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## **Public sector accounting education and training as supportive mechanisms of the ongoing accrual-based accounting reforms**

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**Abstract.** This article explores the major challenges surrounding the on-going wave of public sector accrual accounting reforms. In particular, this paper sheds light on the importance of training and skill development as essential components of capacity-building, and discusses the crucial role educational institutions play in laying the basis of a sound Public Sector Accounting (PSA) body of knowledge. The article also provides recommendations based on studies and reports conducted by international organizations, standards-setting bodies, and accountancy profession institutions as well as capitalizing on the experience of leading countries in the public financial management field.

**Keywords:** Accrual-based accounting, staff training, public sector accounting education (PSAE), Public finance management (PFM).

### **1. Introduction**

Over recent decades, the public financial management <sup>1</sup>(PFM) reform initiatives undertaken by nations all around the world have witnessed a substantial rise in accrual accounting use. In the exhibit, the recently published international public sector financial accountability index found that 30% of surveyed jurisdictions are currently reporting on accrual accounting. As might be expected, 57% (out of 30%) are using International Public Sector Accounting Standards <sup>2</sup>(IPSASs) and this rate is projected to grow by 16 points, reaching 73% by the end of 2025 (IFAC & CIPFA, 2021). The continuous shift from cash to accrual accounting in public sector settings can be explained by the increasing awareness of the

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<sup>1</sup> PFM: It's an acronym that stands for Public Financial Management and it refers to how governments manage public resources, as well as the socioeconomic effects of those resources. As a result, PFM is simultaneously concerned with both the process and the outcomes of public resources management. (Andrews et al., 2014)

<sup>2</sup> IPSASs: stand for International Public Sector Accounting Standards, a set of independent financial reporting standards issued by the International Public Sector Accounting Standards Board.

weaknesses of traditional cash accounting and the virtues of accrual accounting. Undeniably, cash-based regimes have the advantages of being simple in execution, understandable, and objective (Hyndman, 2016), besides their cost is reported to be allegedly reasonable comparatively with accrual accounting (Eulner & Waldbauer, 2018). Nevertheless, cash-based financial statements don't depict the financial situation of public entities adequately.

According to accrual accounting proponents, the mentioned limitation of cash-based accounting can be tackled by accrual accounting implementation. Multilateral institutions primarily the World Bank (WB) and the International Monetary Fund (IMF), international and regional policymakers especially the Organization for Economic Co-operation and Development (OECD) and the European Commission, international standards-setting bodies particularly the International Federation of Accountants<sup>3</sup> (IFAC) and its independent body in charge of public sector accounting standards issuance, namely the International Public Sector Accounting Standards Board (IPSASB) and EUROSTAT, top international accountancy firms and associations, specifically the Chartered Institute of Public Finance & Accountancy (CIPFA),<sup>4</sup> Ernst & Young and PricewaterhouseCoopers (PwC), have extensively promoted accrual accounting merits and provided implementation guidance. Nonetheless, they also raised concerns about the inherent complexity of accrual accounting techniques and stressed the set of resource and knowledge requirements the government should meet to succeed in its deployment (Adhikari, 2016).

The contribution of this article is twofold, first, it adds to the narrow research on accrual accounting transition process drawbacks, second, it increases understanding of how lack of staff qualifications and public sector accounting education low coverage by high education institutions might influence the implementation of accrual accounting reforms in the public sector, our findings might also assist accrual accounting implementers in deciding the accrual accounting reform strategy conception and diffusion.

The remainder of this paper is structured as follows, the following section provides an overview of our research methodology, the third section of the paper is devoted to the discussion of the research findings, and finally, the article concludes by providing a summary and recommendations.

## **2. Objective and methodology**

This article aims to analyze publications and documents with a focus on accrual accounting adoption and implementation in the public sector to shed light on the emergence of training and public sector accounting education as a necessary condition for a successful accrual accounting transition. To achieve the abovementioned research objective, we employed a qualitative approach, using documentary analysis. Our research process firstly began by gathering empirical evidence from academic research papers along with reports issued by international organizations such as the International Monetary Fund, the European Commission and professional accountancy bodies, namely the Chartered Institute of Public Finance & Accountancy (CIPFA), and PricewaterhouseCoopers (PwC) to name but a few. Most of these reports conducted comparative studies across countries. Secondly, an in-depth data analysis was conducted by structuring the findings into two main research areas, which are accrual accounting training and skill development, in addition to accrual public sector accounting education.

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<sup>3</sup> IFAC: Stand for International Federation of Accountants, it is a global accounting organization dedicated to serving the public good by improving the profession and contributing to the growth of strong and transparent international economies.

<sup>4</sup> CIPFA: Which stands for the Chartered Institute of Public Finance and Accountancy is a professional organization for international accountants established in the United Kingdom.

As a research method, documentary analysis is a valuable data source. **“This research method is just as good as and sometimes, even more, cost-effective than the social surveys, in-depth interviews or participant observation”**(Jashim Uddin, 2010). According to Bailey (2008), the documentary research approach entails the examination of papers containing information on the phenomena under investigation. Despite being mostly used as a complement to other research methodologies, several specialized forms of qualitative research are purely based on document analysis(Bowen, 2009).

### **3. Discussion and Findings :**

#### *3.1. Accrual accounting reforms: merits & drawbacks:*

Accrual accounting can be defined as **‘an accounting methodology under which transactions are recognized as the underlying economic events occur, regardless of the timing of the related cash’**(Khan et al.,2009). As a matter of fact, under an accrual-based accounting system, economic events are recognized at the time of occurrence, assets and liabilities are recorded on the balance sheets, liabilities and contingent liabilities are diligently identified and monitored and all entities under government control are aggregated in the financial reports (Flynn et al.,2016). Multilateral bodies, in particular the World Bank (WB), and the International Monetary Fund (IMF), justify the constant calls for accrual accounting adoption by the need to enhance quality and ensure comparability of financial statements, they also shed light on the role of accruals in discharging accountability for resources, simplifying auditing, and eradicating corruption. In this respect, they tagged their financial statements as completely IPSASs compliant. In doing so, they intend to urge governments to switch to an accrual-based accounting system. According to the IPSAS Board, financial reports prepared following accrual principles convey convenient information for decision-making purposes. More specifically, at a decision-making level, accrual-based financial statements provide valuable information about Public entities' financial performance, cash management, asset management, risk management, and cost management (IPSAS B, 2011).

Lapsley et al. (2009) qualified accrual accounting as a ‘self-evident’ but challenging endeavor. This is illustrated by the emergence of technical and organizational issues throughout the implementation process. More specifically, the technical difficulties are imputable to the importation of sophisticated and private oriented accounting techniques and practices into the context of the public, such as asset valuation and amortization, while the organizational level issues, are associated with the shortage of financial support, along with the paucity of skills and expertise among staff responsible for operating the transition phase (Cohen et al., 2007). Arguing further, Gigli & Mariani, (2018) raise the point that the combination of organizational and institutional barriers undermines the proper implementation of accrual accounting. They mainly emphasize poor qualifications and knowledge about fundamentals and technical aspects of the accrual regime within the personnel in charge of the practical application of change, along with the ambiguity of the regulatory framework, as the main inhibiting factors.

#### *3.2. Limited accrual accounting application expertise within the public sector.*

Hepworth (2003) listed staff training and skill development as one of many prerequisites for a government accounting change. There is also a growing body of literature demonstrating the implications of expertise deficiency on the progress and achievement of intended benefits of accrual accounting, building on individual countries or comparative studies. The findings of the global survey conducted by PwC, acknowledged the lack of qualified personnel, as one of the main challenges encountered by governments in the process of alteration to accrual accounting, according to this accountancy professional institution **“Accrual accounting is more complex than cash accounting. It requires greater technical accounting expertise,**

increased professional judgment, and greater involvement of non-accounting staff in the decision-making process” (PwC, 2013). In their joint report, ACCA & IFAC (2020) listed capability and skills as one of the three fundamental enablers for creating decision-useful information along with stakeholder engagement, in addition to systems and processes. In the context of many developing countries, the low number of qualified staff and lack of accrual accounting training and documentation were identified as some of the factors leading to the failure, delay, or change of reform direction toward Cash Basis IPSAS which was notably the case in the settings of Nepal, Indonesia, Tanzania and Thailand (Adhikari & Mellembvik, 2011; Fahmid et al., 2020; Mbelwa et al., 2019; Nakmahachalasint, 2018). From the perspective of some OECD countries, albeit being pioneers and strong supporters of public sector accruals, the timeframe and expenses related to accrual accounting transition are reported to have overshadowed the promoted benefits, mainly because of the ability of the main organizational actors namely “**treasury and budget officers and policymakers**” to implement the change was underestimated (Adhikari & Gårseth-Nesbakk, 2016).

It has also been highlighted that the incomprehension of accrual accounting norms and practices impacts the operational adoption of accrual-based accounting. This is mirrored in the case of Turkey, where a gap between the accounting regulations set by the legal framework and actual practices was detected, authors explained this gap by several factors, including difficulties translating and interpreting some concepts from English to the local language (Ada & Christiaens, 2018). In the context of Greece municipalities’ lack of accounting qualification, coupled with the incomprehension of the reform benefits as well as insufficiency of short period training contributed to the IT failure. Since the staff could only describe the part of the process they were in charge of, they failed to perform post-implementation reviews and thus were unable to help developers enhance the quality of the Information Technology (IT) system (Cohen et al., 2007). Studies undertaken in some Latin American countries that have signed on to accrual-based accounting have shown that the conversion was halted by conflicting technical matters, which translated into rhetorical (symbolic) compliance (Gómez-Villegas et al., 2020). The experience of the abovementioned countries demonstrates clearly how the lack of implementation expertise appears, indeed, as a key issue that government should resolve before and while moving to accrual accounting.

### *3.3. The role of educational institutions in training high qualified public accounting staff*

Accrual-based accounting adoption ought to be considered as a component of a broad package of public sector reforms (Hepworth, 2003). These reforms should encompass all public sector stakeholders involving national, regional, and international accountancy organizations, standards-setters, current and aspiring public accountants, regulators, supreme audit institutions, and higher educational institutions (HEI). The latter should play an active role in the accounting modernization journey. Thom (2019) commented that education institutions are responsible for training and equipping the upcoming generation of public managers with the skills necessary to tackle the increasingly difficult financial challenges of the public sector. It is also vital that the courses remain dynamic and responsive to changes. However, numerous studies have emphasized the low coverage of Public Sector Accounting (PSA) education incorporated in universities' curriculums and identified the factors explaining this situation. In this regard, a prior study conducted by Henry (2005) in the United States of America noted shortage in financial resources, narrow faculties interest, and expertise alongside students' lack of interest in public accounting courses as main restraining factors. A follow-up study conducted amongst Australian accounting academics by Sciulli & Sims (2008) identified packed curriculum volume of content, limited teaching experience and research interest in the

PSA, the perception that accounting concepts are similar between the public and private sectors, shortage of PSA content in the existing accounting textbooks, the tendency of curriculum contents to prioritize the private sector and non-inclusion of PSA in the accreditation process of Australian accounting professional bodies as most important obstacles for teaching PSA. The private sector-oriented accounting education was also noted as an impeding factor for PSA education in the context of New Zealand (Cordery, 2013).

The growing use of accrual accounting in Europe coupled with the decision of the European Commission (EC) to develop the European Public Sector Accounting Standards (EPSAS<sup>5</sup>) with IPSASs serving as a guidance source implies that the demand for highly skilled PSA graduates will most likely increase. However, Adam et al. (2019) study conducted in four European countries: Spain, Germany, Italy, and Portugal showed that the expected high demand for financial management graduates might not be satisfied since higher education institutions (HEI) in the countries analyzed, offer an insufficient number of courses for PSA and public financial management (PFM). Therefore, the expected high demand for financial management graduates might not be satisfied. Hence, the public administration will have to depend mostly on training and upgrading the skills of its current staff, or appointing graduates from other fields such as law and economics with narrow knowledge of financial management which will cost high. Accounting education was also reported to have an impact on the quality of published financial statements. In fact, through the examination of the impact of accounting education and strength of public management system on the IPSAS disclosure level for a sample of sixty government entities from six Sub-Saharan African countries: Burundi, Kenya, Mauritius, South Africa, Tanzania, and Uganda. Sellami & Gafsi (2019) revealed a positive effect of the two factors on disclosure level.

As outlined above, the state of public sector accounting education in universities in many countries around the globe shows a limited exposition to public sector-specific knowledge areas at the undergraduate level. Faced with low background knowledge, students aspiring to work as public accountants have to rely on postgraduate programs, seminars, and training provided by a limited number of universities, standards setters, and professional bodies to prepare for employment in the public sector.

#### **4. Conclusion and recommendations**

A wide array of government accounting stakeholders underlined the necessity to arrange a plethora of prerequisites to facilitate accrual accounting conversion amongst which, cultural approval of the new reform, accounting information systems deployment and accountants training appear as most relevant (Dabbicco, 2015). Staff training appears indeed as an important precondition to accrual accounting implementation since many technical and conceptual issues arise during its application such as tangible and intangible assets accounting recognition and valuation and states' obligations and taxes recognition (Lande & Rocher, 2011). As stated by the IPSAS Board, when an organization upgrades its accounting regime, the competencies of the staff in charge of operating the change should be leveled up too. This is because, embracing accrual accounting is a large-scale project that is time and resource-consuming (IPSAS B, 2011). What is more, accounting techniques are sophisticated and constantly evolving thereby; proper managing and technical skills are key requirements. Reported evidence in the literature advocates that training narrows the inherent complexity of accrual accounting. In this sense, accrual accounting adopters are better being equipped with a suitable training strategy taking into consideration the training needs identified, and the resources available. Different

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<sup>5</sup> EPSAS: Stands for European Public Sector Accounting Standards, a set of accrual accounting standards currently under preparation in order to be implemented across the European Union public sector entities.

alternatives are available for addressing the training needs such as ‘**recruitment, consulting, internal and external trainings, and development of university courses, seminars and workshops**’. Following its execution, the training strategy should also be assessed in order to judge its usefulness, and address its shortcomings. (IPSAS B, 2011).

As regards the field of PSA education, higher educational institutions (HEI), professional accountancy bodies, and standards setters play a key role in training appropriately skilled and ethical public accountants. Therefore, the above-mentioned bodies need to work together to design a PSA-oriented information system, that provides study programs with public sector-focused courses, subjects, textbooks, case studies, tutorials, and assessments. It is also important to shape the information system around the lacking points of each context and to keep its content perpetually updated. In addition, given the complexity, ambiguity, and interdisciplinary of PSA issues, educational institutions need to broaden teaching materials beyond foundations and technical aspects of public sector accounting, to involve different disciplines that overlap with PSA such as law, financial management, consolidation, politics, budgeting, statistics, digital technology (Heiling, 2020), the role of soft skills, values and morals is also imperative especially since public accountants report about public funds entrusted to public officers.

This article highlighted major issues hindering accrual-based systems implementation, specific attention was addressed to the deficit in terms of accounting training and education, recommendations for addressing those issues were also listed. This article's findings might be useful for all PSA stakeholders to understand the value of building a robust PSA body of knowledge, and specifically for education institutions, standards-setters, and accountancy profession bodies to embrace their role as supportive mechanisms of the current wave of public financial management reforms.

#### Acronyms:

|         |  |
|---------|--|
| PSA     | Public Sector Accounting                               |
| PFM     | Public Finance Management                              |
| IPSAS   | International Public Sector Accounting Standards       |
| IFAC    | International Federation of Accountants                |
| CIPFA   | Chartered Institute of Public Finance Accountancy      |
| WB      | World Bank   |
| IMF     | International Monetary Fund                            |
| OECD    | Organization for Economic Co-operation and Development |
| IPSAS B | International Public Sector Accounting Standards Board |
| EPSAS   | European Public Sector Accounting Standards            |
| HEI     | High Education Institutions                            |
| PwC     | PricewaterhouseCoopers                                 |
| ACCA    | Association of Chartered Certified Accountants         |

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