRs and the objectives of financial reporting. The factors that determine what may be encompassed within the scope of financial reporting are outlined in the following Chapter of the Conceptual Framework. (See Chapter 2: Objectives and Users of General Purpose Financial Reporting.)

2. Functions and Objectives of Financial Reporting

Financial reporting is essentially a process of communication of financial information. Financial reporting is a key source of the information elected officials need to make informed choices about how to use their government's limited resources to best serve the interests of taxpayers. It also provides accountability about government finances and how governments have used the resources taxpayers have entrusted to them. Government financial statements are a fundamental component of government financial reporting .

Government financial statements traditionally report a government's financial position at the end of the year and its results of operations forth at year. The government's financial position is a snap-shot of where it stands financially in terms of the resources it holds and the debts it owes at a particular point in time, such as the year end. Financial position as measured in the financial statements is only one factor in determining a government's financial condition. Financial condition is a broader concept than financial position. Nevertheless, financial statements provide information that is essential to evaluating a government's financial condition, and they form the cornerstone of a government financial report. The changes in a government's financial position in a year describe the results of its activities in that year.

There are three components to the changes in a government's financial position: its annual surplus or deficit (results of operations), its change in net debt and its change in cash. All three and their relationship to each other are discussed later in this guide. The changes in the government's financial position presented in the financial statements are essential — but not the sole factors in assessing a government's financial performance in an accounting period. Additional financial performance information that draws on data external to the financial statements supplements and adds further depth to the picture of financial performance shown in the financial statements. Financial reporting involves reporting on a government's financial condition and its financial performance.

- The objective of financial reporting is to provide financial information about the reporting entity that is useful to present and potential equity investors, lenders, and other creditors in decisions about providing resources to the entity.
- Specific objectives of financial reports:
- Financial reporting should provide information that is useful to public bodies and other users in making decisions.
- The information should be comprehensible to those who have a reasonable understanding of public bodies and economic activities and are willing to study the information with reasonable diligences
- Financial reporting should provide information to help public bodies and other users to assess the amounts, timing, and uncertainty of prospective cash receipts.

Financial reporting should provide information about the economic resources of an entity; the claims to those resources (obligations); and the effects of transactions, events, and circumstances that cause changes in resources and claims to that resource.

CHAPTER THREE

3. **Research Methodology**

This section introduces evidence on the methodological rigor planned to be used in the study. In tandem with this assertion, this part of the project offers detailed accounts on the key methodological underpinnings like philosophical foundations, research approaches, study design, sampling and sample size determination, methods of data collection and analysis.

3.1. Research Approaches (Quantitative, Qualitative and Mixed-methods approaches

In this study the researcher used both quantitative and qualitative approach. The use of both methods also ensures that the data is effectively interpret and analyze using the statistical analysis, descriptive figures. According to Creswell (2003) two types of research approach are recommended .They are quantitative and qualitative approaches which are familiar to business and social science.

Quantitative research is based on the measurement of quantity or amount. It is applicable to phenomena that can be expressed in terms of quantity (Kothari, 2004). Quantitative research is a means for testing objective theories by examining the relationship among variables (Creswell, 2003).According to Jonker and Pennink (2010), quantitative research is often regarded as being purely scientific, justifiable, and precise and based on facts often reflect in exact figures. This approach often appears when the audience consists of individuals or readers with a quantitative orientation. This quantitative research approach can be further sub classified into inferential (survey research), experimental and simulation approaches to research.

Qualitative research is concerned with qualitative phenomenon, which means that, phenomena relating to or involving quality or kind (Kothari, 2004). In Qualitative research approach the researcher often makes knowledge claims based primarily on the multiple meanings of individual experiences, socially and historically constructed meanings, participation in issues, collaboration or change oriented with an intent of developing a theory or pattern or advocacy/participatory perspectives (Creswell, 2003).

According to Kothari (2004) in this method the researchers uses mostly the closed ended questions. Closed questions have the advantages of easy handling, simple to answer, quick and relatively inexpensive to analyses.

The types of research employed under this study will be descriptive and explanatory research. The major purpose of descriptive research is description of the state of activities as it exists at present. So, Challenges and prospective of financial reporting practice in public sector, federal estate of Ethiopia.

Moreover, this study will utilize cross-sectional survey in the sense that all relevant data will be collected at a single point in time. The reason for preferring a cross-sectional study is due to the wide nature of the study and the limitation of time.

3.2. Research Design

This study has intent to assess the challenges of financial reporting in public sector in Ethiopia. To do this, the methods employed are Derivative research is a means of gathering information usually using questionnaires or interviews. Its purpose is to generalize from a sample to federal sectors so that inferences can be made. This research was conducted by means of questionnaire which was distributed to Accountants (experts) and directors of federal sector which challenges of financial reports. Questionnaire is a common place instrument for observing data beyond the physical research of the observer.

3.3. Unit of Analysis

As explained in the preceding section, the research is designed to follow as a mixed method. To this end, both qualitative and quantitative analyses were used. Data collection using questionnaires were analyzed through descriptive statistics, frequency average..etc. using Statistical package for the social scientists (SPSS) . It helps to describe what the data look like, where there center is, how broadly they are spread in terms of one aspect to the other aspects of the same data (Leedy,1989).The SPSS is used to find out Percentage, mean value, frequencies ,etc as main means for summarizing the data . Data collected from the interview and reviews of documents are interpreted qualitatively. In analyzing the data from interviews, narrative approaches including quotations from respondents have been used.

3.4 Sampling Techniques

The purpose of this research is to identify the determinants of Challenges of financial reporting practice in public .Federal government estate, Ethiopia. The study used simple random sampling because it is simplest, most considered the convenient and bias free selection method. The target federal sectors were selected. Here, the researcher wishes 95% confidence level and desire to accept 5% margin of error.

3.5. **Population and Sample Size Determination**

The populations of this study were 168 federal public sector accountant and directors from this 20 public sector workers and directors (i.e 60 are experts 10 are directors) were respondents of this questionnaires based on their budget(maximum, medium and minimum) . all who are using financial reporting for federal government.

3.6. **Data Type and Sources**

In order to meet the objective of the study, both primary and secondary data use a structured questionnaire with the help of trained enumerators. The primary data were collected by face to face interviews using structured questionnaire. The questionnaire includes both closed and open ended questions. The closed-ended questions use to collect background information about the respondent. It cover the personal information, institutional, group lending, loan and repayment related questions. The open-ended questions deal with the challenges in financial reporting process and institution, the perception of clients towards FR institution as a whole. Secondary sources include published and unpublished materials about financial reporting institution activities.

3.7. Methods of data collection

The sources of data are both primary and secondary sources. Primary sources of data were gathering from respondents. Secondary sources of data were collected from files, office manuals, circulars and policy papers were used to provide additional information where appropriate. Besides, variety of books, published and/or unpublished government documents, reports and newsletters were reviewed to make the study fruitful.

3.8. Methods of Data Analysis and Interpretation

Questionnaires were distributed to finance officers (experts) and directors of the selected public bodies. Finance officers and directors were selected as respondents because they are deemed (believed) to be knowledgeable about CFR and could provide important on its challenge. The response was expected to help understand the factors that explain in the Challenges of financial reporting practice in public sector by Ethiopian public bodies, the actual challenges on financial reporting practice in public sector both for public bodies and for the country at large. The research evidence were gather by using both close-ended and open-ended questionnaires. Mixed questionnaires have many merits; the most important of this is its considerable flexibility (McNabb, 2005).The questionnaires were structure based on those used by Iyoha and Faboyede (2011), and Sharif(2010).With regard to the close- ended questions, the respondents were ask to indicate their level of agreement on a five point Likert scale with the following ratings. Strongly agree (SA; or 5), agree (A; or 4), neutral (N; or 3), disagree (D; or 2), and strongly disagree (SD; or 1). With respect to the open ended questionnaires the respondents will ask to provide open ended responses to the questions that require opinion and if they have opinions they feel the researcher would find useful.

CHAPTER FOUR

4.RESULTS (FINDINGS) AND DISCUSSION (INTERPRITATION)

4.1 INTRODUCTION

In this chapter: the response rate, results and discussion of data are described. This description was made in accordance to the assessment of challenges and perspective of financial reporting in public sector which is the main objective of the study and the results and discussions are arranged in line with the specific objectives.

3.2.1. Demographic profile of the Response Rate

It is important to calculate response rate to measure the number of question paper distributed and returned, and to know the representativeness of the achieved samples. Thus, sample size of quantitative and qualitative study in comparison with response rate was presented below. There are 168 federal public sector from this 20 public sector workers and directors (i.e 60 are experts 10 are directors) were respondents of this questionnaires based on their budget(maximum, medium and minimum) .The questionnaire planned to be filled and distributed for about 70 public sector institutions through web –based means. Accordingly, 65 of the respondents, which is 92.85% of the respondents were filled and returned on time frame. It is, therefore, the study conducted in analyzing demographic characteristics to show the male and female distribution in the public sector financial reporting. The analysis is conducted based on the 92.85% of the respondents questionnaires distributed to collect data for the study. As indicated in the table 1 below, the study used Female 32.23% and 67.87% male respondents working in the different from public sector on financial reporting functions.

Table 1: Demographic Characteristics of the Respondents for the Study

Gender category		Frequency	Percent	Valid Percent	Cumulative Percent
	M	44	67.7	67.7	67.7
	F	21	32.3	32.3	100.0
	Total	65	100.0	100.0	

Source: research survey result, 2017

4.1.2 Age Categories of the Respondents

It is necessary to display the age categories of the respondents to show that public sector financial reporting practice expected to be valid and reliable as the respondent's ages of employed in the public services providing institutions in the study areas getting older and older. Although it needs further study that reliability of public sector financial reporting prepared and submitted to decision makers are may be biased either towards increasing the respondents age in the near future,. This study has shown that 20% of the respondents were aged from 22-30 years old. As shown in the table 2 presented below, the respondent's variables in terms of the number of employed staffs decrease as with increasing the ages of the respondents included in this study

Table 2: Age categories of the respondents

Age category of the respondents		Frequency	Percent	Valid Percent	Cumulative Percent
	22-30	13	20.0	20.0	20.0
	31-35	20	30.8	30.8	50.8
	36-40	16	24.6	24.6	75.4
	41-46	16	24.6	24.6	100.0
	Total	65	100.0	100.0	

4.1.3 **Work Experience and Educational Backgrounds of the Respondents**

Considering the education levels of the respondents of the study contributes to strengthen the quality and effectiveness as well as timeliness of the public sector financial reporting for the decision makers at each level. As summarized in the table 3 below, 53.8 % (n=65) of respondents have held MSc degree graduates and 27.7% (n=65) had 1st degree. This implies that the majority of respondents have been bitterly qualified and they are mainly degree holders used for public sector financial reporting. Although master degree holders are also large in number, there are also diploma holders in education level to implement the public sector in the areas of financial reporting.

Besides It is necessary to analyze the work experience profile of the respondents to validate the reliability of data collected. Accordingly the respondent's variables presented in this study is 80% (n=65) have 6-10 years' work experience of the employees shown in the tables below and details in the following.

Table 3: Educational levels and Work Experiences

Work Experience of the Respondents		Frequency	Percent	Valid Percent	Cumulative Percent
1	2-5	4	6.2	6.2	6.2
2	6-10	32	49.2	49.2	55.4
3	11-15	9	13.8	13.8	69.2
4	16-20	12	18.5		87.7
5	above 21	8	12.3		100
	Total	65	100.0	100.0	100

2	Educational Backgrounds of the respondents	Frequency	Percent	Valid percent	Cumulative percent
1	Diploma	3	4.6	4.6	4.6
2	1st Degree	18	27.7	27.7	32.3
3	MSc or Equivalent	35	53.8	53.8	86.2
4	over MSc	7	10.8	10.8	96.9
5	Missing	2	3.1	3.1	100.0
	Total	65	100.0	100.0	

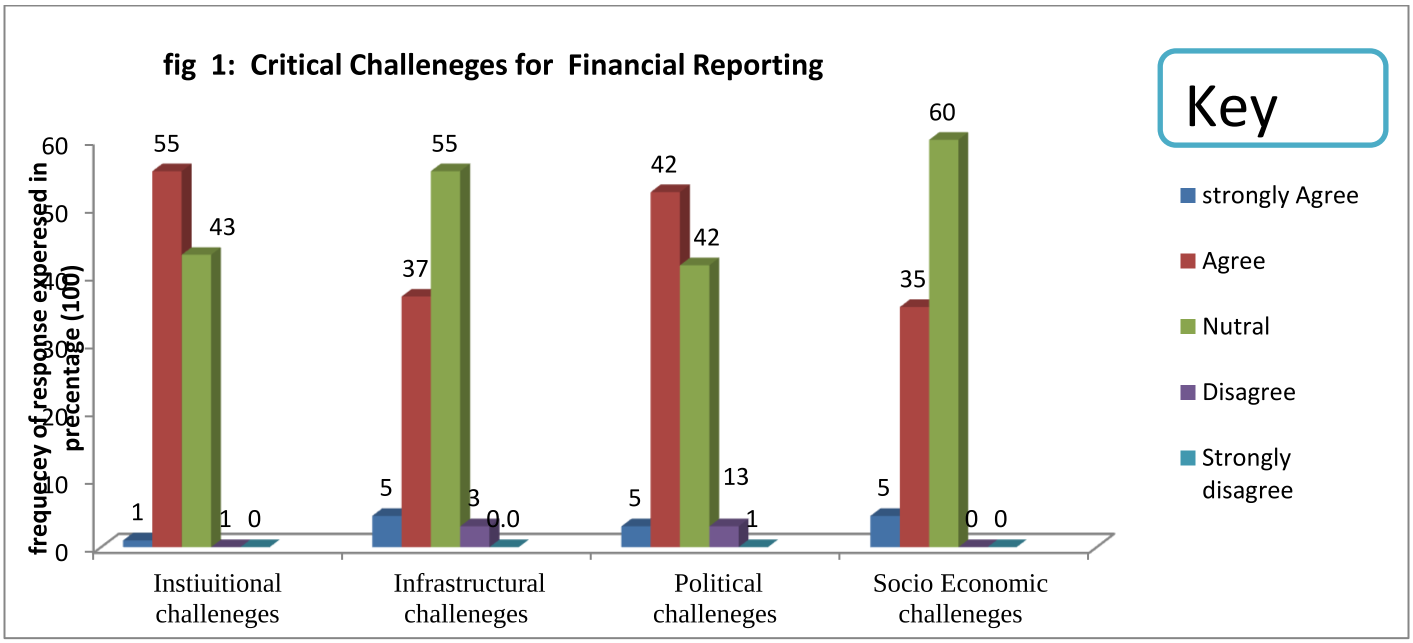
4.2 Challenges of Public Financial Report Analysis using Descriptive Statistics

This section presents the results of descriptive statistical analyses of the data collected from respondents and its interpretations in related to public sector financial reporting challenges the perspectives in the preparation, evaluation , use, and accuracy as well as timely and punctuality for submission for real time decision making . The challenges identified in the public sector financial reporting are institutional, infrastructure, political and socio- economics aspects critical. The perspectives of public sector reporting also preparation, use

4.2.1 **Identifying Critical Challenges of Public Sectors Financial Reporting**

The public sector financial reporting challenges are identified through exploring the different aspect of qualitative ways of response rating on the extents of agreement and disagreement with descriptive statistics expressed in frequency and percentage analysis. The main purpose of using this statistical parameter are taking the frequency of the different aspects of each thematic areas and took average response rate of the respondents to easily identify critical challenges that affect public sector reporting to the public sectors .The average response rate of each collective item took independently as critical challenges for public financial reporting. The critical challenges are also identified using frequency of response rate expressed in percentages judged on the basis of Likert scale point , in which ; the critical challenges for public sector financial reporting classified as 1 is equal to strongly agree, 2 is agree, 3 is used as a neutral. The study also used 4 as disagree and 5 is for strongly disagree.

Accordingly; the respondents provided the response rate in 1, 2 and 3 levels means that respondents strongly agree, agree and neutral in terms of sequencing the magnitude of the challenges. The critical challenges have affected public financial reporting valued in frequency and percentages with the total average values, which include institutional, political, infrastructural and social- economic factors. For example; 55% of (n=65) respondents agreed as response that institutions is critical challenges expressed their view that it is affected public sector financial reporting .Furthermore; 37% of respondents agreed that public financial reporting affected using infrastructure factor as indicated using descriptive statistics expressed in percentages presented in the figure 2 below.



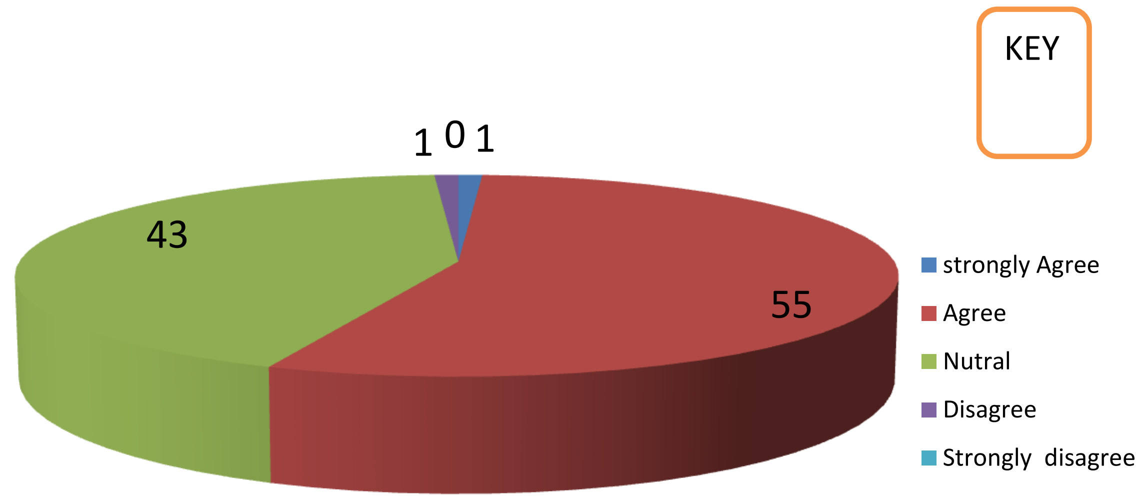
Source: study results, 2017

4.2.1.1 Institutional Challenges

An institution is a legal, political, social custom, tradition belief system etc to manage, administer, control, report financial matters within the scope of its mandate. Up on execution of its mandate that has face different challenges on the public sector financial reporting. To assess and identify critical challenges respondents were asked to provide an independent judgment using rating in this study.

Accordingly, as shown in figure 3 below, 55% (n=65) of respondents agree with average response rate expressed in percentages of the total average institutional challenges for public sector financial reporting. As it has shown in the figure 3 below again, Institutional challenges has reflected from the different perspective for public sector financial reporting. These include in establishing inappropriate institutional arrangement or sections in each organizations, using financial report for decision making due to limitation of trust for the report, limitation of timely decision on financial reporting, as well as limitation of due emphasis for public financial reporting to maintain standardized reporting format and submit complete report for real time decision making are the most important areas identified by the respondents agreed in the study.

fig 2: Instiuitional challenege



Furthermore; as indicated in the table below the respondent's agreement and/or disagreement has indicated the number of respondents expressed in frequency and percentages are presented. For instance; the 63 % (41) of the respondents agreed the public sector financial reporting is challenge of inappropriate institutional arrangement or sections in each organization for public sector reporting. This implies the established institutional arrangement has limitation to adequately manage, administer, control report finance to public sector as critical areas.

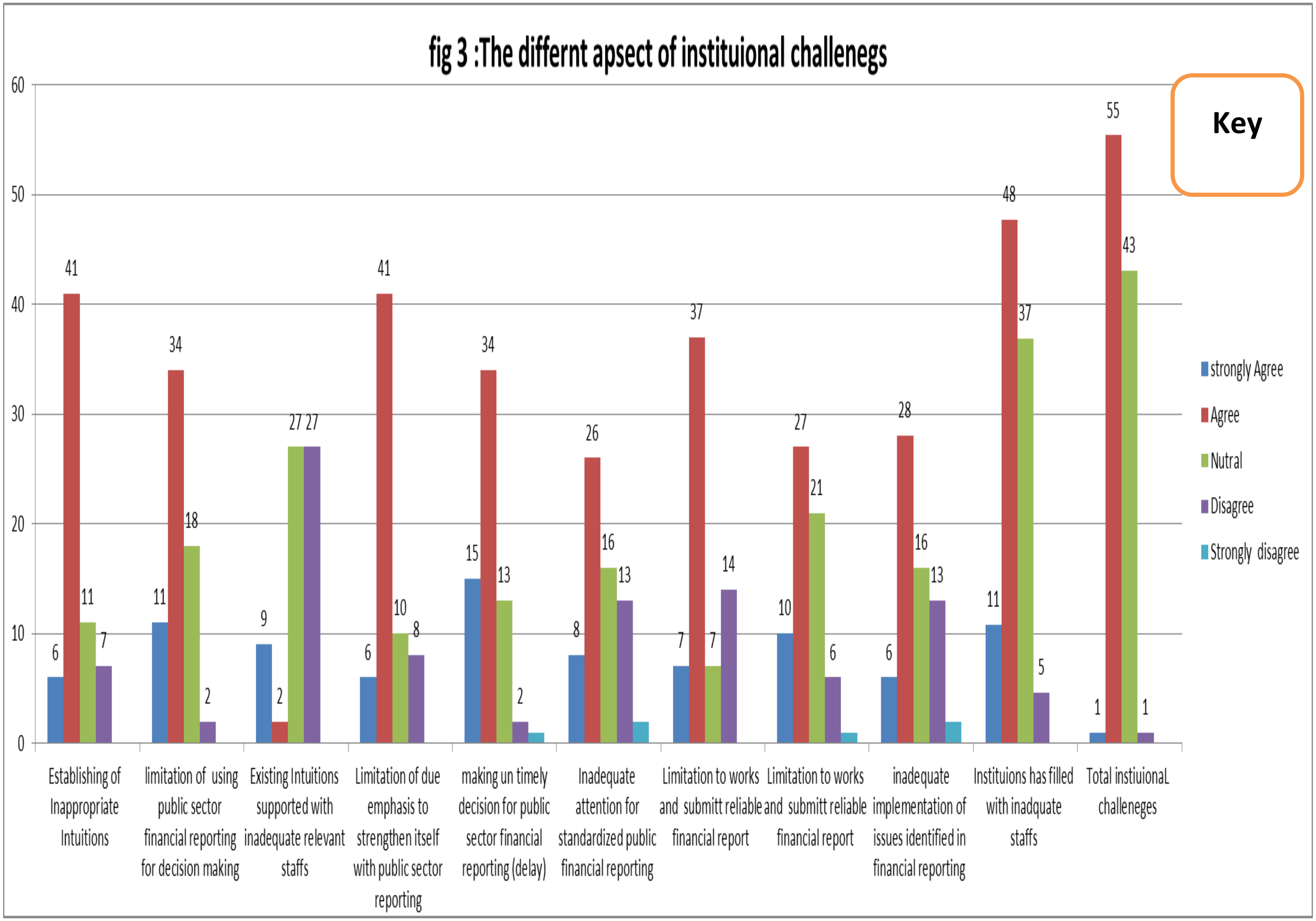


fig 3 :The differnt apsect of instituional challenegs
Key
strongly Agree
Agree
Nutral
Disagree
Strongly disagree
0
10
20
30
40
50
60
Establishing of Inappropriate Intuitions
limitation of using public sector financial reporting for decision making
Existing Intuitions supported with inadequate relevant staffs
Limitation of due emphasis to strengthen itself with public sector reporting
making un timely decision for public sector financial reporting (delay)
Inadequate attention for standardized public financial reporting
Limitation to works and submitt reliable financial report
Limitation to works and submitt reliable financial report
inadequate implementation of issues identified in financial reporting
Instituions has filled with inadquate staffs
Total instiuionaL challeneges

4.2.1.2 Political Challenges:

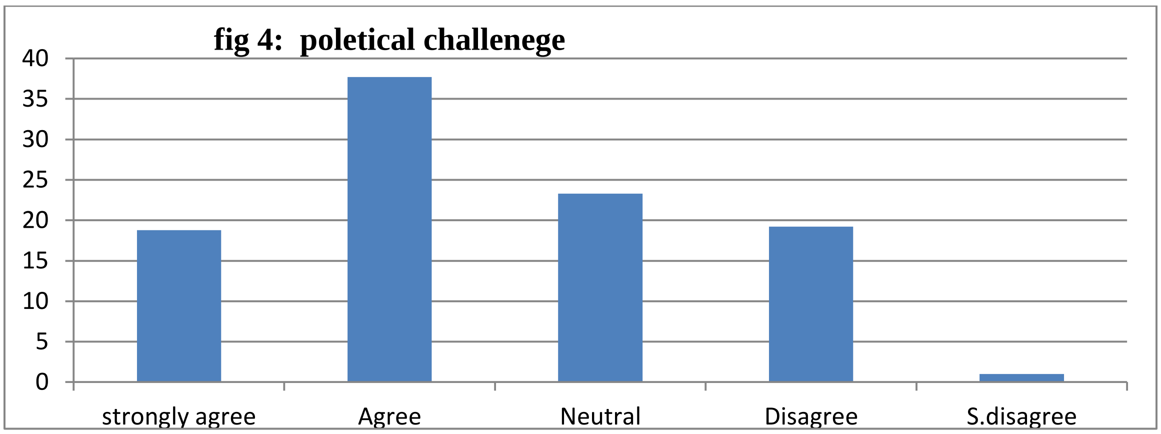
As everybody aware politics determine policy framework to have sound policy environment in formulation , providing guidance, direction as well as leadership on how to manage , control administer the financial and non- financial resources obtained either from the domestic or external sources using different means throughout the country. The politics formulated different reform program to improve the different aspects of financial and non- financial matters either in directive, guidelines including the financial reporting rules, regulations, conduct an oversight as well as support for the timely submission of the financial reporting for decision makers at each level. The political environment in the management, administration controlling determines the effectiveness, efficiency with special focus on public financial reporting in the study areas. So that the study initiated to explore the different aspects of political challenges for public sector financial reporting through preparing questionnaires as one of the critical factors that determine for in the study areas.

Accordingly, 18.8%(12) respondents (n=65) of the respondents of the study have ensured that political situation has critically affect public sector financial reporting through providing their independent opinions with total political factors with very strong agreement in their response rate . 37.7 % (n=65) of the respondents also expressed that the political situation has agreed in their response rate that overall political situation affect public sector financial reporting . Although the respondents have difference in their response rate on the presence of political challenges to the public financial reporting in the study areas, the cumulative or the sum total response rate has ensured that public sector financial reporting have critically challenged as indicated in the table 6 and figure 5 below of the study result.

Table 4: Political challenges

Respondent	Frequency	Valid percent	Cumulative percent
Strongly agree	12	18.8	18.8
Agree	25	37.7	56.5
Neutral	15	23.3	79.8
Disagree	12	17.	99
Strongly Disagree	1	3.2	100
N=	65		

Figure 5 below shows the respondents' response rate on the extents of political factor affected public financial reporting using the cumulative average of different aspects of political influence related and used in this study.



Source: study result: 2017

The political situation has affected the public sector financial reporting in different ways as indicated by the study respondents in the figure 6 below, in which; it has rated the agreement and disagreement and expressed in percentage to each perspectives. Accordingly, as presented in figure 6 below 37% the respondents agreed that politics has provided insufficient support for financial reporting. 57%of the respondents agreed that the financial reporting has less transformed, 45%of the respondent agreed that political leaders have provided less attention for timely submission, 35% and 45% of the respondents agreed that political situation has limitation to submit reliable and complete financial reporting for decision makers. ,

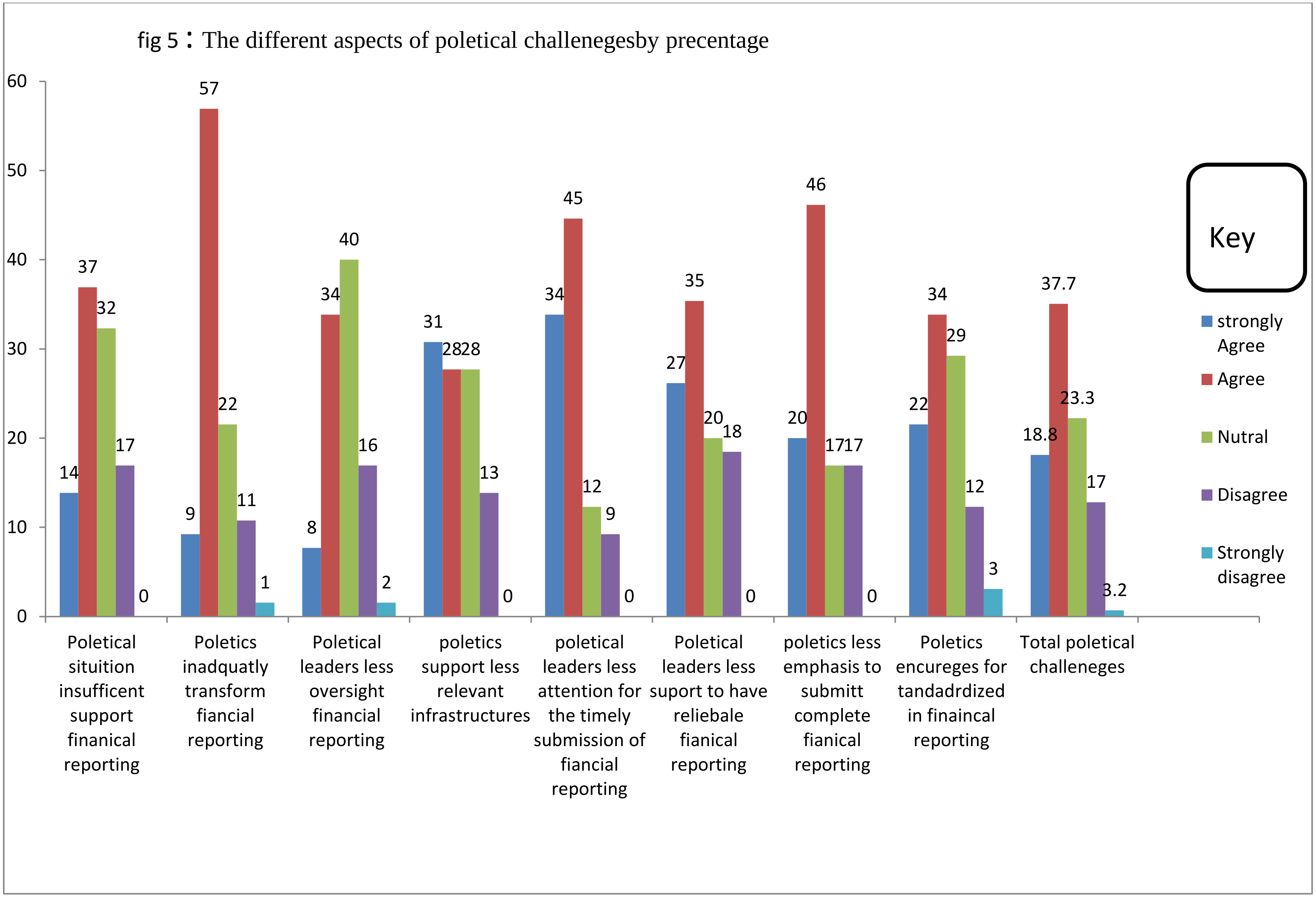


fig 5：The different aspects of poletical challenegesby precentage
60
50
40
30
20
10
0
37
32
17
14
0
57
22
11
9
1
40
34
16
8
2
31
2828
13
0
45
34
12
9
0
35
27
20
18
0
46
20
1717
0
34
29
22
12
3
37.7
23.3
18.8
17
3.2
Poletical situition insufficent support finanical reporting
Poletics inadquatly transform fiancial reporting
Poletical leaders less oversight financial reporting
poletics support less relevant infrastructures
poletical leaders less attention for the timely submission of fiancial reporting
Poletical leaders less suport to have reliebale fianical reporting
poletics less emphasis to submitt complete fianical reporting
Poletics encureges for tandadrdized in finaincal reporting
Total poletical challeneges
Key
strongly Agree
Agree
Nutral
Disagree
Strongly disagree

4.2.1.3. Infrastructure challenges:

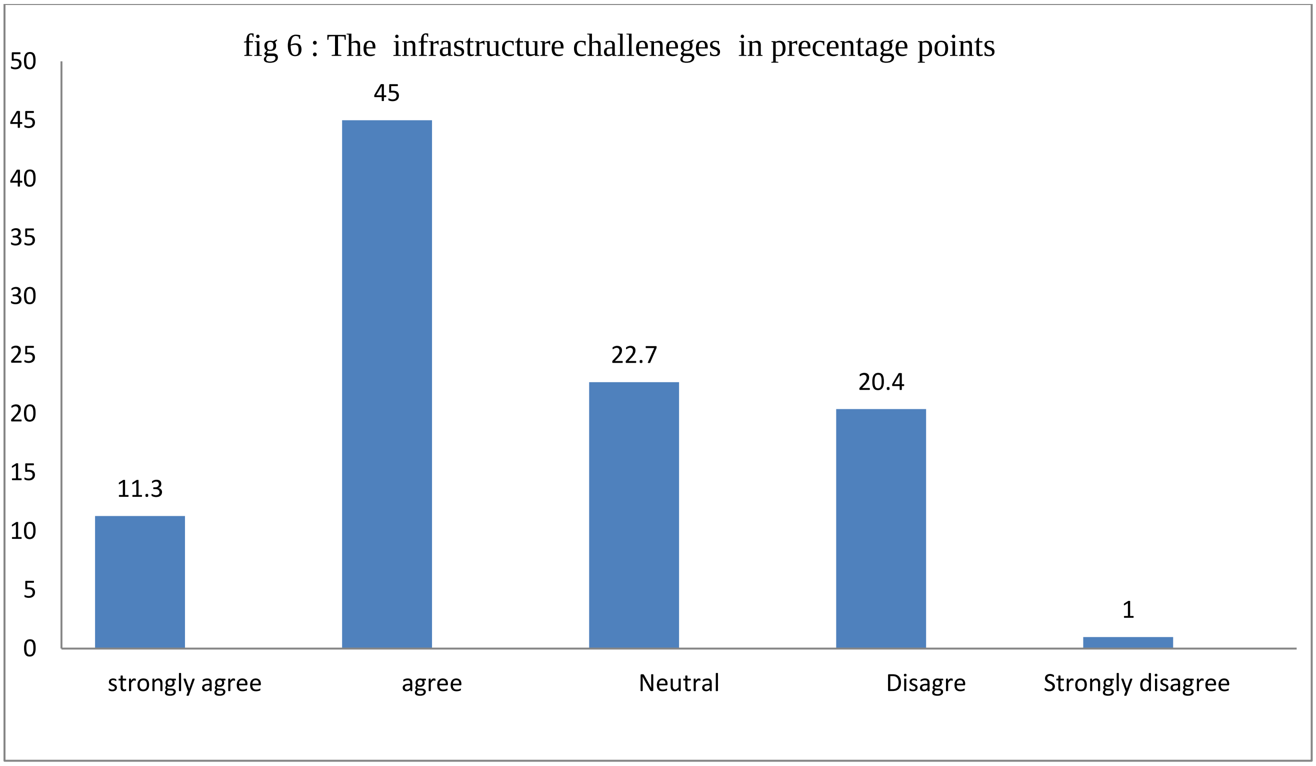
Infrastructures are the systematic matters established for managing, administering controlling as well as reporting about public financial reports. It comprised of both software and hardware applied for effective, efficient, timely and accurate public sector financial reporting. The software part of the infrastructure includes system, procedure, process applied for financial reporting. Hardware also materials and / or working rules and regulations , directive ,guidelines and materials used to equip and used or established as tools for public sector financial reporting such as information technology applied for automatizing financial reporting. The study has explored challenges of infrastructure in different aspect for public sector financial reporting in the study areas.

Accordingly, this study identified that infrastructure is a critical challenges for public sector reporting with average values of collective and / or summative ways expressed the response rate using percentage of frequency to ensure with response rate 11. 3 percent (n=65) of the respondent reported that they are strongly agree and 45 percent of the respondent reported that they are agree as reflected in table 7 and figure 8 below.

Table 5: Infrastructure challenge

Respondent	Frequency	Valid percent	Cumulative percent
Strongly agree	8	11.3	11.3
Agree	30	45	56.3
Neutral	15	22.7	78.2
Disagree	13	20.6	98.8
Strongly Disagree	1	1.2	100

Figure 8 below shows the respondents' response rate on the critical challenges of infrastructure affected public financial reporting using the cumulative average of different aspects of infrastructure explored in this study.



Source: study result, 2017

The infrastructure has affected public sector financial reporting in different perspectives. The detail challenges of infrastructure expressed in terms of response rate of the frequency of percentage. These include that 48% of the respondents are agreed in their response rate that the public sector reporting has inadequate appropriate infrastructure and 49% of the respondents are also agreed in providing inadequate support for public sector financial reporting as well as 55% of the respondents also agreed in the response rate that the public sector has incomplete for reliable and timely, complete submission of financial reporting as presented in figure 8 and table below. It was also limitation in the public sector infrastructure to easily managed by the staffs, limitation to aligned with vertical and horizontal reporting institutions

Furthermore; 58% and 46% of the respondents agreed that the public section financial reporting has limitation to meet high standards and alignment vertically with it's upwards and down wards institutional arrangement to provide reliable real time decision making respectively.

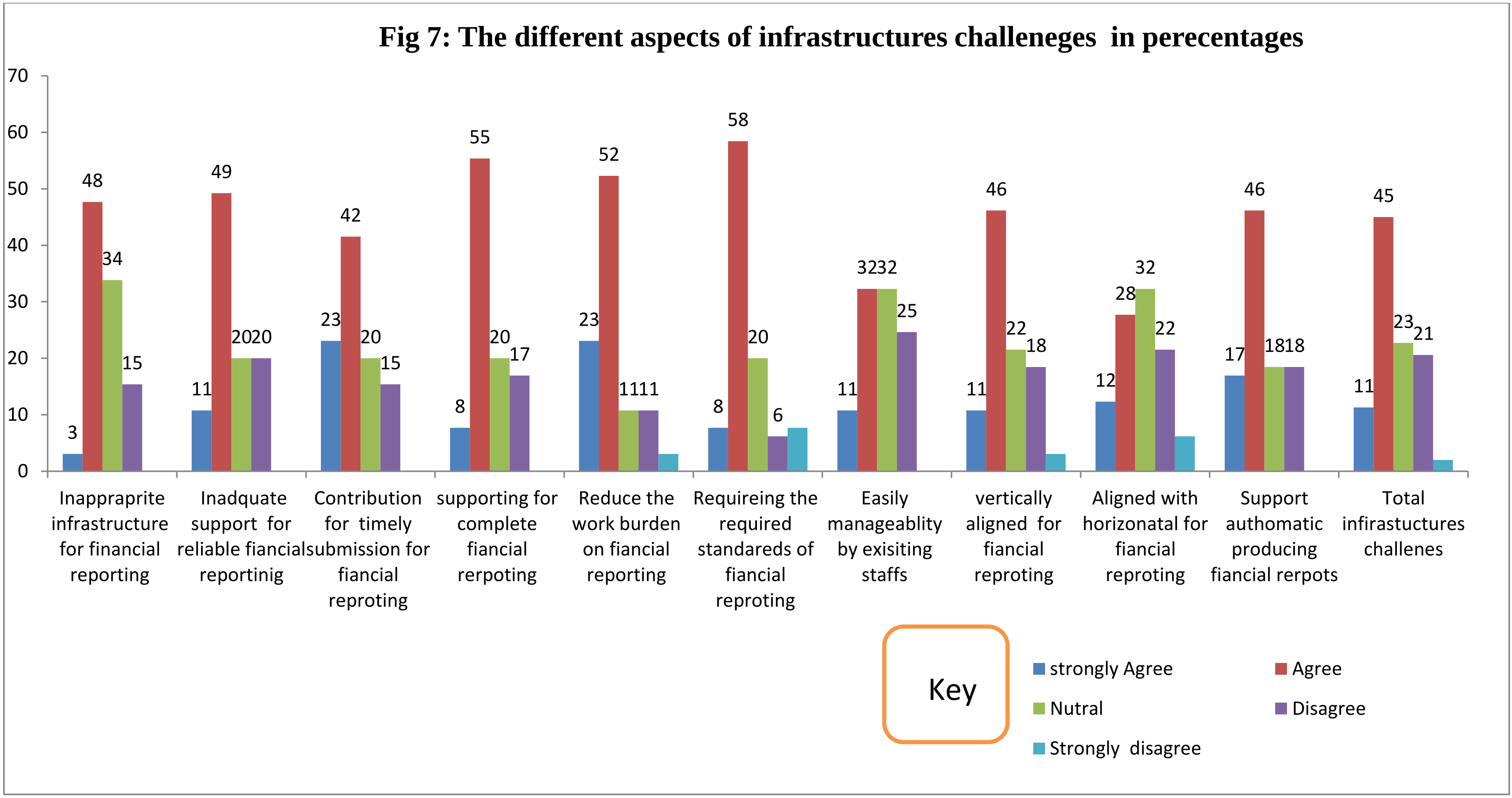


Table 8 below detailed out the different aspects of critical challenges of infrastructure affected public financial reporting in the public sector expressed using frequency of the respondents' response rate and with its percentage points.

Table 6: The different aspects of critical challenges of infrastructure expressed in percentage

Respondents rates of response	Inappropriate infrastructure for financial reporting		inadequate support for reliable financial reporting		contribution for timely submission for financial reporting		supporting for complete financial reporting		Reduce the work burden on financial reporting		Requiring the required standards of financial reporting		Easily manageability by existing staffs		vertically aligned for financial reporting		Aligned with horizontal for financial reporting		Support automatic producing financial reports		Total infrastructures challenges	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%	frequency	%	frequency	%	Frequency	%
strongly Agree	2	3	7	11	15	23	5	8	15	23	5	8	7	11	7	11	8	12	11	17	8	11.3
Agree	31	48	32	49	27	42	36	55	34	52	38	58	21	32	30	46	18	28	30	46	30	45
Neutral	22	34	13	20	13	20	13	20	7	11	13	20	21	32	14	22	21	32	12	18	15	22.7
Disagree	10	15	13	20	10	15	11	17	7	11	4	6	16	25	12	18	14	22	12	18	11	20.6
Strongly disagree	0	0	0	0	0	0	0	0	2	3	5	8	0	0	2	3	4	6	0	0	1	1.2
	65	**100**	**65**	**100**	**65**	**100**	**65**	**100**	**65**	**100**	**65**	**100**	**65**	**100**	**65**	**100**	**65**	**100**	**65**	**100**	**65**	**100**

4.2.1.4. Socio- Economic Challenges:

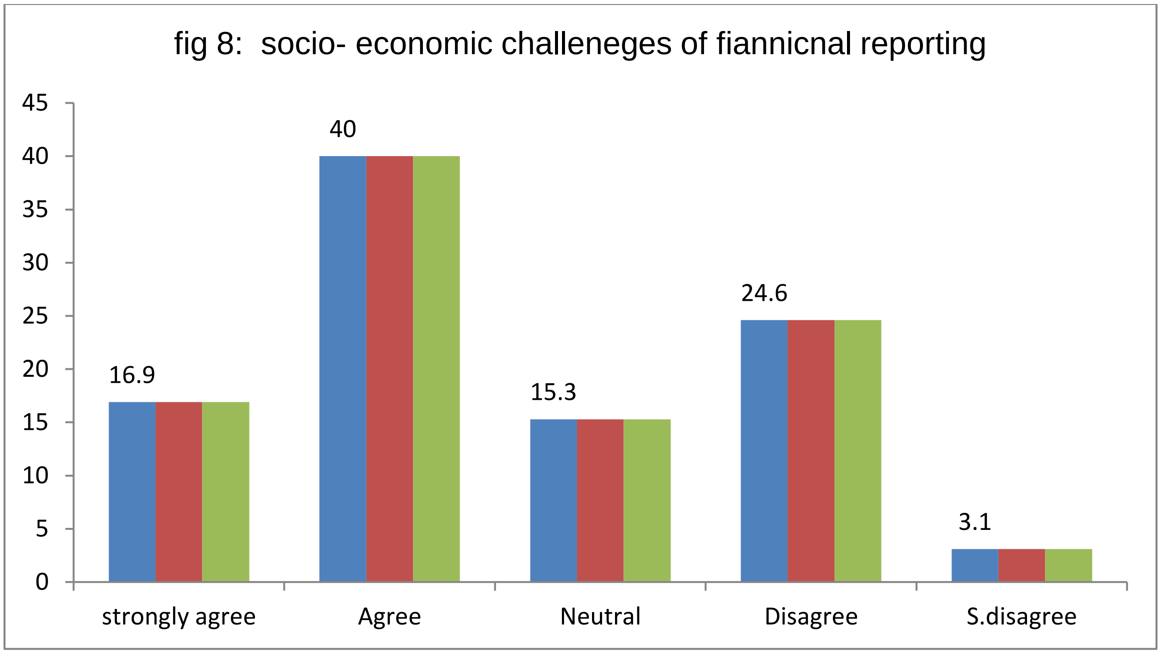
Socio-economics are basic information about the areas or institutions related to the subject areas and found around the reporting institutions and make available to include in the report to provide complete picture about the public sector financial reporting both for decision makers and other users of the public financial report. The socio-economics encompasses the locational basic information such as woredas, numbers of budgetary institutions and human resources , which include numbers staffs and level of educational backgrounds as well as areas coverage if needs arise used to provide complete information for decision making. The study discover the socio-economic situation challenges of public sector reporting through requesting those working in different financial institutions or section of institutions using rats of response to show the complete picture for those who use the report in the decision making at each level.

Consequently,16.9% of respondents of the study are strongly agree that different information viewing as a socio economics are critical challenge and 40% of respondents have agreed socio-economic are challenges for public sector financial reporting . This implies that there are areas that need to make for improving social- economic factor as critical areas. The socio-economic is critical challenges that affect in the submission of accurate, complete and timely submission of public financial reporting for decision making as presented in table 8 and figure 9 below.

Table:7 :Socio- Economic Challenges

Respondents rates	Frequency	Valid percent	Cumulative percent
Strongly agree	11	16.9	16.9
Agree	26	40	56.9
Neutral	10	15.3	72.2
Disagree	16	24.6	96.8
Strongly Disagree	2	3.1	99.9=100
N	65		

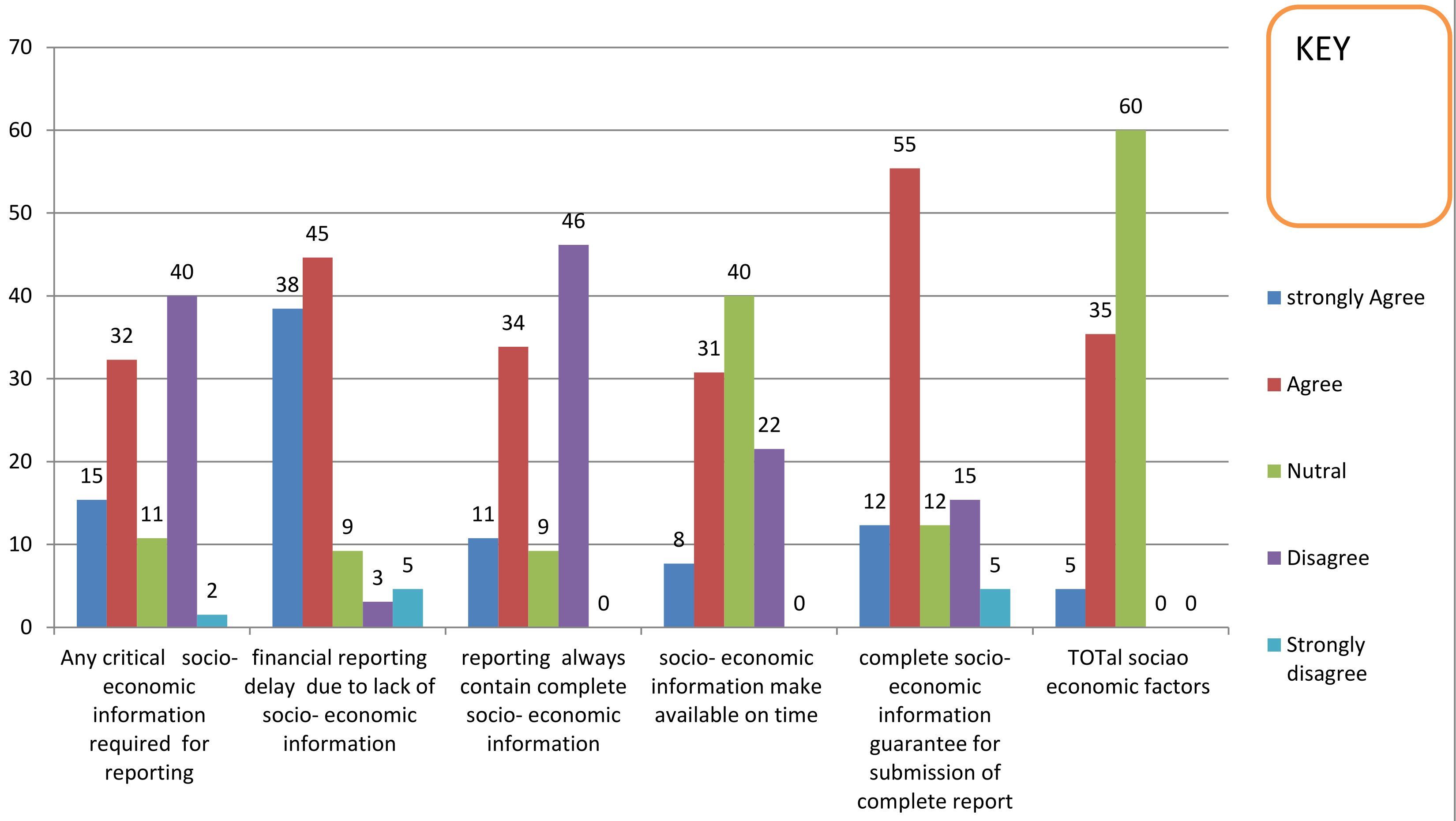
Figure 10 below shows the graphic expression of challenges that affect the public financial reporting in the study institutions to clearly seen the extents of influence as per the respondents' response rate comparing with other challenges.



The respondents has detailed out the challenges that affect the public sector reports due to limitation of available critical information to the reports, delay in the submission, inconsistency of critical information at the time of reporting for financial reports as detailed out in table 8 below. Politics has affected public sector financial report in different aspect considered as critical areas.

Accordingly; as indicated in the figure 10 below, 38% of respondents strongly agree that the financial reporting delays due to lack of socio- economic information for timely submission of financial reporting. 35% of the respondents also provided a response rate as agree in total socio-economic information affected the financial reporting.

Fig 9: the Differnt aspects of socio- economic challeneges



The different aspects socio- economic information required for the public financial reports needs to give full picture about the implementing institutions that helps for decision making at each level. The limitations in providing full socio- economic information delay the decision making. The different aspects of socio-economic factors are affecting public financial reporting. As indicated and detailed in table 11 below , 32% of the respondents (n=65) have agreed on the response that the public sector financial reporting affected due to limitation of any critical socio- economic information required to make full the financial reporting in the study institutions . Besides 34% of the respondents are also providing the response as agreed that public sector financial reporting always contain complete socio- economic information to facilitate decisions.

Table 8: The socio- economic factors affecting financial reporting by frequency and percentage

Respondents Rate	Any critical socio-economic information required for reporting		financial reporting delay due to lack of socio-economic information		reporting always contain complete socio- economic information		socio- economic information make available on time		complete socio- economic information guarantee for submission of complete report		Total socio economic factors	
	frequency	%	frequency	%	frequency	%	frequency	%	frequency	%	Frequency	%
strongly Agree	10	15	25	38	7	11	5	8	8	12	3	5
Agree	21	32	29	45	22	34	20	31	36	55	23	35
Nutral	7	11	6	9	6	9	26	40	8	12	39	60
Disagree	26	40	2	3	30	46	14	22	10	15	0	0
Strongly disagree	1	2	3	5	0	0	0	0	3	5	0	0
	65	100	65	100	65	100	65	100	65	100	65	100

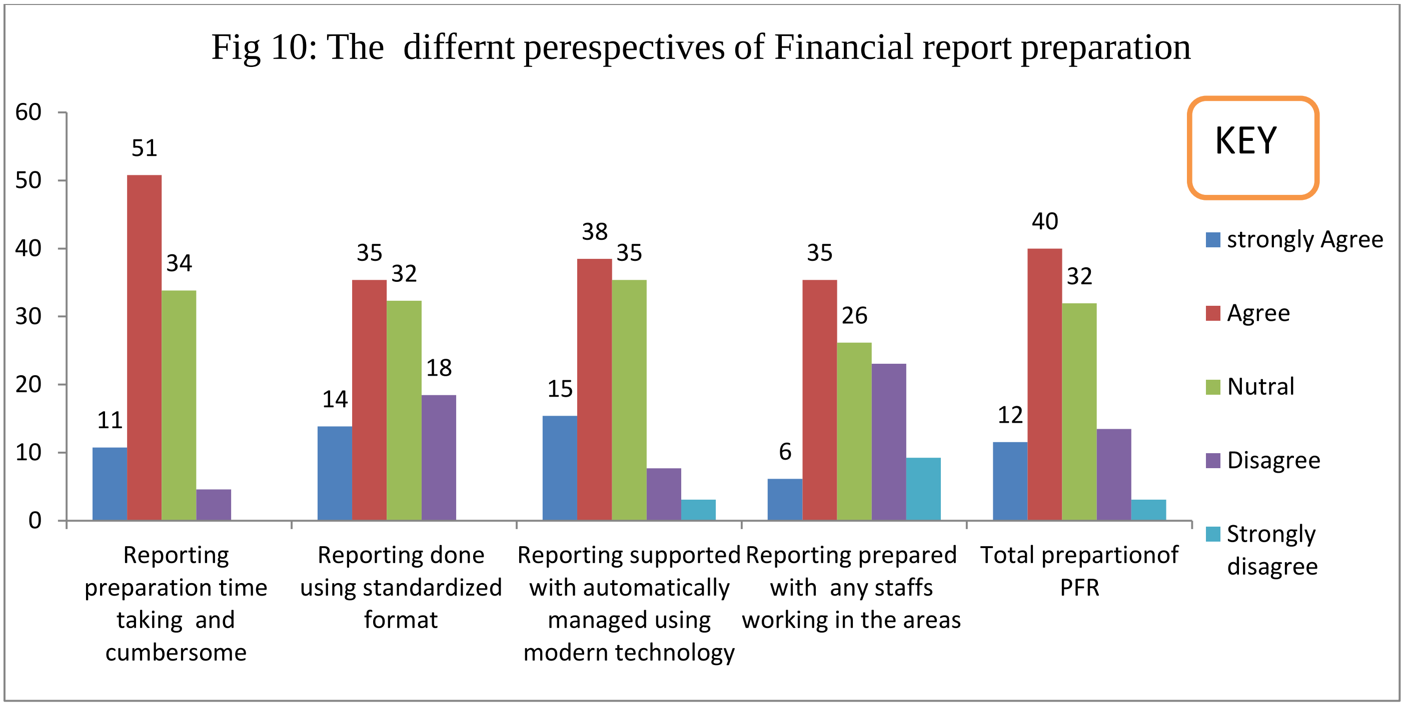
4.3 **Perspective of Public Sector Financial Reporting**

Reporting is the action of doing and submission of progress of financial conditions at different level of public sectors. The public sector financial report has different perspective to make reliable complete and standardized as well as timely submission at different levels to the real time decision making. The perspectives of public sector financial report focused in this study are mainly preparation, effectiveness, efficiency, evaluation to submit for the final decision making. The study has explored the different perspective of this public financial reporting on how it has been achieved and communicated through collecting data using questionnaires detailed out as follows.

4.3.**1 Preparation of public financial reporting**

The public bodies have prepared public sector financial reporting, in which; it has used financial resources used as input for the achievement of respective policy objectives in the study areas. The financial report preparation prepared with commonly framed framework for ease of decision making in equitable resources utilization. This study explored how the public sector financial preparation considered with actively involving for timely submission for decision makers.

Accordingly, as indicated and detailed in the figure 3 below, 51% of the respondents have agreed that the public sector financial reports preparation was time taking and cumbersome though 14% and 35% of the respondents also strongly agreed and agreed in their response rate that it is used for standardized format. Besides, though more than 35% of the staffs agreed that the public sector reports have prepared with any staffs using standard format that 40% of the respondents have agreed that the financial report is prepared via supporting with existing modem technology. This implies that preparation of public sector financial report is still time taking, and has limitation of supporting with standardized format and information technology to look for further areas of improvement.

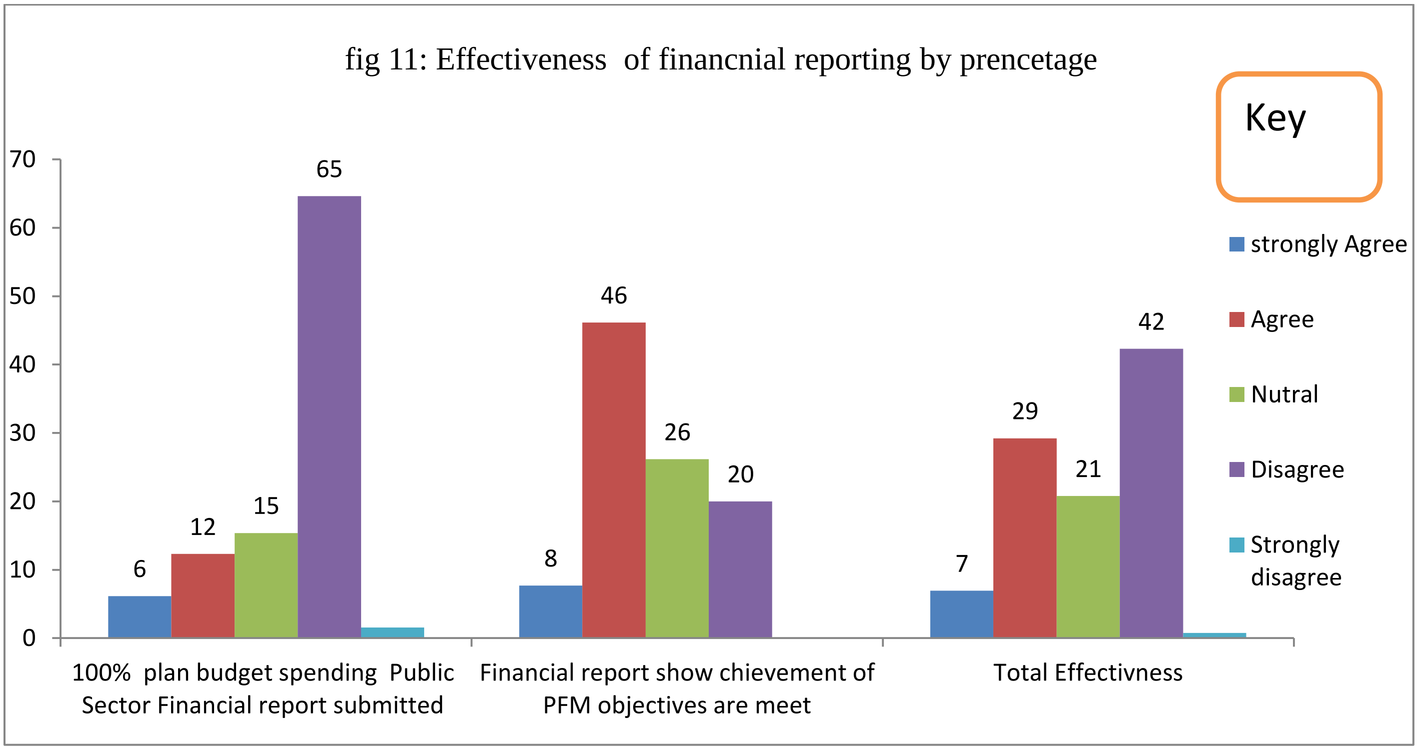


4.3.2 **Effectiveness of Public Sectors Financial Reporting**

The public sectors financial resources planned and used to address the public demands within the public services providing institutions that are the focus areas of this study. The public sectors allocated and approved finance to address the development in line with financial management objectives equitable for policy inputs. The study explored through requesting questionnaires staffs of the public sectors, in which; the Finances spent 100% of planned for the periods.

Accordingly; as indicated in the figure 10 below, 65%of Respondents have disagreed that 100%of the planned budget is spending in the public sector financial report submitted for the given time frame. This means that the public sector reports have shown progress but less on the actual spending than from originally planned. Furthermore ; the study also examine that it was ensured through questioning the respondent to rate the public financial report to show public financial management objectives are met in the study areas. Thus, as indicated the response rate in figure and table 10 below; the study proved that 46% of the respondents (n=65) agreed that the public sectors financial report showed that public financial objectives are met.

Although there are respondents shown progressive spending achievement of the planed finance and in meeting the public financial management objective, 42%of the respondents have disagreed the public financial report has shown effective in using 100% of the planned and approved budget and meeting in public Financial management objective as shown in the figure 10 below expressed with average percentage points of the frequency of the response rate..



The following table 10 has detailed out the respondents frequency along with the percentages points as to how public financial report reflect the effectiveness of the planned financial resource utilized to meet the planned objective in the respective public sectors in the study organization.

Table 9: The effectiveness of financial report shown using frequency and percentage

Response Rate	100% plan budget spending Public Sector Financial report submitted		Financial report show achievement of PFM objectives are meet		Total Effectiveness	
	Frequency	%	Frequency	%	Frequency	%
strongly Agree	4	6	5	8	5	7
Agree	8	12	30	46	19	29
Neutral	10	15	17	26	14	21
Disagree	42	65	13	20	28	42
St. disagree	1	2	0	0	1	1
	65	100	65	100	65	100

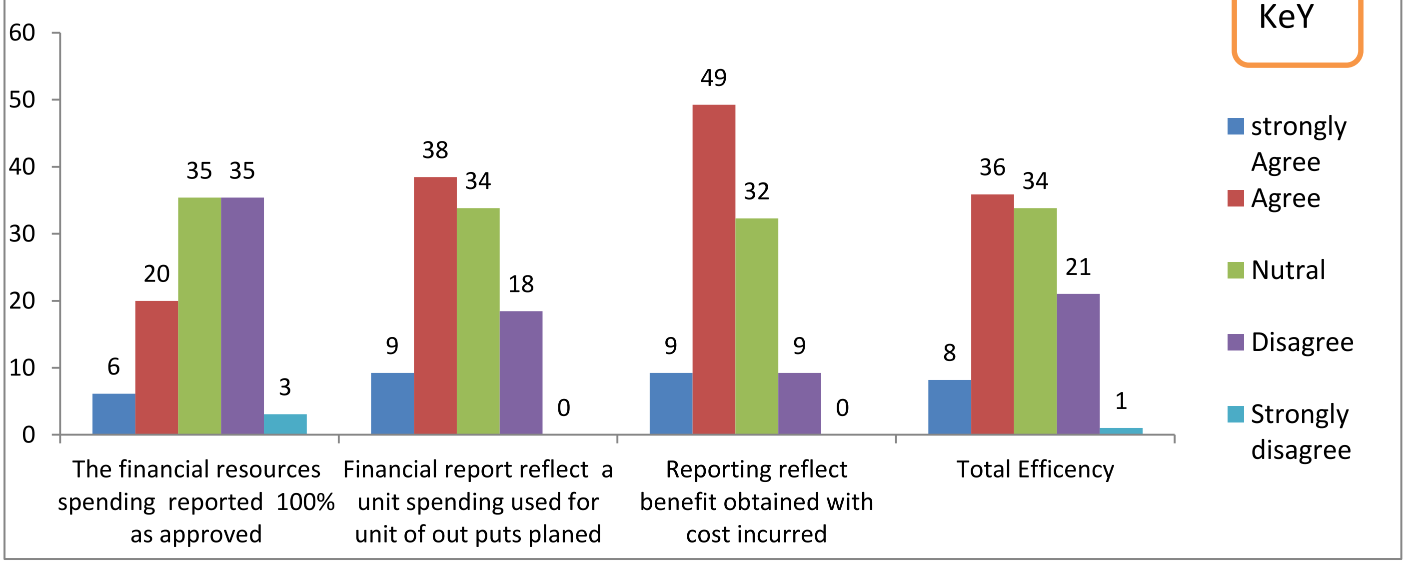
4.3 3. **Efficiency of Public Sector Financial Reporting**

The public sector has used public finance as inputs to achieve the development policies policy objectives with agreed time frame. The financial resource has also provided to the sector to improve the productive capacity. Furthermore; the financial resources also unit amount of spent for a unit of tasks in the public sector organizations.

The study examines whether the public sector financial reporting has been showing the frequency of response expressed in percentages points in the figure and table 11 below, 35% of the respondents have rated neutral that the financial resources spending 100% as approved with the given time. While 35% of the respondents disagreed that the financial resource spending 100% are as approved for the agreed time.

Besides, 38% of the respondents (n=65) have agreed in their response that financial report reflect a unit spending used for units output planed in the agreed time. By and large ; 36% of the respondents have also given response with agreed response rate reflected that the public sector financial report has been showing efficiency as it has been detailed and presented in the figure and table 11 below.

Fig 12: The efficency of Financial reporting by percentages points



The nature of efficiency of public sector financial reporting has detailed on the basis of the respondents response rate frequency with its percentage point presented in table 11 below. It has also show the different aspects of efficiency areas used to evaluate the public financial reporting progress in the study institutions.

Table 10: The different aspect of efficiency expressed in frequency and percentages

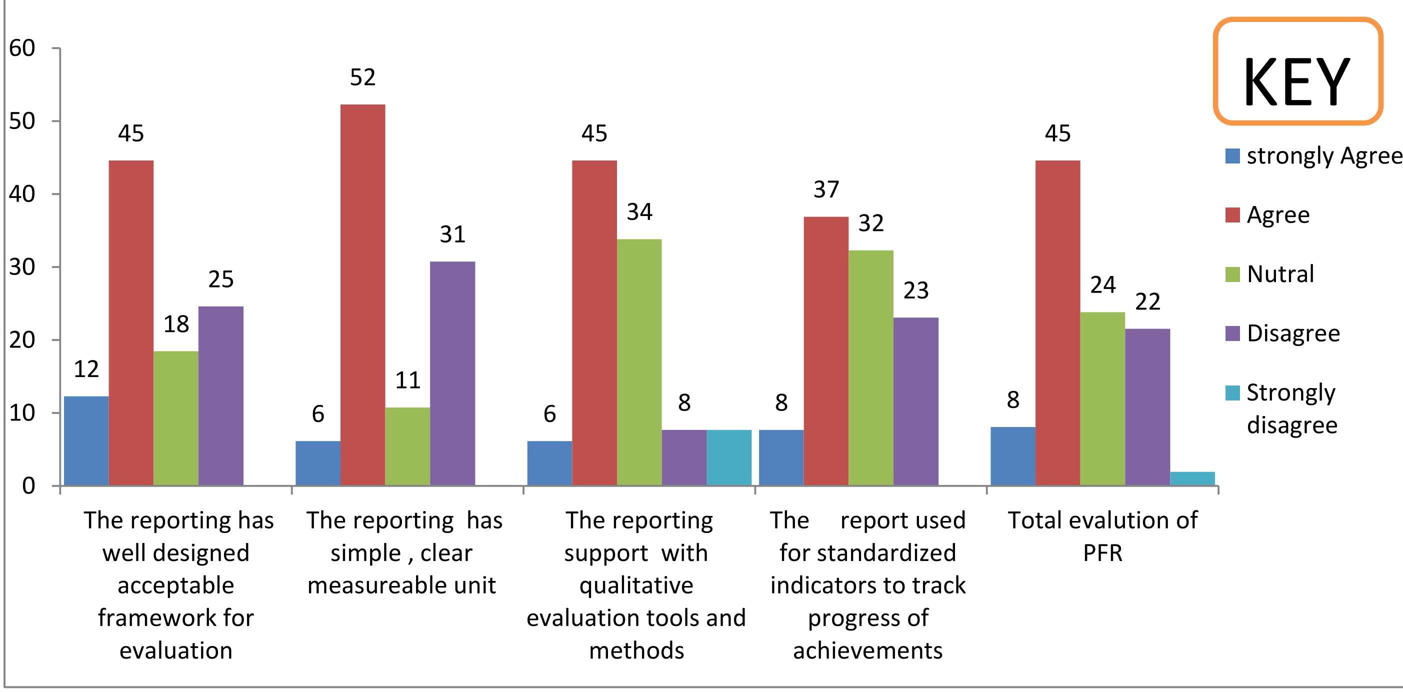
Response rate	The financial resources spending reported 100% as approved for the agreed time		Financial report reflect a unit spending used for unit of out puts planed		Reporting reflect benefit obtained with cost incurred		Total Efficiency	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%
strongly Agree	2	3	11	17	7	11	9	14
Agree	26	40	28	43	32	49	23	35
Neutral	24	37	18	28	20	31	21	32
Disagree	13	20	8	12	6	9	12	18
Strongly disagree	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0
	65	100	65	100	65	100	65	100

4.3.4 Evaluation of Public Sectors Financial Reporting

The public sector financial report has shown inputs for the decision making at each level. It has also been evaluated with appropriate frameworks to ensure that it met the required standards ways and methods that could be simple, clearly prepared in a way all concerned bodies easily understands using the measurement units ,indicators used as well as measurement units applied . Besides, the report also be used to easily identify gaps for future correction in due time.

The study explore how much the public sector financial report evaluation be conducted by raising different questionnaires to rate by concerned body. Accordingly as indicated in the figure 12 below , variation is observed on the response rate in different question related to evaluation of public sector financial reporting, however, 45% of the respondents agreed that the public financial reporting guided with acceptable frameworks,. Besides, 37% of the respondents also agreed that the public financial reports have used standardized indictors to track progress of achievement. Furthermore; 45% of the respondents agreed that the financial reports have supported with qualitative methods that could complements with quantitative reporting. By and large, 45% of the average respondents have shown an agreement that the public financial reports guided with appropriate frameworks, used indicators to track progress as well as supplemented with qualitative ways to provide real time decision.

Fig 13 : The differnt critieria for evalaution of financial reportingby perecetage points



Source: study result, 2017

The practical application the different criteria in public sector financial reporting vary in the frequency response rate provided by the study respondents. The detailed frequency response rate and percentage points indicated in table 11 below calculated for the frequent response provided by the respondents. Besides the above analysis as indicated in table 12 below, 12% of the respondents have strongly agreed that the financial reporting contained well designed acceptable frameworks for evaluations.

Table 11 :Different criteria used for evaluation of financial report by frequency and percentage

Response rate	The reporting has well designed acceptable framework for evaluation		The reporting has simple , clear measureable unit		the reporting support with qualitative evaluation tools and methods		The report used for standardized indicators to track progress of achievements		Total evaluation of public financial reporting	
	frequency	%	frequency	%	frequency	%	frequency	%		
St. Agree	8	12	4	6	4	6	5	8	5	8
Agree	29	45	34	52	29	45	24	37	29	45
Neutral	12	18	7	11	22	34	21	32	16	24
Disagree	16	25	20	31	5	8	15	23	14	22
St. disagree	0	0	0	0	5	8	0	0	1	2
Total	65	100	65	100	65	100	65	100	65	100

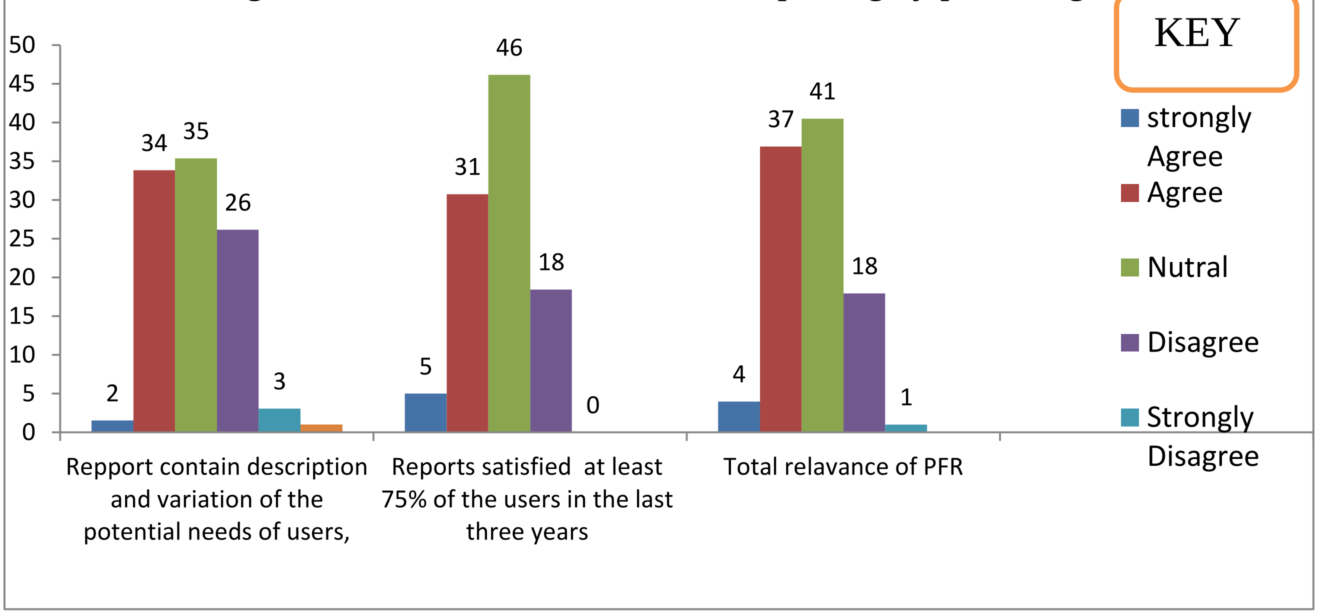
4.4 **The Quality, Relevant and Accuracy of public sector Financial Report**

The public financial report has provided evidence about financial matters for decision makers at each level through looking for in this study about relevance, accuracy and timeliness and punctuality for submission and detailed out as follows.

4.4.1 **The Relevance of Public Sector Financial Reporting**

The public sector has used inputs of financial resources to achieve public policy objectives. The allocation be done on the basis of demands to fill development gaps and policy priorities of the countries. The implementing public sector also submit financial reports witnessing to show the allocated resources used as per the allocated amount or whatever the criteria used to report. The study researched through collecting data from the respondents of public sector institutions to show as what the level of the public sector reports are address the needs of the users in the implementing institutions. As shown in figure 13 below, 37% of the respondents of users are strongly agreeing the relevance of the public sector reporting. Besides, 41% of the respondents of the users are agreeing in their responses rate. This implies that the public sector financial reporting has addressed the current needs of the users and contains both the quantitative with qualitative description.

Fig 14 : the Relevance of Financial reporting by percentage



Source : study result, 2017

The public sector financial reports have to use as an evidence of achievement to make real time decision at each level. In line with this, as shown the detail in table 13 below, only 5% of the respondents provided their voice with strongly agree and 46% of the respondents are also agreed that the public sector financial reporting containing and describing the current needs of the users. There are also 9% of the respondents disagree that the public sector reports needs to be revisited to improve further. Besides, 40% of respondents are rate as neutrals, which imply there is something needs to be improved in the future. Furthermore; 34% (22) of the respondents (n=65) agreed to witnessed that the report contains descriptions including variations of the potential needs of the users

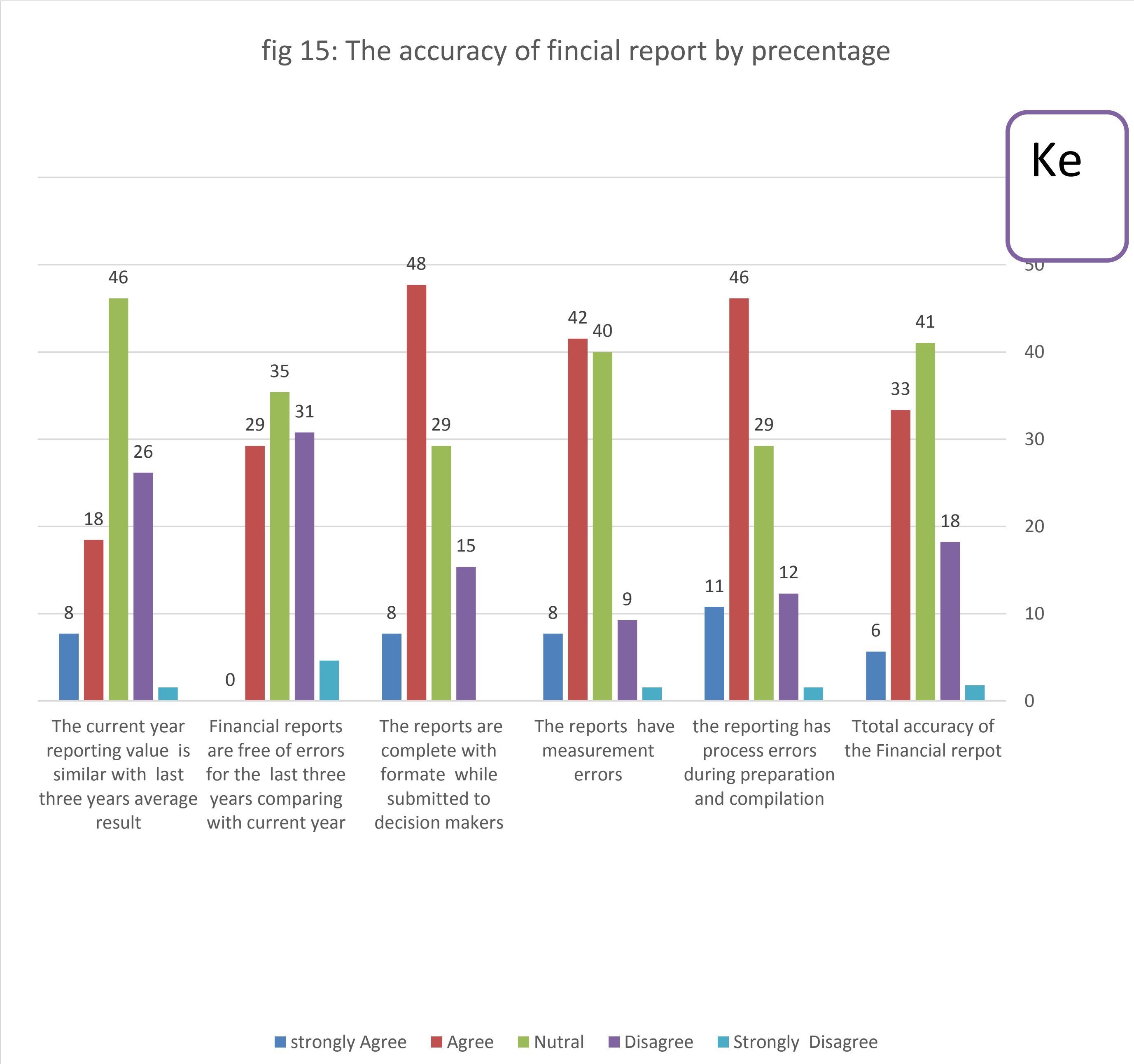
Table 12: Relevance of financial report expressed by frequency and percentage point

Response rate	Report describes to address the current needs of the users		Report contain description and variation of the potential needs of users,		Reports satisfied at least 75% of the users in the last three years		Total relevance of PFR	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%
strongly Agree	3	5	1	2	3	5	2	4
Agree	30	46	22	34	20	31	24	37
Neutrals	26	40	23	35	30	46	26	41
Disagree	6	9	17	26	12	18	12	18
Strongly Disagree	0	0	2	3	0	0	1	1
	65	100	65	100	65	100	65	100

4.4.2 The Accuracy of public sector financial Reporting

The public sectors have prepared financial report to be submitted with standardized reporting format and used as inputs for decision making. The reports need to have consistency in series of years, free of measurement, process and compilation errors. This helped to have accuracy for real time decision making at each level.

Accordingly, the study explores the extent of accuracy of public financial reporting through providing rating the level of accuracy on the basis of questionnaire. % of the respondents the respondents have ensured the public sector financial reports are accurate to the mean valve 2.75 with the standard deviation of 0.450 with different aspects of the accuracy parameters as detailed out in the table 14 below.



The accuracy of public sector financial reports is critical. It could have to be consistent and freed of errors. Accordingly 8% or 5of the respondents (n=65) have responded that they strongly agreed with the public sector financial report have similarity with the last three years. 18% of the respondents also confirmed with their agreed response rate that the current financial report is similar against with the last three years. Furthermore; 19% of the respondents are respond as agreed response rate that the financial report was submitted free of errors. 35% of the respondents have provided their response rate as neutrals. This implies that the public sector financial reports may have submitted with either error or error free for the decision makers. See table 14 for more detail below.

Table 13: Accuracy of public financial management by frequency and percentage

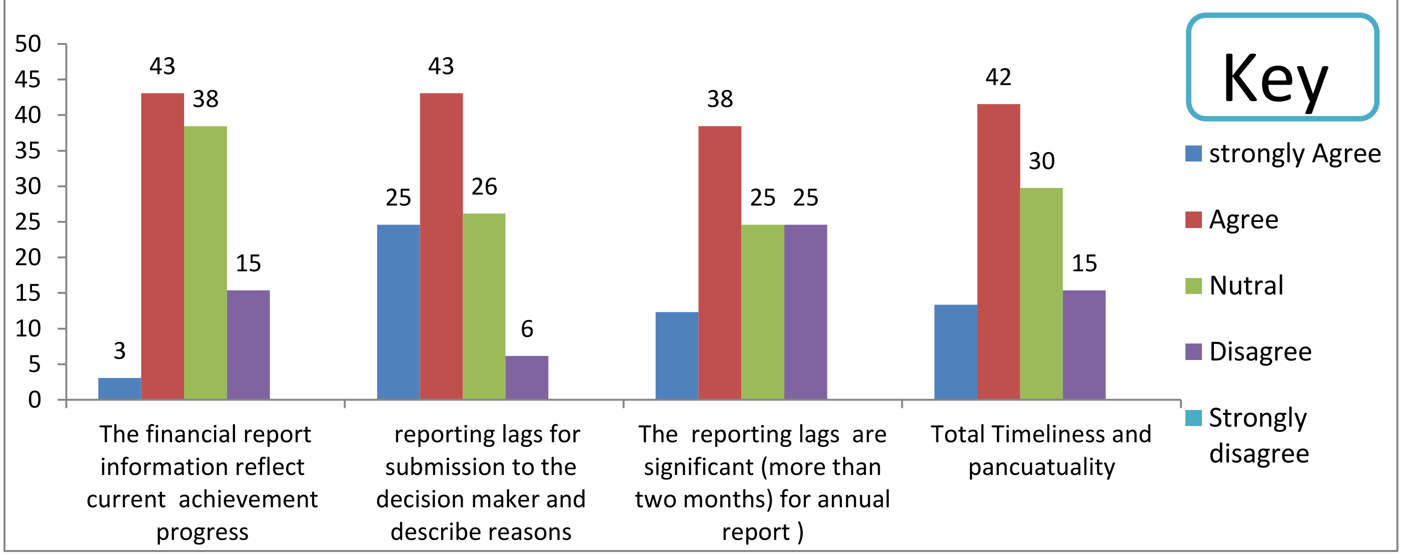
Respondents rate	The current year reporting value is similar with last three years average result		Financial reports are free of errors for the last three years comparing with current year		The reports are complete with format while submitted to decision makers		The reports have measurement errors		The reporting has process errors of preparation & compilation		Total accuracy of the Financial report	
	frequency	%	frequency	%	Frequency	%	frequency	%	frequency	%	frequency	%
strongly Agree	5	8	0	0	5	8	5	8	7	11	4	6
Agree	12	18	19	29	31	48	27	42	30	46	22	33
Neutrals	30	46	23	35	19	29	26	40	19	29	27	41
Disagree	17	26	20	31	10	15	6	9	8	12	12	18
Strongly Disagree	1	2	3	5	0	0	1	2	1	2	1	2
Total	65	100	65	100	65	100	65	100	65	100	65	100

4.4.3 The Timeliness and Punctuality of Public Sector Financial Reporting

The public sectors have prepared financial report to be submitted to decision makers with the agreed time frame through maintaining punctuality in reporting. Consequently; this study conducted to explore the timeliness and punctuality of the public sector reporting by asking the respondents on timelines to maintain punctuality in the submission of financial reporting.

The respondents have provided witness on the timeliness and punctuality with mean value 2.46 and standard deviation 0.587 as detailed out in the table 15 below. This has shown that the financial report submission has an implication of delaying in the submission from the actual agreed time period for reporting.

fig 16 : Timlines and Pancutality of financial reporting



Source: study Result, 2017

The public sector financial reports contain to have the required information to be submitted for the concerned bodies. As detailed and presented in the table 15 below, 43% (28) of the respondents have provided an information that reflect current achievement progress including fresh data. Besides, 13% of the respondents have responded with strongly agree with the total average response rate in timeliness and punctuality of the public sector financial reporting has submitted with significant lags of time. 42% (27) of the respondent provided agree response rate with total average of the total public financial report submission, in which, the details are presented in the table 15 below.

Table 14: Timeliness and punctuality of financial reporting by frequency and percentages

	The financial report information reflect current achievement progress		reporting lags for submission to the decision maker and describe reasons		The reporting lags are significant (more than two months) for annual report)		Total Timeliness and punctuality	
	Frequency	%	frequency	%	frequency	%	frequency	%
strongly Agree	2	3	16	25	8	12	9	13
Agree	28	43	28	43	25	38	27	42
Neutrals	25	38	17	26	16	25	19	30
Disagree	10	15	4	6	16	25	10	15
Strongly disagree	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0
	65	100	65	100	65	100	65	100

Chapter V

5 Conclusion and Recommendation

This part shows what the study on the ‘’challenges and perspectives of public sector financial reporting’’ conducted and public sector financial report preparation process and the reasons as well as critical challenges identified, the study identifying gaps for areas of recommendations. It also pointed out the actual recommendation to further improve public sectors financial reporting in the future

5.1 Conclusion

Public sectors have used financial resources used as inputs to achieve the respective sectorial policy objective in the study institutions. The public sectors or institutions have prepared financial report to be used for decision making at different level. Due to limitation of empirical evidence to identify and show gaps as critical challenges the study used descriptive statistics and identify challenges and recommends options for further improvement for real time decision making at each level.

The study was conducted taking the sample for exploring in the areas of public sector financial report critical challenges, which included institutional, political infrastructural as well as socio-economic. It has also explored the different perspective of financial reporting including preparation, effectiveness and efficiency as well as dealt about accuracy, effectiveness as well as timeliness of submission to identify the areas for improved on the basis of the following recommendations.

5.2 Recommendations

The study on public sector financial reporting challenges and issues on the perspective of the reporting has identified. The critical challenges and other issues identified in the course of study have to be improved on the basis of following recommendation, which include:

- The critical factors identified using this study such as institutional, political, infrastructure and social- economic have to be improved through taking as part of commitment, responsibility and accountability the respective part of the factors to have an effective, efficient, accurate and timely submission of public financial reporting in the public sector

- The public financial reporting has also built its systematic, infrastructural of the financial management capacity in the preparation, timeliness and punctuality of the financial reports.
- The accuracy and relevance of public financial report has to increase its level of accuracy by avoiding measurement, process and preparation errors and formulating high standardized reporting procedures and system supported with infrastructure for the real time decision making.

Policy Implication:

The study identified critical challenges as institutional, infrastructure, political and socio-economics for public sector financial reporting given with the existing rules and regulation of financial management followed by the country. This would have shed light to increase the standard of public financial reporting in the public sector to maintain accuracy reliability and timeliness and punctuality for real time decision making on the basis of financial reporting.

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