



**ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE**

**ACCOUNTING REFORM RESULTS AND CHALLENGES AT
SELECTED FEDERAL PUBLIC BODIES OF ETHIOPIA**

**A Project submitted to Addis Ababa University, College of Business and Economics,
Department of Accounting and Finance in partial fulfillment of the requirements for
MSC Degree in Accounting and Auditing**

By: Demissu Lemma

**March, 2018
Addis Ababa, Ethiopia**

ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
MSC PROGRAM IN ACCOUNTING & AUDITING

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Approved by: Board of examiners

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DECLARATION

I, the undersigned, declare that this research work is my original work and has not been presented for a degree in any other university, and that all sources of materials used for this study have been duly acknowledged.

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This research project has been submitted for examination with my approval as the research advisor.

Advisor: Degefe Duressa (PhD)

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Acknowledgement

First and for most, I thank the almighty God for his wisdom and patience that gave me during my work. I would like to express my deepest thanks to my research advisor Degefe Duressa (PhD) for his unreserved and valuable advice and comments to conduct this research project paper.

I would also like to give special credit to my friends and respondents of the selected public bodies experts and heads of finance and internal audit who gave me their information that has improved this study. My thanks also go to my wife and children who were encouraged me throughout my research work.

Abstract

This study examines the Ethiopian government accounting reform results and challenges with the view point of examining what diagnostic problems identified initiating the reform, what measures undertaken to change the situations, what results achieved during the implementation and unclosed issues of the reform. For this study the researcher gathered primary and secondary data, analysed and interpreted the data. The primary data were collected through conducting survey on structured questioners, interviews and discussions with experts and heads of finance and audit functional units of the selected institutions. Researcher's personal observations were also incorporated as primary source. The secondary data were collected through reviewed relevant manuals, assessments, public finance proclamations, regulations, directives and other government official documents and publications. Then the study identified that the accounting reform exhibited several success results including transforming the base from single entry and pure cash base to modified cash base accounting, the introduction of self-accounting and auditing, improvement in quality of the financial statements, the development of unified chart of accounts, comprehensive legal frameworks and integrated financial information systems. However, still having competent and professional human resource, stable, efficient and sustainable financial information technology, more advanced system of accounting records oriented with the new public finance management are challenges and unclosed issues of the reform. Therefore, the study concludes that further reforming the Ethiopian government accounting system is necessary.

Key words: *Government Accounting reform, results and challenges,*

List of acronyms and abbreviation:

AABE: -----	Accounting and Auditing Board of Ethiopia
AAU: -----	Addis Ababa University
AIA: -----	American Institute of Accountants
AICPA: -----	American Institute of Certified Public Accountants
APB: -----	Accounting Principles Board
ASLGU: -----	Audits of State and Local Governmental Units
BDA: -----	Budget, Disbursement and Accounts
BIS: -----	Budget Information system
CAP: -----	Committee on Accounting Procedure
CDP: -----	Continuous Professional Development
CSRP: -----	Civil Service Reform Program
CSRP-CO: -----	Civil Service Reform Program coordination Office
COM: -----	Council of Ministers
DSA: -----	Decentralized Support Activity
EMCP: -----	Expenditure Management and Control program
FASAB: -----	Financial Accounting Standard Advisory Board
FDRE: -----	Federal Democratic Government of Ethiopia
FMIS: -----	Financial Management Information Systems
GAAFR: -----	Governmental Accounting, Auditing, and Financial Reporting
GAAP: -----	General Accepted Accounting Principles
GASB: -----	Government Accounting Standard Board
GFSM: -----	Government Finance Statistics Manual
GBE: -----	Government Business Enterprises
HoPR: -----	House of Peoples Representatives
IAS: -----	International Accounting Standards
IBEX: -----	Integrated Budget and Expenditure System
IFAC: -----	International Federation of Accountants
IFIMS: -----	Integrated Financial Management Information Systems
IFRS: -----	International Financial Reporting Standards

ICAI: -----	Institute of Chartered Accountant of Indian
IGAS: -----	Indian Government Account Standards
IPSAS: -----	International Public Sector Accounting Standards
ISA: -----	International Standard of Audit
MFOA: -----	Municipal Finance Officers Association
MoE: -----	Ministry of Education
MoFEC: -----	Ministry of Finance and Economic Cooperation
NCGA: -----	National Committee on Governmental Accounting
NCMA: -----	National Committee on Municipal Accounting
NPC: -----	National Planning Commission
OECD: -----	Organization for Economic Co-operation and Development
OFAG: -----	Office of Federal Audit General
PFM: -----	Public Finance Management
PIP: -----	Public Investment Program
PPPAA: -----	Public Procurement and Properly Administration Agency
PPPDS: -----	Public Procurement and Property Disposal Service
ROSC: -----	Report on the Observance of Standards and Codes
SEC: -----	Security and Exchange Commission
USA: -----	United States of America
VAT: -----	Value Added Tax

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CHAPTER ONE

INTRODUCTION

Since 2003 the Federal Democratic Government of Ethiopia (FDRE) has changed about sixty years old single entry government accounting practice with the modified cash based double entry accounting system and implemented in all budgetary government institutions at Federal, Regional and Woredas (FGE accounting manual, 2007). As a result significant results and challenges prevailed on the Ethiopia public finance management practices. This study aims at uncovering the results achieved and challenges faced after the reform. In the following pages back ground of the research, statement of the problem; objectives of the research, its significance, and scope and limitation of the study are presented.

1.1. Background of the Research

In Ethiopia Ministry of Finance and Economic Cooperation (MoFEC) is responsible for establishing and modernizing the Public Finance Management (PFM) Systems, including public budget, cash management and disbursement, government account, public procurement and property administration, and internal audit (HoPR, 2009). For this let us see the trends of changes in the Ethiopian PFM systems in general and government accounting in particular.

MoFEC is one of the oldest public institutions in modern Ethiopian history which was established in 1907, under Emperor Minilik II era. Initially the ministry had been responsible for administering public and Emperors' personal assets. This basically violating one of the accounting principles; that is, the principle of entity concept. Because of this, there was no systematic government accounting practices at that period. But later on, after World War II, the power and duty of the Ministry was limited only on public finance management and abandoned the then imperial personal asset management practices (MoFEC, 1984). However until 2003, almost all public entities in Ethiopia had practiced cash base single entry accounting and reporting method. As a result the financial statements of this system had limited information for management and external users' decisions.

Following with the change of government in 1991, the administrative system of the land has been changed from centralized to federal system. As a result the government organized task teams and initiated several reform programs to transform the country to the decentralized

system of administration. Among this, the government has identified five components of the civil service which required serious changes to enhance the country's reform agenda. Therefore, to assess the civil service problems and recommend solutions for modernizing and scale up its services a task force was established on November 1994. Initially this task force reported to the Prime Minister's Office (PMO) and the team of experts comprised senior government officials and international consultants. Thereafter, a civil service reform program coordinating office, under the then Ministry of Capacity Building was established to coordinate the five sub components of the reform (CSRP-CO., 1997). Then finally MoFEC took the responsibility of the Expenditure Management and Control aspect, which is one of the five sub-programs of the Civil Service Reform Program. To coordinate various reform projects which were being undertaken by different federal and regional implementing agencies, the ministry organized an office called Expenditure Management and Control Program /EMCP/ reform directorate (MoFEC, 2015).

The first intervention of change in the EMCP was made on legal reforms which resulted in a comprehensive public finance proclamation, regulation and directives had been developed and implemented in all government public bodies since 1997 (MoFEC, 2015). After that several changes have been made on budget, cash management and disbursement, government accounts, procurement, property administration, internal audit and control, external audit and integrated financial information technology. Those components of the EMCP reform (projects) assessed the existed systems, identified problems, designed reform ideas, improved the system and finally implemented them across the country (EMCP, 2017).

Among these changes since 2003, the oldest practice of cash base single entry accounting system had been replaced by Modified Cash Bases of Accounting system. This new system was implemented across the country and became system of government account record for all federal, regional and woreda public entities (MoFEC, 2015).

Thus, this research identified uncompleted Ethiopian government account reform problems, the drawbacks of the system and other operational problems. Then finally it recommend suggestions to improve the existing government accounting and reporting system providing accurate and complete information for decision making.

1.2. Statement of the problems

Prior to the implementation of the reform program, most of the federal and all of regional government budgetary institutions used single entry and pure cash bases accounting system. As a result government entities financial statements had fallen to provide complete, detail, accurate and timely financial information for management and external user decision. Mainly none cash items, including outstanding advances, were not recognized in the transaction register. Even the cash, liability and expenditure accounts hadn't recorded subsidiary ledgers. Due you to this it was difficult to identify detail and comprehensive information from the financial statements (MoFEC, 2015).

But after the reform, significant results have been achieved on Ethiopian government accounting and reporting. First, the reform addressed the gap of public finance legal framework. Before the reform, the whole public finance operations were governed by financial regulation of 1981 which was not properly approved by Councils of Ministers (COM). Therefore, the reform took action of drafting comprehensive public finance proclamation, regulation and directives which properly enacted by House of Peoples Representatives (HOPR), COM and MoFEC, respectively. Followed to these a unified chart of accounts and procedural manuals for the Modified Cash Bases of accounting system were developed and implemented all over the county (MoFEC, 2015).

This system basically recognized cash transactions, either it paid or received. Moreover, as modified nature it recognized none cash revenues and expenditures which existed when aid in kind is received, income tax, VAT, cost sharing and other liability withholdings without actual cash movements, recognition of expenditures when payroll is processed, at the end of the year when grace period payables is recognized and any intergovernmental transfers, amount due on treasury bills and direct advances from the National Bank of Ethiopia(FGE accounting manual, 2007).

Even though the reform achieved several concrete results, there are some challenges that not yet solved. Still know the statement of financial position of the Ethiopian government account is limited only on current assets and current liabilities. Furthermore, the system of record among budget, disbursement and account are not aligned with each other. As of MoFEC and DSA

manual (FGE accounting manual, 2007), the financial statements should fully and fairly disclose the financial information and issued in accordance with IPSAS. But the manual did not clearly mention which type of IPSAS, cash base or accrual base, the country should follow, what templates are to be used, what information are to be disclosed on main report and in other notes. Due to this the researcher observed some gaps on the practicality of IPSAS on Ethiopian practice.

Therefore, this research is an attempt and shows the flows in Ethiopian government accounting reform and recommend suggestions to alleviate the problems.

1.3. Research questions

In broader sense this study raised that did the Ethiopian government accounting reform agenda successfully met its intended objectives or not? Then based on this, the research raised the following subsidiary questions:

1. What results were gained as a result of transforming the Ethiopian government accounting system?
2. What were the challenges faced during the reform implementation?

1.4. Objectives of the Study

1.4.1. General objective

The general objective of this research is to critically assess the accounting reform results and challenges in Ethiopia; suggest how to alleviate the existed implementation problems and initiate idea for further study how to transform the reform to the international standards or practices.

1.4.2. Specific objectives

The study has the following specific objectives designed to achieve the main objective:

1. To identify the Ethiopian government accounting reform process and results of the implementation,
2. To examine challenges of the reform implementation,
3. To identify major areas of flows,
4. To identify major areas that need immediate action,

1.5. Significance of the study

For the last 15 years the Ethiopian government has been gone through serious of government accounting reform implementation and achieved significant developments. But some of the issues rose at the beginning of the reform were not yet solved and other challenges eventually seen in the course of implementation challenges the reform. The adoption of IFRS for business enterprises, based on proclamation number 847/2014; also require changing the government accounting practice accordingly.

Thus, this study is intended to identify the gaps and challenges of the reform and provide solutions by analyzing the selected federal government public bodies' implementations. By doing so, the quality of government financial reports will be improved.

The result of this research will be primarily solve the Ethiopian government accounting reform implementation challenges existed at selected federal government budgetary entities and then other government institutions will benefit from it. In addition, this study will identify gaps of the existing system and provide suggest idea for further study for researchers and MoFEC management to transform the Ethiopian Government accounting and reporting system to the next higher level.

The result of this study will be expected to use as reference for other researchers and initiate further study and debates on the Ethiopian PFM system in general and government accounting system in particular.

1.6. Limitation of the Study

Assessment of all public bodies is best to get full information about Ethiopian government accounting reform results and challenges. But due to limitation of resources including financial, professionals and other logistics; the scope of this study limited at federal level only in 5 public bodies.

These five federal government public bodies selected primarily because they are highly involved on PFM regulatory and capacity building tasks. Among them MoFEC and PPPAA selected mainly because they are regulatory bodies in one hand and accounting reform implementing institutes on the other hand. NPC and MoE are selected because represent public bodies and initiate national and sectorial policies and medium and long planning, respectively. The fifth entity, PPPDS, is selected for this study because it procures common use items and property disposal service for all government public bodies.

Moreover, to implement the research recommendation, it required policy maker decisions. Even the policy makers accept it, it requires system and administrative changes and huge capacity building works for developing procedural manuals and providing trainings for accountants and officials at all levels. However, this research will not cover the policy decision, financing and capacity building matters.

1.7. Organization of the Study

At the beginning acknowledgement and acronyms will be present. The body of the research which has five chapters will be present accordingly. These are:-

- The first chapter of the study is the introductory part which includes background of the research, statement of the problems, research questions, objectives of the study, significant of the study, limitation of the study and organization of the study.
- The second chapter deals with literature review related with the subject. Here the general concept of the research or literature from the international practice will be reviewed and more the historical trends of public finance management in Ethiopia and the specific conditions of government accounting system before and after 2003 will be assessed from different literatures and other secondary sources;

- The third chapter is deal with research design and methodology.
- In the fourth chapter the implementation of government account system, data analysis and interpretation will be described, and
- Finally in fifth chapter the summary, conclusion and recommendation of the study will be present.

CHAPTER TWO

Review of literatures

2.1.Introduction

In this chapter the researcher reviews different literatures related to government accounting and reporting results and challenges in Ethiopia and other countries. Further the researcher review the solutions made for those challenges. The sources of the literatures were different books, journals, articles, research papers, assessment documents, reports etc. from within the country and abroad. In relation to this, the definition of key terms, concepts and theories pertaining to the study will be presented. Therefore, the review of theories and empirical of this study are presented as follows.

2.2.The Review of theories

The definitions of key terms and theories or concepts related to this research are presented as follows.

2.2.1. Government Accounting theories

Commonly Government is defined as the group of people who have the authority to set and execute public policies, laws, strategies and other acts to govern a country or state. In many studies government accounting termed as public sector accounting and it is the accounting functions applied on public entities. It is a system, in which it gathers, records, classifies, summarizes and reports the financial events existing in the public sector and provides the financial information of the public institutes to the users (TatJana, 2013).In this respect there are different theories on the public sectors accounting and reporting practices.

1. The New Public Management (NPM) theory

In recent years some governments in the world included the New Public Management (NPM) in their various reforms including financial management reforms. This measure shifted the government accounting practice from traditional cash basis to full accrual base accounting. The New Public Management (NPM) initiative was founded in the UK in 1979 and by the year 1991 and then it adopted by many countries around the world. The aim of the New Public Management initiative is to measure efficiency, and to facilitate competition with the private sector. The application of NPM, which is the application of private sector

management approaches and techniques to public sector management, is supported by the IPSASB that many countries taken this strategy shifting their traditional government accounting towards accrual IPSAS standards (Ofoegbu, Grace N.,2014)

There have been serious debates on whether accrual accounting would work in the public sector as it does in the private sector organizations. Many authors support the idea of introduction of accrual accounting in the public sector that first, public sector entities engage in long term contracts and in most cases payments may be delayed. In this case, when public entities applied cash basis method, the financial reports resulted from the system are entirely distorted and not really reflect the true nature of the organization. Because of this, to get more accurate financial information on the organization capitals and liabilities, NPM theory advocate the application of accrual accounting system on public sectors. The second, argument is transparency issue which the cash basis of accounting cannot bring about transparency by government. But the use of accrual basis of accounting brings transparency on government transactions which it enhances understanding of economic reality. By this effect it provides accurate information to make decisions or actions on an organization's assets and liabilities, revenues and expenses (Ofoegbu, Grace N., 2014).

2. Institutional theory

The public sector accounting reform has been influenced by institutional theory for long years. A serious of researches has been conducted by different scholars. This theory investigated that the public sector organization has been forced by the institutional forces. Thus includes, the implementation of multidimensional performance measures and more in the neo institutionalization saw the public sector from the perspectives of social and political aspects. This theory is called the neo institutional sociology (NIS) which the public sector accounting influenced by various social and political factors (Md Salah U. and Mahafuzu H., 2016).

The institutionalization theory in the public sector accounting also faces various challenges and bottleneck due to the complexity, fragile and unpredictable nature of institution (Md Salah U. and Mahafuzu H., 2016).The new institutional sociology is unable to explain why organizations under similar environment adopted different approaches. Also it cannot account for why the organization, among similar organs, introduced a new accounting system

at the particular time (Kiyoshi Y., 2012).As a result it eventually changed to the contemporary theory which is termed the institutionalization experimentation (Md Salah U. and Mahafuzu H., 2016).

3. Positive accounting theory

This theory is based on self-interest and rational that it assumed accounting as part of the contract between a principal and an agent (Kiyoshi Y., 2012).

For analyzing the accounting choice, neither institutional theory nor positive accounting theory can fully explain and predict the actual results. In addition, the emerging approaches insisting an integrated theory (Kiyoshi Y., 2012).

2.2.2. The Conceptual frame work

Internationally the concept of standardize public sector financial reporting started in 2000. To standardize the reports the International Federation of Accountants (IFAC) has taken the leading role. IFAC developed IFRS for business sector and IPSAS for public sector entities. For this IFAC has published standards applied for all public sector entities, including national and local governments (Lasse O., 2010).

The International Public Sector Accounting Standards (IPSASs) promotes the use of accrual base of accounting for public entities to enhance transparency and accountability. To transform to IPSAS, governments should take measures on institutional arrangements in government entities (IFAC, 2012).

IPSASB issued public sector financial reporting standards dealing with under cash base of accounting and accrual base of accounting. The accrual base of IPSAS is based on IFRS which it issued by International Accounting Standard Board (IASB). These financial reporting standards are developed specific to the public sectors (IFAC, 2016).

The adoption of IPSAS by governments significantly improved the quality and compatibility of the financial information presented by public sectors. For this IPSASB encouraged member countries and national standard setting bodies to develop the national standards in conformity with the international standards. Therefore the national requirements are harmonized with the international standards. To do this the national setting body should communicate the draft standards to the international body for consultation (IFAC, 2016).

The conceptual frameworks for the general purpose financial reporting by public sector entities generally have 22 standards, from IPSAS 1 to IPSAS 27. The first standard (IPSAS 1) deal with presentation of financial statements and at the last IPSAS 27 presents agriculture. In between some of the standards covers in the pronouncement includes cash flow statements, accounting policies, change in accounting estimates and errors, the effect of changes in foreign exchange rates, borrowing costs, consolidated and separate financial statements, investments in associates, revenue from exchange transaction, revenue from non-exchange transactions, construction contracts, inventories, events after reporting date, investment property, property, plant, and equipment, related party disclosure, segment reporting, disclosure of financial information about the general government sector, presentation of budget information in financial statements, employee benefit, and others (IFAC, 2016).

The general purpose financial reports, prepared with IPSASs, are provide financial information for decision makers and also important for ensuring accountability. Having thus in mind, it has the following unique nature compare from commercial accounting financial statements (IFAC, 2016).

1. Organizational objectives and nature

The basic objective of government is maintaining peace and security and enhancing the wellbeing of its citizens by providing public services in accordance with public policy. Government provides major public services include public safety, education, social services, transportation and so on for citizens without considering their cost of services. To achieve this objective, public sectors strive for providing desirable social services to the general public efficiently, effectively, and in sustainable manner without the intention of getting profit and generate return on equity to the investor (IFAC, 2016).

The accounting and financial reporting standards for governments must be separate and distinct from those for business organizations because the needs of users of financial reports are unique and different. Governmental financial reporting focuses on a government's stewardship of public resources, ongoing ability to raise taxes and manage resources, and compliance with legal spending limits, rather than on information about earnings. More specifically, IPSAS aim to provide information for public accountability to assess how public resources are acquired and used (IFAC, 2010 and IFAC 2016).

2. Source of revenue

Government and other public sectors raised resources from tax payers, donors, lenders and other sources and render services to citizens and other service recipients. From which the major source of revenue for government is from non-exchange transactions, basically from taxation (IFAC 2016). But business organizations generate their revenue for sales of goods and services which willingly involves voluntary exchange of transactions between buyers and sellers.

In this respect, the Financial Accounting Standards Board (FASB), in its Statement of Financial Accounting Concepts No. 4, noted that governmental and not for profit entities distinguished from business organizations by the following characteristics (Earl, Jacqueline and Susan, 2010).

- a) Receipts of significant amounts of resources from resource providers who do not expect to receive either repayment or economic benefits proportionate to the resources provided.
- b) Operating purposes that are other than to provide goods or services at a profit or profit equivalent.
- c) Absence of defined ownership interests that can be sold, transferred, or redeemed, or that convey entitlement to a share of a residual distribution of resources in the event of liquidation of the organization (Earl, Jacqueline and Susan, 2010).

3. Longevity of the public sector program

Government has ultimate power on levying tax and providing basic services for citizens. These activities are recurring each year. Because of this governments entities are rarely liquidate that they are mostly achieving longevity. Because of this the ability of governments to exist in the future generally is not in doubt but rather the issues are the sustainability of the level of services provided and the ability to meet future levels of demand for services. As a result, governmental financial statements generally emphasize the allocation of resources to government programs, the determination of the cost of services, and providing a longer term view of operations (IFAC 2016).

However, the case is not the same for business entities which their longevity depends on their profit and asset they have. Sometimes business enterprises may be liquidated by court decisions if they exhibited loss for an extended period of time and finally their assets are not legible enough to cover their liabilities (Earl, Jacqueline and Susan, 2010).

4. Relationship with Stakeholders:

Public sector entities financial reports provide both financial information and accountability. The report is directly submitted to the managements (IFAC, 2016). However, the business enterprises financial reports finally submitted to the shareholders.

5. Accountability

Taxation is compulsory payment of individual citizens which the government collects and provides the basic services, welfare services, secure peace and security, make regulatory functions, and develop through budgeting. For this, the government is accountable by legislators as citizen representatives. Therefore, the object of financial reporting is ensuring accountability. This accountability is basically helpful to evaluate budgetary integrity, operating performance, stewardship, and adequacy of systems and controls (Earl, Jacqueline and Susan, 2010).

6. Role of the Budget:

Budget is a legal document promulgated by parliament which reflects public policy priorities, authorization rights and the purpose of public resource to be spent. It comprised two parts that is financial and non-financial. Therefore, during budget process the citizens raised questions and debated with government officials and elected representatives which reflect financial accountability is in practice (IFAC, 2016).

2.2.3. Qualitative Characteristics

It stated that the governmental accounting system should incorporate and compliance with two things. First, it should be compliance with all legal provisions and second, presents fairly the financial position and results of operations of the respective funds and financial position

of the self-balancing account groups of the governmental unit in conformity with IPSAS. But there are cases that the two conditions are in conflict. At this time the legal provision should take the priority in public sector accounting (Frederic, 2009).

One part of the pronounced statements by IPSASB was about the qualitative characteristics of the useful financial information. Thus qualitative characteristics are included relevance, faithful representation, understandability, timelines, compatibility, verifiability and constraints on information. These constraints on information are also sub divided into materiality, cost benefit and balance between qualitative characteristics (IFAC, 2016).

2.2.4. Bases of Government Accounting

In order to understand the government financial statement, we have to understand the different bases of accounting that the transactions recorded. Basis of accounting refers to when revenues, expenditures, transfers, assets and liabilities are recognized and reported in the financial statements.

Generally there are two basic types of accounting systems which widely familiar for practitioners and users financial statements. These are cash base and accrual bases of accounting. Commonly most business enterprises especially corporations use the accrual basis of accounting while small businesses practice the cash basis of accounting. But in between there are other two systems, modified cash base and modified accrual accounting systems (Adriana, 2007). Therefore, here below let us see the concept and practices of the about four bases of accounting systems applied in different countries and government funds within the same country.

1) Cash basis of accounting

Under the cash basis of accounting, revenues are recorded when cash is received and expenditures are recorded when cash is paid out (Adriana, 2007). Thus, you record revenue only when a customer pays for a billed product or services, and you record a payable only when it is paid by the company. In cash basis of accounting, an entity's balance sheet would have two accounts cash and equity. The statement of activities consists of a listing of cash receipts and cash disbursements for the period. But in

some case entities recorded the transactions of inventory, fixed assets, and accounts payable out of the cash basis system.

Many small business owners are using the cash basis and recording their business transactions with a check book. In many countries, including Ethiopia, it is allowed to use cash base of accounting, not required to have book of account, for tax purpose. But the cash base of accounting is not accepted for government financial statement preparation under IFRS (Adriana, 2007).

Cash basis is useful under the following circumstances.

- For simpler accounting systems with accounting personnel who are not familiar with the more intricate accrual basis of accounting
- Where there is no inventory to be tracked or valued
- Where there is no need for an audit, as may be required by a lender
- When the company is in the services business (which implies that there is no inventory)

Cash basis accounting has its disadvantages. First, the expense and revenue of an item are not matching each other. This means that the income statement and balance sheet may not be good pictures of recent activity and present activity conditions. Cash based accounting can distort the true operations of the activity and incorrectly reflect income (Adriana, 2007).

In addition to this, pure cash accounting has a number of weaknesses from the point of view of government financial transparency, integrity, and accountability. The cash base accounting system did not recognize the economic events unless the revenues are received or expenditures are paid. Governments have been tempted to exploit this weakness by deferring cash disbursements or bringing forward cash receipts as a means of artificially inflating their financial balance. Moreover, governments that follow cash accounting tend to not maintain comprehensive and up-to-date records of the value of their assets and liabilities. This enables them to transfer assets or incur liabilities to third-parties without disclosing their financial implications for the government and taxpayer (Joe, Suzan and Delphine, 2016).

2) Accrual basis of accounting

The accrual base of accounting is generally used in preparing government wide financial statements and proprietary funds which resembles a business type of activity. Therefore, having the concept of accrual base of accounting is important for understanding a government financial statements prepared in accordance with IFRS (Abdul and Stephen, 2009).

Under accrual base of accounting, transactions are recorded when the order is made, the item is delivered, or the services occur, regardless of when the money is actually received or paid. In other words, income is counted when the sale occurs, and expenses are counted when are received the goods or services (Adriana, 2007). In this respect, revenues are recorded when earned or government has the right to receive the revenue and expenses are recorded when incurred. The accrual basis of accounting is in general presents the economic resources and financial positions of an organization than any other base. The accrual basis requires the use of allowances for sales returns, bad debts, and inventory obsolescence, which are in advance of such items actually occurring. An example of accrual basis accounting is to record revenue as soon as the related invoice is issued to the customer (Adriana, 2007).

Over the last two decades, many countries have begun to change their accounting system from pure cash to accrual accounting. The recent transformation of many public sectors to the accrual accounting system can be made due to a number of factors. These factors are related to the limitation of pure cash accounting; the development of accrual based international standards for government fiscal and financial reporting including Government Finance Statistics Manual (GFSM) and International Public Sector Accounting Standards (IPSAS); the professionalization of the government accounting units and resulting introduction of private sector techniques into the public sector; and the advent of computerized financial management information systems (FMISs) which greatly reduce the transaction costs of collecting and consolidating accrual base information (Joe, Suzan and Delphine, 2016).

Accrual accounting has a number of benefits over cash accounting. First, it captured both cash transactions and non-cash flows in financial statements. Second, it can help focus greater attention on the part of policymakers and the public on the acquisition, disposal, and management of government assets, liabilities, and contingent liabilities. Third, it consolidated all government entities accounts including central government ministries and agencies and other institutional units under government control. Fourth, the reports are presented based on internationally accepted standards such as GFSM 2014 and IPSAS. In addition to the above the use of accrual accounting in public sector provides information on whether the income statement of the organization is adequately meets the short and long term liabilities. This helps for the management to make financial decisions for future funding requirements for operational and investment activities. It also disclosed account of contingent assets and contingent liabilities so that risk associated with the guarantees issued and letters of comfort given can be better assessed by the user of the financial statements (Joe, Suzan and Delphine, 2016).

Accrual accounting in government accounting has its limitations. First, only few countries most of them have developed economy can transformed their public sectors to the accrual accounting system (Joe, Suzan and Delphine, 2016). Second, its implementation requires huge resources including qualified accountants, finance, information technology support and strong management. The use of accrual accounting in public sector is under debate by different actors, both for academics and practitioners, by analyzing its cost and benefits. International organizations like the International Monetary System, The World Bank, The European Bank and OECD are encouraging countries adopting accrual accounting in the public sector. But others debated that change the public sector to accrual system worth costs and the additional risks for governments. IFAC also warned countries to analyze the validity and the benefits expected from this reform by taking into account the conditions, the priorities and the local characteristics (Adriana, 2007).

3) Modified Cash basis of accounting:

A Modified cash base is a hybrid accounting method that takes into account, for the most part, the cash accounting, but that also takes into account unpaid accounts and/or accounts receivables at the end of the year (Sabrina, Loredana and Guillaume, 2015). It

basically recognized the cash base transactions with some modifications of some elements, specifically uses accruals for long-term balance sheet elements and the cash basis for short term ones. It allows for the government's books of account "remain open" after period end for a specified number of days, for example in Ethiopian case for one month-grace period. Then all grace period payments pulled back and posted to the previous year book of account which the financial statements for the period encompass some post period cash flows (MoFEC, 2007).

Modified cash basis accounting provides more relevant information than cash base in one hand and less expensive than accrual accounting. It also prevailed the resulting financial statements are comparable over time. Moreover, it can be applied in public entities but not applied for business entities under IFRS. In relation to this some not for profit organizations maintain their monthly financial records on a modified cash basis internally for budgeting purposes, and then convert to the accrual basis at yearend so that their fiscal yearend financial statements are in accordance with IFRS (Sabrina, Loredana and Guillaume, 2015).

4) Modified accrual basis of accounting:

Modified Accrual accounting is an accounting method that tends to full accrual accounting but with some differences, including the non-consideration of some classes of asset or liability (Sabrina, Loredana and Guillaume, 2015). In this method, revenue is recognized in the accounting period in which they become susceptible to accrual; that is, when they become both measurable and available to finance expenditures of the current period. Measurable doesn't mean precise amount but includes using other means such as subsequent cash collections and historical collection patterns. Available means that the revenue is collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures under modified accrual basis are recorded when the related liability is incurred (Sabrina, Loredana and Guillaume, 2015).

2.2.5. Accounting Entries

There are two type of accounting entries, namely double entry and single entry, practices. So let us see them in short:

1. Double Entry system

Double entry system is the scientific or systematic method of keeping financial records. This system of record is based on the principle of duality or self-controlled which present for every debit has corresponding credit and vice versa. This principle has been dogmatically applied in all transaction records and never been violated in the subdivision book of accounts. The sub division might have resulted in one debit having a serious of credit or a serious of debit having consolidated credit. It follows therefore the total value of debits in the ledger should be equal the total value of credits in the ledger. As a result the total of debit balances found in the various accounts must equal the total of credit balance found in the ledger. If the totals of debit and credit balance do not agree, then, obviously some errors must have been made in the records. It is necessary to find out the mistakes and rectify them before proceed to ascertain the profit or loss(Spicer and Peglers, 1908).

In double entry book keeping trial balance offers a means of checking arithmetical errors in writing up books of account. “A trial balance is a list of all the balances standing on the ledger accounts and cash books of a concern at any given date (Spicer and Peglers, 1908).The object of preparing this statement of debit and credit balance is to test the arithmetical accuracy of the records. It should how ever be remembered that the agreement of the trial balance ensures that the books of account are accurate up to appoint.

In double entry system the normal balance of all assets and some of the capital accounts like expenses, loss and withdrawal have debit accounts. But on the contrary the normal balances of all liabilities and some of the capital accounts like revenue, gain, retained earnings have credit accounts.

2. Single Entry System

The single entry system allowed recordings of revenue and expenditure by their nature or type without explicitly recording the counterpart outflow or inflow of cash. However, that did not mean that the cash outflow or inflow was ignored. On the other hand, the double

entry system facilitated recording of each transaction explicitly in two separate codes. As a result it only kept a personal account in the books. In practice, however, one usually finds a Cash Book in addition, though it is often merely a memorandum book (Specer and Pegler, 1908). Because of this a trial balance cannot be prepared. Under this approach, assets and liabilities are not formally tracked, which means that no balance sheet can be constructed. It is only cash and personal accounts are maintained (Spicer and Peglers, 1908).

Most businesses maintain a record of all transactions based on double entry system. But many small, simple businesses maintain only a single entry system and in some cases records only cash, accounts receivable, accounts payable and taxes paid. Asset, inventory, expenses, revenues and other elements may not be kept in main book of account, except in memorandum form. Single entry systems are used in the interest of simplicity. They are usually less expensive to maintain than double entry systems which the double entry accounting require a significantly larger amount of expertise. If a double entry system is needed, then the services of a trained person are often required (Sabrina, Loredana and Guillaume, 2015).

According to the U.S. Internal Revenue Service, a single entry system is based on the income statement (profit or loss statement). It can be a simple and practical system if you are starting a small business. The system records the flow of income and expenses through the use of a daily summary of cash receipts, and monthly summaries cash receipts and disbursements (Sabrina, Loredana and Guillaume, 2015).

2.3 Empirical Review

In this part the researcher review empirical evidences related to this research manly focusing on Ethiopian account reform cases and international experiences. So, let us review these as follows.

2.3.1 Countries accounting reform experience

The empirical studies generally reveal that the design and implementation of governmental accounting reforms appear to be less successful and are diverging in various countries. This basically resulted due to giving less attention for the reform (Tatjana, 2013). But some countries achieved the public sector accounting reform successfully. So, let us see some countries experiences in this respect.

1) Developing countries experience

The past few years have shown that the global financial system is in need of a variety of reforms including the government accounting reform. As a result developing countries take the accounting reform as their development agenda and moving from the cash to the accrual basis of accounting. This is because it is accrual and modified cash base provided the necessary information for the decision making processes (Mohammed, 2014). But the financial systems in public sector in Africa are fragile traditions (Stephen, 2001). The same is true for other developing countries, too. So let us see some countries experiences here after:

Since early seventies Iraq has started the decentralized system which provided the country expansion in public services and public expenses. In 1980s and 1990s' the country enacted different public finance laws including budget proclamation and public accounting principles law which contributed to enhance the public finance transparency in Iraq. In 2004, the Financial Management and Public Debt Law 95 codified a new system of governance which required budgetary process and parliamentary approval of the budget. This enhanced the powers of the Ministry of Finance, returning it to the coordinating role; set a timetable for formulating and approving the budget; encouraged budgetary transparency; and initiated a rudimentary system of fiscal federalism. Since 2006, IFMIS has been installed in public sectors as part of a broad set of financial management reforms. The government accounting function is made by the general treasury; by which the all source of government funds are deposited in government consolidated account and then within the limit it transferred the money to implementing government departments. The budget system GFS applied reporting on cash basis but all Government Business Enterprises (GBEs) use accrual based without IFMIS support. In Iraq, public sector entities use different accounting systems but considerable efforts were made to design the unified chart of accounts for cash and accrual basis accounting. The law, proclamation no. 75/2004, allowed that the public entities financial statements should be prepared according to IPSAS (Mohammed, 2014).

Despite of this, the budget system is traditional which use cash base with expenditure items. Due to this the Iraqi national budget has been criticized for their lack of transparency. International Budget Partnership (2013) indicating that the Iraqi budgetary information is close to is to the public. This means that the government cannot be held accountable by the

public, neither for its decisions on the allocation of public resources nor for its actual spending, leaving significant space for arbitrary decision making. The legal framework of the country is a relatively comprehensive in place (Mohamed, 2014).

In China, Government accounting reform is increasingly becoming a topic of concern. China has been reformed the budget accounting system for several times, and has achieved remarkable success, but the reform programs on open budget and others bring new challenges to government financial information disclosure. In addition to this, the reform program of the country China has matured enough on government accounting and the financial reporting is not yet implemented in true sense. The current system, budget accounting reports, has big gaps on preparing the proper government financial reports. It does not provide such reports, including the major contingent liability report, the tax expenditure report, as well as in year fiscal activities report. The budget report also does not include many categories of financial transactions. Therefore, the asset and liability reports are incomplete and the performance and cost information of the public sectors (Yang, 2013).

2) Developed countries experience

Moving public sector accounting to accrual base was started by developed countries as a part of the public sector reform (Mohammed, 2014). One of the exemplary countries in this change is New Zealand. In the mid of 1980s and 1990s, the country radically reformed the public sector and introduced performance related individual contracts for senior staff; increasing departmental management autonomy; changing financial management and reporting requirements, including moving from input based to output based reporting; a move to strategic planning for the government; and so on .The reforms drew heavily on public choice theory, new institutional economics and new public management. In relation to government accounting and reporting reform, the financial act of the country introduced accrual accounting into the public sector, which replaced the previous cash based practice (Shaun, 1998).

In Europe, the European commission adopted the new public accounting system since 2005 the requested members' countries transforming their public accounting system towards this change. For this the union enacted directive number 2011/85/EU. But still the practicality of

this act was heterogeneous among member countries and even in one country among different states. Among member states Belgium, Estonia, France, Lithuania, Portugal, Romania, the United Kingdom, Slovakia and Sweden, are using an accrual accounting for all the government entities. However Italy still using cash base accounting. On the case of Germany, the reform was not completed and different states use different accounting practices. In Austria, the central government uses modified accrual while the local governments use modified cash base accounting. The central government of Bulgaria applies modified cash accounting while the local governments use cash base accounting. In Spain both the central and local governments use modified cash base accounting. The Greece central government use modified cash while local governments use accrual accounting. The Hungary government use hybrid which the essential elements are on cash base but use accrual for some elements (Sabrina, Loredana and Guillaume, 2015).

For the case of Romania the transformation from cash to accrual accounting has been pass three phases. Before 2002, the Romania government used cash based accounting in public sector. Then after, the country eventually transformed from cash base to accrual base accounting. This is basically because it was a requirement for the country to become a member of the European Union that the country should harmonized its directives with European directives and International Accounting Standards (IAS/IFRS). For this, from 2003 to 2005, the country's standard setters have tried to aligned the chart of accounts for public institutions with the already developed framework which used by economic entities. Then the Ministry of Public Finance took upon itself the compulsory need to restructure budgetary accounting by supplementing cash based accounting with accrual accounting. The accounting system implemented in the country is coherent with the IPSAS. To summarize the accounting reform, it has the following main features: the chart of account of the public entities is harmonized with economic entities with certain elaboration for particularities; the formats of the financial statements for both public and economic entities are similar; budget is allocated based on projects, from the budget system it is possible to track the allocated funds based on results (Adel, Cristina and Crina, 2011).

The government accounting in India, both in the Union and the States, is predominantly use cash based accounting system. This preference is made by the government primarily for budget control and simplicity of the cash base accounting system. But this system is mainly criticized because it lacks transparency, accountability, cash management and rational resource allocation. The system also lacks public sector accounting standards and inadequacy in disclosure financial information in financial statements. The Indian Government Accounting Standards Advisory Board has so far developed five Indian Government Account Standards (IGAS), adopted out of the 31 IPSAS accrual standards, and submitted them to the Government of India for notification. GASAB has also developed a detailed road map and an operational framework for Government of India and States to migrate to accrual basis accounting. Several other products of GASAB are under various stages of development. But the major challenge of the Indian government accounting reform is governments themselves which the authorities practiced against the accepted principles (ICAI, 2010).

2.3.2 Accounting reform in Ethiopia

Public finance management in Ethiopia has been started since 1907 when Ministry of Finance, one among the first five public entities, was established. But systematic recording and reporting of government accounts has been started since 1945 when the first budget appropriation proclamation enacted by the parliament (MoFEC, 1984). Since then the single entry and pure cash accounting system had been practiced about six decades. But since 2003, the government accounting and reporting system has been changed to modified cash based double entry accounting and eventually implemented in all government entities across the country (MoFEC, 2015).

The objective of accounting reform is to introduce modern government accounting system that is supported by modern technology, to design government accounting system, which could contain and produce the necessary and appropriate information and provide timely financial reports (Abdu, 2014).

So, who initiated this change and what decisions made? What challenges encountered the reform the at the initiation stage and eventually after that? What results achieved? And finally what are the remaining tasks of the reform to compliment the international standards will be review here after.

1) Initial challenges of the Ethiopian Government accounting system

In 1994 the Ethiopian government set up a Task Force to conduct an extensive assessment and evaluation of the Ethiopian Civil Service functions at regulatory and sample federal, regional, zonal and woreda public institutions. From 1994 to1996 the task forces undertaken the assessment and in 1997 it submitted the findings, conclusion and recommendations of the study to the Prime Minster Office (PMO).Then in February 1997, a Civil Service Reform Program (CSRP) was established to coordinate the five reform programs, including Human Resource Management, Ethics, Service Delivery, Top Management Development, and Expenditure Management and Control. Among those one of which, the Expenditure Management and Control Program (EMCP), is managed by MoFEC (CSRP-CO, 1997).

In relation to the Ethiopian government accounting and reporting practice, the task force initially identified several challenge or problems and provided recommendations to reform the system. Hence, the initial conditions, main challenges and recommended solutions are summarized in the following table as follows:

Table 1: Summary of the initial conditions, challenges and recommended solution of the Ethiopian government accounting and reporting system

S.no	Initial conditions	Challenges	Recommended solutions
1.	The public finance regulatory functions was split among four institutions, namely, Ministry of Finance (MoF), Minister of Economic Development and Cooperation (MoEDC), Prime Minister Office (PMO) and the Revenue Board	<ul style="list-style-type: none"> • It hindered the adoption of coherent, comprehensive approach to financial management. • As a result there are significant gaps in policy and legislative coverage and serious financial control weakness 	Unified the public finance regulatory functions in one institution; i.e., MoFEC
2.	The base of accounting and reporting system was single entry. This only accounts for cash, classifying receipts and payments by the chart of accounts.	Single entry has a number of deficiencies for best financial management. Basically none cash items, like fixed assets, outstanding advances and liabilities were not accounted.	<ul style="list-style-type: none"> • Supplement the single entry system by necessary additional financial information on institutions assets, advances, debts and credit positions, etc. • Line institutions develop their own chart of accounts • Within 18 months develop computer system for the single entry accounting. The Computer system to be run parallel to the manual system for two years
3.	The national accounts are very significantly (5-6 years) in arrears. During the survey time, 1996 MoF was consolidating the 1991 accounts; OFAG certified the 1990 accounts.	The quality of financial statements for decision making in relation to relevancy (timeline) were weakened.	<ul style="list-style-type: none"> • By enforcing the accountability, make institutions submit their closed account report to MoF by 3 months of the end of the financial year • Introduced self-accounting, producing financial and physical performance, by all government institutions within 3 to 4 years • Disclose the accounting documents available at shelf
4.	Aid in terms of kind were not accounted	Aid in kind were not accounted in government account system and hence not reflected in the financial statements.	Incorporate Aid in terms of kind in the accounting system
5.	No subsidiary ledger for relevant accounts	It make difficult to identify and follow the detail asset and liability accounts by individual levels	Make the accounting system to hold subsidiary ledger accounts in which sum up to the control account.
6.	The Public finance functions were regulated only by the 1981 Financial Regulation	This Financial Regulation was not an adequate base for accounting the civil service /The offices and employees/	Prepared a set of comprehensive legal frameworks to enhance the accountability of the public finance functions
7.	Weak staffing in the final function. There were no qualified accountants anywhere in civil service and only limited number of graduates.	The situation reflected the problem in the country as a whole and this resulted poor quality of account reports.	Full human resource and training needs assessments for accounting and auditing staffs through the civil service.
8.	Outstanding advances were not recorded by age and nature of advances by public institutes.	Statements of outstanding advance by age and nature of advance were not produced by public institutions. This made difficult for follow up and settlement of such accounts on time.	<ul style="list-style-type: none"> • Each public institutions should be record the outstanding advance accounts by their age and nature of accounts and report to MoF • Undertake regular review of such accounts by public institutions for either to chasing up or write off with MoF prior approval

Source: Report of the Task Force for Civil Service Reform Program, CSRC-CO, 1997.

2) Challenges of the account reform during implementation

The Ethiopian accounting reform is not smoothly implemented. From its beginning faced several challenges on human, organizational, legal and other resources. Among these challenges, the public finance functions have been challenged by lack of enough and competent professional accountants' in field of accounting in general and government accounting and reporting system in particular. In 2007, the number of professional accountants in Ethiopia is rather low in relation to the size of the economy. There are an estimated 200 professional accountants in the country. In comparison, Uganda and Ghana, with economies less than Ethiopia, each have more than 1,000 professional accountants. Kenya, whose economy is roughly 1.5 times that of Ethiopia, had 3,000 professional accountants in 2001. The shortage of professional accountants means that there were positions in the private and public sector that are filled by persons with lower qualifications (ROSC, 2007, MoFEC, 2015).

At the beginning of the EMCP reform period, between 1997 to 2002, the government accounting and reporting system was lack of uniform chart of account for operational and investment activities. For similar activities MoEDC and MoF applied different code number for its expenditure accounts. This made difficult to identify the cost incurred for each item that not provide relevant information for decision (MoFEC, 2015).

During the implementation, the consolidated national account has also challenged by a very significant arrears for several years. This was basically exhibited due to lack of integrated financial information system for recording transactions, consolidate the accounts and produce consolidated financial statements. In relation to this absence or lack of network services and Woreda-Net connectivity access for federal, regional and woreda public entities challenged the implementation of the accounting reform by large (MoFEC, 2015).

The other challenge of reform was lack of local institutions and professional accountants undertaking the Ethiopian government accounting and reporting system. Locally, there is neither a professional accountancy qualification nor training available for professional accountancy. All professional accountants hold foreign professional qualifications. All

professional accountants hold foreign professional qualifications. The generic academic accounting programs, diploma, Bachelor's degree and above, are provided by several universities and colleges in Ethiopia. However, the curriculum as well as text books may not prepare graduates well for enhanced financial reporting requirements in accounting and auditing. The curriculum does not include international components in accounting (IFRS) and auditing (ISA). Professional values and ethics are not taught as a separate subject (as required by IFAC standards on education) although a subject in the curriculum (Civics) covers general ethics. The textbooks in use are not up to date with recent trends in financial reporting (ROSC, 2007). This challenge is still the issue of many public entities, especially getting experienced accounting practitioners in the market.

The other challenge of the Ethiopian government accounting was lack of standards. For accounting standards, there is no law or regulation that has set or requires accounting standards in preparation of financial statements. Some laws require accounting reporting standards to be applied. However, in all cases, the standards are not defined (ROSC, 2007).

3) Results of the accounting reform

Because of change of political system since 1991, the previous unilateral system of administration changed to federal system which central power devolved down to States /Regions/ and local administrations/Weredas. Further, the 1995 Ethiopian constitution decentralized the national PFM and provided considerable autonomy and power to the nine regional states and two urban administrations. As a result the tax levies revenue collection and administration, budget proclamation, accounting and reporting of the public sector has been conducted autonomously (HoPR, 1995)

Specific with the government accounting and reporting system, most of the problems and challenges exhibited before and during the initial implementation period have been changed significantly. Among thus, the issues of allocation of financial functions among four institutions were reexamined and solved. So, currently all financial function of the government is regulated by MoFEC. The second issue, lack of legal frame was solved by enacting a set of comprehensive financial laws, including finance and procurement and

property administration proclamations, finance regulation and directivities. For detail operation works different manuals and standards also set out and become operational in over the country. For budget and account comprehensive and uniform chart of account, based on IMF GFS 1986 and COFOG 2001, was prepared and implemented in all public entities. Modified and cash based accounting system also became the system of record of government accounting. To make budget efficiency and to tackle the existed problem of accounting practitioners, a “Single Pool” accounting and procurement system of delivery service was developed and implemented at woreda and zone levels. A self-accounting and reporting system also adopted. As a result each public institution produced its account and performance reports and submits its reports directly to the parliament (MoFEC and DSA, 2007).

The other development made on integrated financial information system. To support the accounting and budgeting system first independent financial information systems, such as for budget preparation and administration Budget Information system (BIS), for project administration Public Investment Program (PIP), and for account recording and reports Budget, Disbursement and Accounts (BDA) were locally developed and implemented (MoFEC, 2015).

Next to this since 2004, the Integrated Budget and Expenditure Systems (IBEX) had been developed and rollout in every public entities. IBEX is a financial information system which combines two previously separate applications called BIS and (BDA) and it consists budget, accounts, budget Adjustment, budget control, accounts consolidation and administration modules (DSA, 2004). Currently IBEX is rollout in all federal, regional, zonal and wereda public entities except on few public bodies at federal level who transformed to IFMIS. In parallel to this the Integrated Financial Management Information System (IFMIS) launched to the Ethiopian PFM and currently implicated to 17 federal public bodies. It is an a web based and integrated financial information tool which has nine modules including general ledger, account payable, account receivable, cash management, public sector budgeting, purchase, payroll, inventory and fixed asset (MoFEC, 2015, USAID, 2011).

Followed with the constitution, the then centralized PFM administration has been decentralized from federal to regions/ city administrations and woredas. As a result in addition 185 federal public bodies, about 350 regional sector bureaus, 59 Zone and 955 woreda finance offices, which have responsibility for preparing government account reports, established in the country (EMCP, 2017). Thus public bodies prepared their account report, based on Ethiopian government accounting directive and manual, and reported monthly and annually to their respected reported offices, woredas to zones; zones to regions; regions annually to MoFEC; and federal public bodies monthly and annually to MoFEC. Then MoFEC annually prepare the consolidated government account report. As a result the arrears of consolidated and audited account are completely solved and became current (EMCP, 2017).

The Ethiopia PFM laws indicated that budget is the basis of government accounting. Budget is allocated to public bodies' based on program budgeting system and proclaimed by House of Peoples Representatives after thorough discussions and budget hearings at various levels. The annual budget proclamation indeed have details source of revenue, bilateral and multilateral assistance and loans, items of expenditures by type (recurrent and capital) and by public bodies, programs, sub programs, sub agencies and projects, budget administration including transfer rights, and other accounting issues (HoPR, 2016)

After that, the cash management and disbursement is made based on PFM directives. Then simultaneously the accounting records are made based on Ethiopian government accounting and reporting standards, known as Modified Cash Base Accounting and Reporting. In the Ethiopian case, this system basically recognizes the cash base transactions. But the modification is made on recognition of account receivables, payables, including grace period payables, vat payables, etc., and other none cash transactions. Thus relation with revenue, Revenue is recognized when aid in kind is received, Payroll is processed for income tax and employee fines, salary advance is made to an employee for interest on salary advances, and withholding tax is deducted from the amount due to a supplier. For expenditures, Expenditure is recognized when payroll is processed for salary and pension expenses, aid in kind is delivered, invoices received for activities of a capital project carried out for the

previous year shall be paid from previous year capital budget appropriation, and a grace period payable is recognized at the end of the year (MoFEC, 2007).

Thus the major results of the reform are presented in the following table as follows:

Table 2: Major results of the Ethiopian government accounting reform

S.no	Major issues	Major results of the reform
1.	There were no comprehensive legal frameworks regulating the PFM functions	Comprehensive legal frameworks including financial proclamation, regulation and directives were ratified and implemented in all public entities.
2.	The base of accounting and reporting system was single entry.	The single entry cash base system was changed to Modified cash based double entry accounting and implemented in all public entities,
3.	The chart of accounts were not standardized	Standardized chart of accounts were developed and implemented in all public entities
4.	About 5 years arrears of the national accounts	Both the consolidated and audited national accounts became current
5.	There were no established budget calendar binding the different actors/ COM, HoPR, MoFEC and budgetary institutions /	The budget calendar was developed, ratified and implemented
6.	The budgeting process was considered only one year at a time, only based on activities and outputs, and not linked with long term plan and strategy.	<ul style="list-style-type: none"> • At federal level the budget system was changed from activity and output base to program based and linked with long term plan and strategy • At regional level line item budgeting was implemented and linked with long term plan
7.	Absence of cash flow analysis and poor cash management	A three month rolling cash flow plan was introduced and based on this zero balance payment system was implemented
8.	There were no manuals and training modules for budget and account functions	Procedural manuals and training modules were developed and implemented for all PFM functions, including budget, account, internal audit, cash management and disbursement

Source: Expenditure Management and Control Program Impact Assessment Study, MoFEC, 2009.

: The Expenditure Management and Control Program Duties and performed tasks from 1997 to 2015, No.4, Addis Ababa, Ethiopia MoFEC, 2015.

2.4 Conclusions and Research Gap

During the last two decades many countries moving towards accrual base of accounting because it enhance public accountability by providing comprehensive, relevant and reliable financial and non-financial information for management and policy makers. The review of literature shows that introducing accrual accounting in public sectors is the new public finance management theory among academicians and policy implementers. Even more, the European Union issued legal act required member countries transformed there public sector accounting and reporting system towards accrual IPSAS. On this concept other countries also followed this transformation, gradually.

Regarding in Ethiopia, for the last 15 years the country strived to reform the government accounting and reporting system towards modified cash base accounting. As a result still none cash accounts are not incorporated in the financial statements. In addition some of the initial diagnostic reform issues which identified by the task team are still opened.

However, during these time no study was conducted systematically identified the results and challenges this reform. The inclusion and divergence of the Ethiopian government accounting reform practice was not studied until know. Therefore, this study aim primary to bridge the knowledge gap and initiate further reform idea by identifying the major results and challenges of the reform from the literature results and identified diagnosis and suggest idea for the country's PFM reform program.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1. Research design

This research basically applied on selected federal government institutions which run their responsibilities on government budget and required to submit account reports on government procedures. Therefore the researcher applied descriptive study in order to get the overall picture of the Ethiopian government accounting reform results and challenges. To investigate this information, the researcher will apply both qualitative and quantitative methods of data collections. Finally the analysis and interpretation of the data will be made and presented in the document.

3.2. Sources and type of data

The primary and secondary sources of data were used in this study. The primary source data were gathered through structured questionnaire. The questionnaire was distributed to 50 accountants and auditors selected from 5 sampled public entities. To complement the information personal observations were used for the study.

Moreover, to improve the result of the study, focus group discussion were made with 10 MoFEC staffs including directors, team leaders and experts from government account, treasury, inspection and IFMIS/IBEX project office.

Secondary sources of data which include manuals, public finance proclamations, regulation and directives, different assessments, reports and other related documents were used for the study.

3.3. Population, sample size and sampling techniques

Currently there are 187 federal public bodies. Of which, five federal public bodies, which applied the Ethiopian government accounting and reporting procedures and standards, are selected for this study. More specifically four of them are from administration and general

services and the rest one is from social sector. The researcher purposefully selected those five entities because they have the right and power of regulating and supervising the national and sectorial programs, especially on PFM issues of all government entities. More specifically MOFEC is selected because all the policy decisions regarding public finance management, including ratification of PFM directives, fiscal and revenue policies, budget, cash, disbursement, government accounting and reporting, internal audit and internal control laws promulgations and policy decisions at national level are made by this minister.

PPPA also selected because all public procurement and property administration national regulatory functions are made by this agency. Similarly PPPDS is selected because all the framework agreements on public procurement for all public bodies are undertaken by this institution. NPC is selected because the national long term plans, programs and projects are made by this commission. In the case of MoE, the minister is responsible for the national education sector policy and more it regulate the country higher educations which this sector is in general has about 20 percent of the federal budget allocation.

From those five public bodies, 50 accountant and auditors were selected as sample population from 202 populations. This means that the about 24.8 percent of the population are selected for the sample. Even among the sample, 10 of them are finance and internal audit directorates of the five public bodies which unanimously selected as target group. In addition 25 experts working in those directorates, five respondents from each institution, were selected randomly. The remaining 15 respondents were selected from MoFEC macro level relevant directors, including Government Account, Treasury, Inspection, Chanel one programs coordinating and IFMIS project office. Those MoFEC directorates were purposively selected because they have regulatory role on PFM systems, particularly on directing and coordinating the government accounting reform of the country. The sample population, moreover have different working experience, job status, age, sex and marital status.

3.4. Data collection methods

To gather the primary data, structured questioner was develop and distributed for the selected population, including finance and internal audit heads, MoFEC macro level relevant directorates heads, and experts from those work units. Furthermore, to get detail and unrestricted data, discussion were conducted with MoFEC relevant directorate directors, team leaders and experts.

3.5. Data Analysis Methods

The raw data collected through questionnaire was carefully tabulated and organized. Discussion also made on the major challenges and other related issues and the data organized accordingly. Finally depending on the nature of the questions, descriptive method of data analysis such as percentage and ratio analysis are applied to present the information.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1. Data gathering

The primary data were collected through questioner and focal person discussion. The survey had been carried out through questioner which distributed to the sampled public bodies finance and internal audit, and MoFEC relevant directorates heads and experts. The focal person discussing also made with MoFEC directorates and experts working in study area. Therefore, the summery of the survey and focal person discussion has been tabulated, summarized and presented as follows.

4.2. Demographic characteristics

In this part the general personal information of the respondents, including sex and age distribution, marital status, level of education and field of study, and working experience, are presented. So, the summery and interpretation of each character is presented in table as below:

Table 3: Gender distribution of respondents

No.	Public body	Gender Distribution					
		Male		Female		Total	
		<i>Freq.</i>	<i>%</i>	<i>Freq.</i>	<i>%</i>	<i>Freq.</i>	<i>%</i>
1.	MoFEC	12	46.2	14	53.8	26	52
2.	MoE	4	66.7	2	33.3	6	12
3.	PPPAA	4	66.7	2	33.3	6	12
4.	PPPDS	3	50.0	3	50.0	6	12
5.	NPC	3	50.0	3	50.0	6	12
	Total	26	52	24	48.0	50	100

Source: Survey data, 2017

As we have seen from the above table, the number of male respondents was slightly higher than female; that is, 52 percent and 48 percent, respectively. But from individual institution

perspective, female respondents were slightly higher at MoFEC (53.8%), equal at PPPDS and NPC, much lower (33.3%) at MoE and PPPA.

The second demographic data analyzed by the researcher was age distribution of the sampled population.

Table 4: Age distribution of respondents

No.	Age distribution	Frquency	%
1.	18-29	13	26
2.	30-39	14	28
3.	40-49	11	22
4.	50-59	12	24
	Total	50	100

Source: Survey data, 2017

From the above table we can see that 54 percent of the respondents are between 18 to 39 years of age. This indicated that over half of the respondents had not passed through the preceding Ethiopian government accounting and reporting system; single entry cash base accounting. But those between the ages of 40 to 49 are contributed 22 percent and the remaining 24 percent are between 50 to 59 years. Therefore, those organizations should have design strategy to substitute the last elderly, aged 50 to 59, because they will be retired in near future.

The third demographic data is marital status of the respondents. The data in table 4, below, indicated that 70 percent of the respondents were married people while the single and others are comprised of 30 percent and 2 percent, respectively.

Table 5: Marital status of respondents

No	Marital status	Frquency	%
1.	Maried	35	70
2.	Single	14	30
3.	Divorced	1	2
	Total	50	100

Source: Survey data, 2017

The fourth demographic data analyzed in the study was the level of education of the respondents.

Table 6: Level of education of respondents

No.	Level of education	Frquency	%
1.	BA degree and equivalent	43	86
2.	MA/MSc degree and equivalent	7	14
	Total	50	100

Source: Survey data, 2017

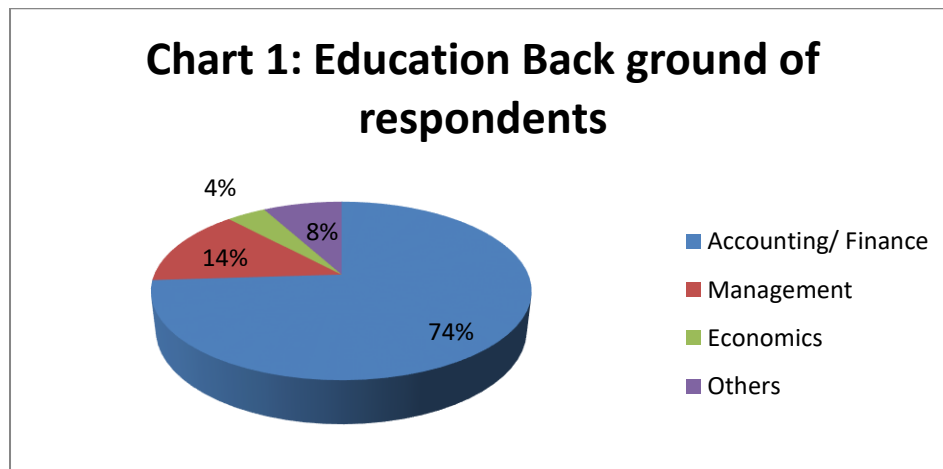
The above table indicated that all respondents have BA degree and above level of education; specifically 86 percent of them have BA degree while the remaining 14 percent have MA/MSc degree. Therefore, in terms of education the respondents have sufficient academic education for the task.

The fifth demographic data analyzed in this study was the education back ground of the sampled population.

Table 7: Field of Study of respondents

No.	Education back ground	Frquency	%
1.	Accounting/Finance	37	74
2.	Management	7	14
3.	Economics	2	4
4.	Other fields	4	8
	Total	50	100

Source: Survey data, 2017



The above table and chart 1 indicated that 92 percent of the respondents have background of business and economics field of studies. More specifically 74 percent of them have accounting and finance back ground while those have management and economic back ground contributed 14 percent and 4 percent, respectively. But the rest 8 percent of them are from other fields. Therefore, except few (8%), the majority of them assigned and worked relevant functions, accounting and reporting, to their education back ground.

The sixth demographic data analyzed in this study was work experience of the sampled population.

Table 8: Work experience of respondents

No.	Year of experiance	Frquency	%
1.	Below 8	16	32
2.	8-14	16	32
3.	15-21	5	10
4.	22-28	9	18
5.	Above 28	4	8
	Total	50	100

Source: Survey data, 2017

From the above table we can see that 62 percent of the respondents have below 15 years of working experience which indicated that those groups had not practical experience on the preceding Ethiopian government accounting and reporting system; single entry cash base accounting that practiced before 2003. They only practiced the current modified cash based accounting and reporting system. But the remaining 32 percent have practiced both systems or worked in those environments.

From other perspective, more than two third the respondent (68%), had over 8 years of experience as an accountant which mean that they have sufficient experience on Ethiopian government accounting and reporting functions.

4.3. Accounting Procedures

In this part the degree of the accounting procedures, in the context of Ethiopian government accounting and reporting system have been examined based on the sampled population survey result. The statements of the survey questions have five likert scales, ranging from strongly agreed to strongly disagreed and in between there are three scales, agreed, neutral and disagreed. Based on this measurement, two statements were included for this part which is taken as bases of accounting procedures in Ethiopian context. So, the statements and their interpretations are presented below.

Table 9: The application of procedures as base of accounting and reporting process

No.	Statements	Degree of agreement/disagreement									
		Strongly agreed		Agreed		Neutral		disagreed		Strongly disagreed	
		Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
1.	The accounting and reporting tasks are made based on government finance procedures; including proclamation, regulation, directives and government accounting manual	21	42	24	48	2	4	2	4	1	2
2.	Allocated budget is the prerequisite for disbursement/ payment	23	46	23	46	1	2	2	4	1	2
	Average result	22	44	23.5	47	1.5	3	2	4	1	2

Source: Survey data, 2017

From the above table we can see that on average 91 percent of the respondents have responded positive, that is 44 % strongly agreed and 47 % agreed, on the statements that the government accounting and reporting task in there organization prepared based on financial laws, manual and allocated budget. But on the other corner, only 6 percent of the respondents were against to the statements which mean that the accounting and reporting tasks were made violating the financial laws, manual and allocated budget. The remaining 3 percent were responded neutral that they were neither agreed nor disagreed on the statements.

4.4. Organizational and professional capacity

In this section the organizations capacity have been measured by the sampled population in terms proper structure, sufficient and competent human resource, training strategy and CPD. The statements of this section are basically designed to measure the quality of the

organization human resource at current and predict their sustainability in the future. Hence, in the following table the statements summary result and there interpretations are presented:

Table 10: Organizational capacity

No.	Statements	Degree of agreement/disagreement									
		Strongly agreed		Agreed		Neutral		disagreed		Strongly disagreed	
		Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
1.	The financial directorate of your organization is properly structured	9	18	29	58	3	6	9	18		0
2.	The financial directorate of your organization have enough man power for its tasks	2	4	19	38	14	28	13	26	2	4
3.	The finance experts have sufficient knowledge and skill to perform their duties	4	8	22	44	12	24	12	24		0
4.	The organization has a training strategy which incorporated the finance experts/ accountants	4	8	23	46	11	22	12	24		0
5.	Accountants obtain a Continuous professional development (CPD) through training to enhance their knowledge and skill.	4	8	19	38	12	24	10	20	5	10
6.	Turnover of trained and competent staffs are not serious problem for the finance directorate	3	6	8	16	7	14	26	52	6	12
	Average result	4	9	20	40	10	20	14	27	4	4

Source: Survey data, 2017

As we have seen from the above table, table 10, the average score of the statements the capacity issue were measured by the sample population in differently which neither the right nor the left side scored the average point, 50% and over. But relatively on average 49 percent of the sampled population have responded positively, 31 percent negatively and 20 percent in neutral for the statements.

When see the individual statement result, the highest score was given to the first statement, 76 %, which they measured that the finance directorate of the sampled organizations were properly organized. But on the contrary, 64 percent of respondents were measured statement number six against the statement which mean that turnover of staffs were serious challenge of their finance work unit. But in relation to the availability of enough man power and provision of CPD trainings to accountants, statement number five and two, neither of each scored half

way to the statement, which scored 46% and 42%, respectively. Thus mean that most of respondents said that there finance directorates had not have enough manpower and the accountants did not have CPD to enhance their knowledge and skill.

In relation to statement number four and three, the results were slightly more than haft, 54% and 52%, respectively. But to interpret the data, disaggregating the data on institutional level is necessary. Therefore the disaggregated score of for question number three and four are presented in the following tables.

Table 10.1: Disaggregated data of statement 3 (the finance experts have sufficient knowledge and skill to perform their duties)by sample institution

No.	Sample institution	Degree of agreement/disagreement									
		Strongly agreed		Agreed		Neutral		disagreed		Strongly disagreed	
		Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
1.	Public Procurement and Property Disposal Service	-	-	-	-	2	33.3	4	66.7		
2.	National Planning Commission	1	16.7	4	66.7	-		1	16.7		
3.	Public Procurement and Property Administration Agency	1	16.7	5	83.3	-		-	-		
4.	Ministry of Education	-	-	-	-	1	16.7	5	83.3		
5.	Ministry of Finance and Economic Cooperation	2	7.7	13	50.0	9	30.8	6	23.1		
	Average result	4	8	22	44	12	24	12	24		

Source: Survey data, 2017

The above disaggregated date showed that the Public Procurement and Property Administration Agency, National Planning Commission and Ministry of Finance and Economic Cooperation positively agreed on the statement which they scored 100%, 83.3% and 57.7, respectively on strongly agreed and agreed points. This means that the finance experts of these three organizations have sufficient knowledge and skill to perform their duties. On the contrary, Ministry of Education and Public Procurement and Property Disposal Service respondents negatively to the statement which they scored 83.3% and 66.7%, respectively.

Table 10.2: Disaggregated data of statement 4 (The organization has a training strategy which incorporated the finance experts/ accountants) by sample institution

No.	Sample institution	Degree of agreement/disagreement									
		Strongly agreed		Agreed		Neutral		disagreed		Strongly disagreed	
		Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
1.	Public Procurement and Property Disposal Service	-	-	-	-	2	33.7	4	66.7		
2.	National Planning Commission	1	16.7	4	66.7	1	16.7	-	-		
3.	Public Procurement and Property Administration Agency	-	-	-	-	2	33.7	4	66.7		
4.	Ministry of Education	-	-	-	-	2	33.7	4	66.7		
5.	Ministry of Finance and Economic Cooperation	3	11.5	19	73.1	4	15.4	-	-		
	Average result	4	8	23	46	11	22	12	24		

Source: Survey data, 2017

The above disaggregated data showed that Ministry of Finance and Economic Cooperation and National Planning Commission positively agreed on the statement which they scored 84.6% and 83.4.7, respectively on strongly agreed and agreed points. This means that these two organizations have training strategies which incorporated the finance experts. On the contrary, the rest three organizations namely Public Procurement and Property Disposal Service, Public Procurement and Property Administration agency and Ministry of Education negatively responded to the statement which each of them scored 66.7% on disagreed point that they did not have training strategies for their finance experts.

4.5. Follow up and settlement of outstanding advances

One of the reform issues rose at the initial stage of the Ethiopian accounting reform was related on follow up and settlement of the outstanding advances. Therefore in this study the researcher raised this issue whether it was cleaned or still it prevailed as change after several years of implementation. For this purpose, three statements measured by the sampled respondents and the result of the statements presented as follows in table 11 below.

Table 11: Follow up of outstanding advances

No.	Statements	Degree of agreement/disagreement									
		Strongly agreed		Agreed		Neutral		disagreed		Strongly disagreed	
		Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
1.	The organization recorded the outstanding advances by their age and nature	3	6	27	54	11	22	9	18	0	0
2.	The organization reported the analyzed outstanding advances to MoFEC.	8	16	24	48	10	20	8	16	0	0
3.	The organization regularly reviewed outstanding advances either for chasing up or write off	5	10	16	32	14	28	15	30	0	0
	Average result	5	11	22	45	12	23	11	21	0	0

Source: Survey data, 2017

As we have seen from the above table, on average 56 % of the sampled population positive responses on the statements. This means the issues of outstanding advance were not yet closed even after 15 years of reform implementation. Even the case was worst on statement three which only 42 percent of the respondent provided positive response on the statement. This mean the follow up of outstanding advances by the sampled organizations were poor which mostly they did not made regular reviewing either for chasing up or write off purposes.

When we see the individual statement result, 64 % of the respondent positively agreed on the statement two which mean that the organizations reported the analyzed outstanding advances to MoFEC. Next to this 60 percent of the respondent positively agreed on statement one, that is, the organizations were properly recorded and analyzed the aging and nature of outstanding advances.

4.6. Accounting information system support

One of the diagnostic finding of the Ethiopian accounting system was related to lack of automated and integrated public finance information system. Then the task force recommended introducing a nationwide automated, integrated financial information system and network service at MoFEC and other budgetary institutions to enhance the quality and efficiency of the public finance administration. To measure the availability, user's acceptance and efficiency of this system, six statements were developed related to the current systems.

Then these statements were measured by the sampled respondents. The results of these statements are presented as follows in table 12 below.

Table 12: Accounting information system support

No.	Statements	Degree of agreement/disagreement									
		Strongly agreed		Agreed		Neutral		disagreed		Strongly disagreed	
		Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
1.	The organization use only IFMIS for accounting records	12	24	12	24	5	10	18	36	3	6
2.	All sources of funds are accounted and reported to MoFEC.	13	26	16	32	8	16	8	16	5	10
3.	IFMIS is easy for application than IBEX	5	10	1	2	11	22	21	42	12	24
4.	IFMIS provided comprehensively financial information than IBEX	14	28	18	36	4	8	7	14	7	14
5.	IFMIS provide more flexible financial information than IBEX	14	28	10	20	10	20	11	22	5	10
6.	IFMIS is preferable than IBEX for budget control and accountability	13	26	16	32	11	22	5	10	5	10
	Average result	12	24	12	24	8	16	12	23	6	12

Source: Survey data, 2017

The above table result indicated that on average 48 % the sampled population was positively responded to the statements. This means that most of the respondents were not yet satisfied on the existing information technology support. More specifically, in terms of user friendliness the respondent preferred IBEX to IFMIS which 66 percent of them rated against statement number four. But in relation to provision of comprehensive financial reports, 64 percent of respondents provided positive response to the statement number four which mean IFMIS was preferable than IBEX in this respect. Concerning with budget control, 58 percent of them positively responded on statement six which IFMIS were preferable than IBEX. However the majority of the respondents were not given both positive or negative confidence for statement number one and five. These indicate that those organizations used other software in addition to IFMIS because the system was not flexible enough to produce other statements or information based on their interests. In relation to statement number two, 58 percent of respondents positively agreed on statement. This means the majority of them agreed that all sources of funds were accounted and reported to MoFEC.

4.7. Deepening the accounting reform

Reform is not a onetime process which it involves continuous development and changes. The new public management concept applied the practices used in private sector to the public sector. Therefore, many countries in Europe applied accrual accounting in public sectors (Sabrina, Loredana and Guillaume, 2015). Therefore to measure the country readiness and capacity to transform the current government accounting system to next level, five statements related to this change were designed. Then these statements were measured by the sampled respondents. The results of these statements are presented as follows in table 13 below.

Table 13: Deepening the account reform

No	Statements	Degree of agreement/disagreement									
		Strongly agreed		Agreed		Neutral		disagreed		Strongly disagreed	
		Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
1.	Further reforming the current Modified cash based accounting is necessary	12	24	30	60	5	10	3	6	0	0
2.	It is necessary to change the current government accounting and reporting policy to IPSAS	10	20	24	48	10	20	6	12	0	0
3.	Shifting the current Government accounting and reporting system to IPSAS has no significant effect on competence of accountants and auditors to perform their tasks	0	0	15	30	17	34	16	32	2	4
4.	Shifting the current Government accounting and reporting system to IPSAS has no significant effect on current accounting information system	0	0	10	20	15	30	21	42	4	8
5.	Shifting the current Government accounting and reporting system to IPSAS has no significant effect on account consolidation	3	6	7	14	17	34	20	40	3	6
	Average result	5	10	17	34	13	26	13	26	2	4

Source: Survey data, 2017

The above table indicated that the average pro statements result, strongly agreed and agreed, related to further reforming the accounting system were 44%. But those against the statements and neutral results constituted 30% and 26%, respectively.

When we see the specific statement, 84% of the respondent positively agreed statement number one which mean the strongly agreed and agreed the changing the current government accounting system is important. Then in the second statement, 68% of the respondent specifically agreed to change the current government accounting system to IPSAS. Therefore, thus results indicated that changing the current government accounting system to IPSAS is acceptable by majority of the end users.

The next three statements, from number 3 to 5, were designed to measure the readiness of the practitioners and systems to accept the new system. In this respect, 30% the respondent have agreed on statement three which mean that shifting the current accounting and reporting practice to IPSAS has no significant effect on their competency. In relation to statement four, only 20% of the respondent agreed shifting to IPSAS has no significant effect on current accounting information system. Similarly 20% percent of the respondent strongly agreed and agreed that shifting to IPSAS has no significant effect on accounting consolidation. Therefore, from the above three indicated that readiness from the practitioners and information technology has significantly challenging issue.

To supplement the above statements, focal group discussion was made with 10 MoFEC staffs including directors, team leaders and experts. For this discussion one question was raised for the group. The statement of the question was “*is it time to shift from the current government accounting system to IPSAS?*” Then seven of them (70%) said *yes* but three (30%) of them said *no* for the statement. The justifications given by pro and against the statement respondents were summarized in the next table.

Table 14: Justification given for transforming to IPSAS

No.	Justification given for the statement	
	Yes /Pro for the statement	No/Against to the statement
1.	but it needs through and deep understanding and investigation on the requirements of the system before making any decision,	because experts in the government institutes lacks the knowledge and experience on IPSAS,
2.	Every country is moving to this system, because it provide better financial information for decision making,	we do not have competent manpower to interpreter the new system,
3.	Lender and donors have interested on the system because they want to know every financial information,	Not know; because of currently the country lacks competent professionals to apply the system,
4.	To record none cash accounts, we need to shift to IPSAS,	Before shifting to IPSAS, it is necessary to assess the capacity of the existing staffs. Otherwise, updating the existing system to join with the civilized world standard is necessary,
5.	The country is showing fast economic growth. Because of this shifting the current system to IPSAS is necessary. Globalization and foreign trade relation required this change.	Currently the IFMIS system is not well. But if the current challenges of the system will be solve in few years; then shifting to IPSAS is acceptable.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1. Conclusions

This study has examined the Ethiopian government accounting reform results and challenges at selected federal public bodies. In this respect the country successfully transformed from single entry and pure cash base system to modified cash base double entry system. In association with this a set of comprehensive legal frameworks have been developed and promulgated. Result based budget system has been implemented at federal level and cost centered line item budgeting implemented at regional levels. A three month rolling cash planning and zero balance daily disbursement and payment system also introduced and as a result the government cash management has been significantly improved.

In addition to these, public finance management manuals and training modules including budget, cash management and disbursement, account and internal audit have been developed and implemented throughout the country. A unified chart of account also developed and implemented. Based on the new PFM systems, basic and awareness trainings were provided for practitioners and officials.

To enhance the accountability of public institutes and their officials, the practice of self-accounting and self-auditing also introduced and fully implemented in all public entities. As a result each entity regularly reported the physical and financial performances to the legislatures and executive bodies. Moreover legislative scrutiny of external audit reports by public account committees at federal parliament and regional councils have been enhanced the accountability of public entities.

Then to improve the quality and efficiency of the public finance functions, integrated information systems have been developed and implemented in all public entities at the country. Currently two financial information systems, namely IBEX and IFMIS, have been used for recording of financial data and producing financial statements at all levels. The introduction of these information systems together with changes in the procedures and capacity building especially on accounts reforms significantly improved the timelines of

annual financial statements of the individual public entities as well as the national consolidated accounts.

But the one of the finding of the study indicated that the case of outstanding advances the initial diagnosis issues of the reform, were not yet settled in many organizations. Because of this the quality of the annual financial statements in many public entities questions by external auditor reports (OFAG, 2017).

The other finding of this research is related to human resources. Even if continues short term trainings were given for accounting and audit practitioners at MoFEC and regional BoFEC levels and several accountants graduated and entered to public sectors, still the public sectors lacks sufficient and experienced accountants. Moreover, the survey result showed that there were no professional accountants in those sampled organizations at all. This result was directly coincided with the initial survey of the reform diagnosed that there were few professional accountants in the country which most of them were working in private sectors (ROSC, 2007).

5.2. Recommendations

Many of the diagnosis identified at the begging of the reform initiation has been changed. But the survey result showed that some of them are still the challenges of the Ethiopian government accounting and reporting practice. In related to this many countries in the world have been transformed their public entities accounting in to accrual base IPSAS in the last few years. Thus having this information, the researcher suggests the following recommendations.

The new public finance management suggested that public sectors should be move to accrual accounting to enhance the financial management and decision making. Coincide with this the survey result indicated that further reforming the country accounting system is necessary. Therefore, the responsible ministry for this reform, MoFEC, should make strategic decision transforming the current modified cash based towards IPSAS accrual base.

Nevertheless shifting to IPSAS accrual base is not easy task which it required serious activities prior to move it. Therefore MoFEC should carry out gap analysis on the existed system, prepare strategic document answering how, when, what and where the change is made and develop detail implementation plan for the strategy in consultation with policy makers, practitioners, academicians and any relevant bodies. To facilitate and deep root the transformation, strong change management and communication works is necessary.

The second recommendation is related to professionalization of government accountants and auditors. As the survey result showed the public sectors have not capacitated with professional accountants. But other countries experience showed that the public sectors have sufficient number of professional accountants. Therefore to enhance the competency of accountants and hence improve the quality of the public sectors financial statements, establishing local certification programs and providing trainings for several accountants are important. For this AABE should take this measure in collaboration with the MoE and other relevant higher education institutions.

The third recommendation is given on financial information technology support. The survey result indicated that IFMIS implementation has faced with several challenges. As a result, it does not provide efficient and effective supports for the implementing agencies as they required. Therefore, to rectify this challenge MoFEC should assess the cause of the problem and make corrective actions accordingly.

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I. Introduction

Dear respondents, for the last 15 years Ethiopia has been implementing Modified Cash Based Double Entry Accounting System at federal and regional government budgetary institutions. Hence, this questionnaire is designed to collect primary data from the user of this system for MSC senior essay on” *accounting reform results and challenges at selected federal public bodies of Ethiopia*”. The data to be collected through the questionnaire is highly valuable to meets the objectives of this study. Therefore, you are kindly requested to fill in and return the questionnaire. The information you supply would be used for academic purpose only and will be kept confidential. So, please feel free and provide us your information by filling these questioners.

Thank you in advance for committing your time and knowledge to fill this questioner.

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Addis Ababa/Ethiopia

Annex I: - Structured questions

I. General information

The following questions concern about your personal information. Indicate your answer by circling on the option provided below.

1. Your sex, A/ Male B/ Female
2. Your age, A/ 18- 29 B/ 30-39 C/ 40-49 D/ 50-59 E/ 60 and above
3. Your marital status, A/ married B/ single d/ other_____
4. Level of education, A/ below certificate B/ certificate & diploma C/ BA degree or equivalent D/ MA/ MSC degree or equivalent E/ PhD

5. Field of study, A/ Accounting/ Finance B/ Management C/ Economics D/ others, specify _____
6. Work Experience as accountant, A/ below 8 years B/ 8-14 years C/ 15-21 years
D/ 22-28 years E/ above 28 years
7. Number of accountants in your Directorate: A/ 1-5 B/ 6-10 C/ 11-15 D/ above 15

II. Questions Regarding on the result and challenges of the government accounting reform.

These questioners have five Likert scale questions which are used to measure the degree of respondent's agreement or disagreement on the statements provided below. Hence Put a tick (X) for your choice among alternatives; strongly disagree, disagree, neutral, agree and strongly agree.

No.	Statement	Degree of your agreement/ dis agreement				
		Strongly agreed	Agreed	Neutral	Disagreed	Strongly disagreed
	Accounting Procedures					
1.	The accounting and reporting tasks are made based on government finance procedures; including proclamation, regulation, directives and government accounting manual,					
2.	Allocated budget is the prerequisite for disbursement/ payment					
	Organization capacity					
3.	The financial directorate of your organization is properly structured					
4.	The financial directorate of your organization have enough man power for its tasks					
5.	The finance experts have sufficient knowledge and skill to perform their duties					
6.	The organization has a training strategy which incorporated the finance experts/ accountants					
7.	Accountants obtain a Continuous professional development (CPD) through training to enhance their knowledge and skill.					
8.	Turnover of trained and competent staffs are not serious problem for the finance directorate					

No.	Statement	Degree of your agreement/ dis agreement				
		Strongly agreed	Agreed	Neutral	Disagreed	Strongly disagreed
	Follow up of outstanding Advances					
9.	The organization record and analysis the aging and nature of outstanding advances based on government account procedures					
10.	The organization reported the analysis of outstanding advances to MoFEC.					
11.	The organization regularly reviewed outstanding advances for either chasing up or write off					
	Accounting information system support					
12.	The organization use only IFMIS for accounting records					
13.	All sources of funds are accounted and reported to MoFEC.					
14.	IFMIS is easy for application than IBEX					
15.	IFMIS provided comprehensively financial information than IBEX					
16.	IFMIS provide more flexible financial information than IBEX					
17.	IFMIS is preferable than IBEX for budget control and accountability					
	Deeping of account reform					
18.	Further reforming the current Modified cash based accounting is necessary					
19.	It is necessary to change the current government accounting and reporting policy to IPSAS					
20.	Shifting the current Government accounting and reporting system to IPSAS has no significant effect on competence of accountants and auditors to perform their tasks					
21.	Shifting the current Government accounting and reporting system to IPSAS has no significant effect on current accounting information system					
22.	Shifting the current Government accounting and reporting system to IPSAS has no significant effect on account consolidation					

Annex 2:-Interview questions (For focal Group discussion)

1. Is it time to shift from the current government accounting system to IPSAS? Why?

Annex 3:-List of MoFEC staffs participated in focal person discussions

S.no	Name	Directorate	Status
1.	W/ro Aster H/Selassie	Government account	Director
2.	Ato Fekadu Agonafer	Inspection	Director
3.	W/o Shisai Teferi	IBEX/IFMIS	Deputy manager
4.	Ato Amare Deresse	Government account	Team leader
5.	Ato Sentayehu Kagnachew	Inspection	Team leader
6.	Ato Dawit shemelese	EMCP	Team leader
7.	W/o Emebet Akililu	Treasury	Team leader
8.	Ato Tilahun Tegaye	Government account	Senior expert
9.	Ato Mohamed Alemu	IBEX/IFMIS	Senior expert
10.	W/t Wollansa Kebede	Government account	Expert