

IPSAS, IFRS, and the quality of the accounting - with an accent on public management

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Abstract: Are accounting errors caused by national accounting standards? The goal of this paper is to identify the problems with the quality of accounting information when the new Czech accounting standards are used in the public sector. The aim is then to compare the impact of IPSAS and IFRS on the Czech accounting standards and the accounting error rate of private entities and public sector entities. Data analyzed in this paper were obtained in 2018 and 2019. The results of quantitative research are subjected to statistical testing in order to answer the research questions as well as identify differences between profit and non-profit (public sector) organizations. Results indicate that the impact of Czech GAAP on the occurrence of accounting errors is not statistically significant for either business or public sector entities. In addition, according to respondents, the Czech accounting standards after the public finance accounting reform are not considered to be the usual cause of errors in accounting. Actually, compliance with the updated Czech GAAP improves the quality of the financial statements and avoids errors when preparing financial statements. These findings are in line with several existing papers and thus support the existing idea that IPSAS or IFRS application promotes the quality of accounting.

Keywords: public management, public finance, quality of accounting information, accounting standards.

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Introduction

Many countries around the world are currently undergoing reform processes in public sector accounting (Bisogno, 2020). The Czech Republic aims to comply with IPSAS, which includes the incorporation of both the accrual principle and the cash principle in public finance. There are already many publications about the issue of IPSAS (e.g. Aggestam Pontoppidan, 2016; Argento, 2018). As far as an IPSAS application in the EU states, Otrusnova (2016) presented an overview of the application of public accounting in the 27 EU Member States (by the Eurostat), the Czech Republic has accounting adjustment conformity of national public finances with IPSAS at 65 %, and it is a little above the average for all members EU. Accrual accounting and Accrual IPSAS implementation are widely discussed topics. Effects of such implementation can be assessed for its effectiveness, impacts on the quality of accounting information or from the point of responsibility for prepared financial data. Previous research identified significant considerations pertaining to implementations and specific requirements in connection to public sector applications (Blöndal, 2003; Barton, 2009). Accounting in the municipal sector management is an important and up-to-date issue. (Sadowska, 2020). International public sector accounting standards and their implementation are an important step in Public management.

The current accounting system of public finances in the Czech Republic is still associated with several shortcomings. According to statements from politicians, academics, and the professional community, the fundamental problem is still the lack of quality effective management of the whole process. International concepts of Public Management and Performance Management represent strategies aimed at increasing the efficiency and satisfaction of citizens who are perceived as customers (e.g., Tambotvsev (2021); Sytnyk (2019); Hwang et al. (2021)). Part of the new trends in public administration management is the role of quality accounting. We can agree with Dabbicco, G. (2015) that modern Public Management seeks to shift the situation in public administration from a utilitarian stance of strictly economic models of people's behaviour and political systems to the responsibility of managers and politicians for public management to introduce new methods to measure the quality of public service activities using quality accounting information and management accounting.

The accounting reform intended to comprehensively increase and promote the quality of financial information presented in the accounting of entities, and to increase the capability of accounting and its transparency. The advantage of the reform is credibility and comparison of the financial statements. The argument about what factors influence the quality of accounting financial statements and the role of accounting systems is based on several scientific studies, for example, Burks (2015), Susanto (2015), Šindelář and Müllerová, (2016), Pasekova (2016), Oprean (2016), and Kolarova (2019). The accounting reform and application of new approaches into the public finance sector are also required and enforced by international law. Several international law treaties are in effect and the Czech Republic is expected to fulfil

their requirements. Mussari (2014) concludes in his research that to promote and modernize the public sector and its finance, a wide range of other aspects needs to be considered and will need to be changed as well, such as technological modernization, new processes implementation, organizational changes and working expectation of relevant personnel.

The goal of this paper is to verify the expectations of previous studies about the positive impacts of accounting standards on the accounting information quality, specifically in the context of Central Europe countries and to answer the question of whether the Czech Accounting Standards affect the quality of accounting information after the accounting reform of public finances. The first section treats the main target of the reform and specifies the role of accounting standards and their content. Then the second part summarizes the main results of the quantitative research. Results introduced in the study stem mostly from data obtained through a questionnaire survey realized by the accounting organizations in the public and private sectors in the Czech Republic.

The paper tries to identify some factors and problems with the implementation of accrual-basis, IPSAS and IFRS into the national accounting system while using the Czech accounting standards (CZ GAAP) in the public sector units. Another objective is to compare the effects of the Czech accounting standards on error rates in accounting information in the public and private sectors and to find factors influencing the quality of accounting information in companies using the Czech accounting standards in the context of international harmonization of accounting.

1. Theoretical background

1.1. Accounting Reform of Public Finance: Czech Republic Case Study

A financial reform started in the Czech Republic in 2010, and the result has been slow convergence of public administration accounting and business accounting. The past significant differences are diminishing, but public administration accounting will always be different from business accounting by its fundamental nature. The Accounting reform started with the goal of implementing accounting systems for all entities required to do accounting in the Czech Republic. This reform is based on the best practices of the international community. One specific objective for the public sector was to make the accounting procedures more similar to the accounting principles of business entities. The implementation of the new accounting policies for the public sector would ensure that the information contained in the financial statements would be a more realistic presentation of the structure and performance of the entity. A similar accounting reform has already occurred, for example, in Australia (Benito et al., 2007), New Zealand and Indonesia (Ross, 2014). More EU members listed Bellanca (2015) in her research - Slovakia, Germany, Belgium, Estonia, France, Greece, Lithuania, Malta, Netherlands, Portugal, United Kingdom, and Sweden used accrual accounting in public finance.

However, the implementation of the accrual basis principle for state entities needs to consider specific problems and obstacles which may differ from normal companies. These problems need to be periodically monitored and solved by observing trends in international accounting. Such research was for example conducted by Bisogno and Guadrado-Ballesteros (2020) who summarized the existing research papers focusing on the problematics of PSAS and accrual accounting in the public sector. Research in non-profit organization accounting has shown that the requirements of enhanced transparency and accountability in the public sector demand the information presented by such entities to be comparable, understandable, and accessible, which correlated with the qualitative characteristics of IFRS (Vystupova, 2020).

Now, this reform is being undertaken in the Czech Republic. Since January 2010 accrual basis accounting was adopted in the public sector in the Czech Republic. New national accounting standards for the public sector were implemented starting at that point. The reform significantly influences allowance organizations, municipalities, regions, and departments of state offices (such as ministries). Otrusinova (2016) found that the performance of public sector entities is still questionable when implementing the new standards. There were 22 Czech Accounting Standards in force before the beginning of the state accounting reform. Nevertheless, only 10 of these standards regulate accounting by municipalities after the reforming process.

Accounting reform has not been a panacea, and there are still many problems and questions. Before 2010, the legislation was only modified for allowance organizations to use account accounting methods based on the accrual principle. In the Czech Republic, there are approximately 11,000 allowance organizations, which represent about 2.2% of the total number of existing entities in the country. Currently, there are 6,246 municipalities in the Czech Republic. This fact translated to a situation where the reform influences a significant number of entities that are financed through the public system. According to the statistical office of the Czech Republic, in 2019, there were 18,174 of these institutions in the country. The primary goal of a state accounting reform is to improve management and financial control in public administration. The undertaken reform was necessary, as it is based on a rational core and several fundamental ideas, procedures, and methods. However, the reform is a long-term process, and there are many risks associated with the transition to the accrual basis of accounting. By Pena and Franco (2017), an improvement in the quality of financial reporting by using IFRS may occur in a long time or not happen at all.

In recent years, the reformation of public entities and their accounting has been a focus of a significant number of nations. The private sector usually serves as an inspiration for modern approaches, which leads to the application of existing processes that are already used for years by privately owned entities, such as management by objectives, and KPIs (Hood, 1991).

According to OECD, several developed countries have already implemented similar reforms intending to promote the quality of accounting and the performance of public sector entities. Such reforms are usually implemented with a vision of

improving the quality of services provided to the general public or increasing competition. Pollitt and Bouckaert (2017) point out that in order to implement new approaches, a wide range of changes in accounting approaches and framework is necessary to implement new trends effectively. A primary example is a necessary shift to accrual accounting from the cash-based accounting of old (Biondi and Soverchia, 2014). Similarly, implementing International Public Sector Accounting Standards (IPSAS) are not a mere technical decision, as their effective implementation is also influenced by a wide range of factors (Benito et al., 2007).

1.2. IPSAS, IFRS and ESA 95

The Czech Republic strives for full compliance with EU directives No.4 and No. 7 in the current legislative process (Otrusinova, 2016). Therefore, the new national standards are the adoption of the international rules of IFRS, IPSAS, and the European System of Accounts. ESA 95 is the fiscal reporting standard for European Union member countries. The ESA 95 methodology also defines the Maastricht treaty fiscal criteria for EU members.

The International Accounting Standards Board is tasked with developing rules and principles for specifics of public accounting. These may for example be revenues from non-exchange transactions (i.e., taxes), transfers between the state budget and public entities, or impacts of social policies. Such intricacies make the convergence with IFRS and other relevant treaties and rules is much more complicated. Organizations, such as OECD, IFAC, the EU have already implemented current IFRS standards. However, the new standards must be translated into the national language of any given country to be effective. The first Czech variant of the existing IPSAS was issued in 2005. The second translation was published in 2016.

Although IPSAS are based on IFRS, some IPSAS deal exclusively with public sector issues and therefore have no equivalent IFRS standard. IPSAS applies to all public sector entities, including government agencies, national governments, and regional governments. They are also applicable to multinational public organizations, e.g., the United Kingdom adopted IPSAS its national reporting. Governments need to decide whether to implement IPSAS for public accounting or not. Unfortunately, the governments of countries such as the USA, France, Australia, and New Zealand have adopted different standards, such as commercial, and financial reporting standards, instead of the IPSAS. This implementation occurred despite their involvement with the development of IPSAS. Obstacles to the application of international principles in these countries including political, historical, and cultural barriers. These have been covered in research by many authors as stated by Bellanca (2015) and Otrusinová (2016). By Krajnák (2020) it is more convenient to prepare financial statements only according to the legislation of national accounting standards.

Almost every country in the world has adopted legislative measures to develop public management in various spheres of public sector performance in recent decades (Androniceanu et al., 2019). Vystupova (2020) in the study compared the cost management approaches in the public and private sectors and the results have

not proved that the public sector is different in this area. The Czech Republic joins this long list of countries fighting for improved transparency, accountability, and management efficiency. The scope and quality of information and reporting disclosures play an essential part in building the socio-economic relations of an enterprise and its environment (Krištofik, et al. (2016)) and these are addressed by system theories, known as open system theories. In the future, companies will gain a competitive advantage by solving the problems caused by the impact of international accounting in a timely manner. The new standards will contribute to a higher quality business environment and performance (Romolini et al., 2015). Belás, et al. (2015) claim that this is important for SMEs because they represent an essential part of the national economic system. Many factors play an important role in this process, including social, educational, cultural, and other factors, not just economic criteria (see Ključnikov et al., 2016, Rajnoha et al., 2017, Dobeš et al., 2017).

The IFRS (International Financial Reporting Standards) are the result of the notion to create a common global reporting language. The universality comparability of financial reports became imperative in past decades. Since 2005, the public listed companies in the Czech Republic should report under the IFRS framework, while the non-listed companies still report under the Czech accounting principles (Regulation No 1606/2002). Kubickova and Jindrichovska (2016) notice that the adoption of IFRS should improve the accounting information quality, create a transparent information environment for investors, lead to an increase in cross-border capital flows, and encourage the company to cooperate in foreign trade. Tassadaq and Malik (2015) and Brüggemann et al. (2013) also conclude that IFRS application leads to an increase in the quality of financial statements. Beneish et al. (2012) and Remenarić et al. (2018) present the adoption of IFRS as one of the methods to prevent accounting errors. However, consensus on the effects of qualitative characteristics such as true and fair views has not been reached by all authors. Several papers did not confirm the expectation of a positive impact of IFRS implementation on accounting errors occurrence (e.g. Cordazzo (2013); Liapis et al. (2013); Alsaqqa and Sawan (2013), Tsalavoutas and Dionysiou (2014), André, Filip, and Paugam (2015).

2. Research objective, methodology, and data

Methods of both quantitative and qualitative research are utilized in this paper. The case study research was utilized for qualitative research purposes, and the questionnaire survey was used for gathering quantitative data. Additionally, the standard procedures of analysis are undertaken in order to assess the data. The collected data is searched for the existing processes, which are subsequently analyzed and the value-added of those processes is subsequently assessed.

In order to perform the quantitative research, the questionnaires were prepared and pretested on a sample of the population. Subsequently, the finished version of the questionnaire was sent out to selected companies. Obtained data were analyzed using statistical methods. The goal of testing was to assess whether answers to questions

Q1 to Q5 statistically differ between profit and non-profit organizations. Another goal was to map the representation of individual responses (level of approval). Monitored questions were as follows:

Q1: Does the Czech Accounting Standards (CZ GAAP) solve all the situations in all areas of accounting and reporting?

Q2: Is adhering to CZ GAAP a guarantee of avoiding errors in the preparation of financial statements?

Q3: Are the standards themselves (absence of procedures, ambiguity, incomprehensibility ...) a common reason for the emergence of errors in accounting?

Q4: Can CZ GAAP considerably influence the profit of the company and other equity lines in the financial statements?

Q5: Are financial statements of your company posted in the commercial register of the Czech Republic?

The respondents in this research were selected from accounting units in the Czech environment. Companies were randomly selected from the Business Register of the Czech Republic and contacted through e-mail communication. The research was realized in the year 2018 and 2019. In total, 201 completed questionnaires were collected from 350 contacted companies, which roughly translates to a response rate of 57.4 %. As responses were received through google.forms, a sample of questionnaires (approx. 30%) was checked by verifying whether an adequate representation from the company indeed completed the questionnaire. This verification was conducted by contacting the telephone number stated in the questionnaire. No misconduct was identified. For more information about this research, see Table 1.

Table 1. Main characteristics of the questionnaire survey

Research	The quality of accounting information
Data collection and processing	2018 - 2019, accounting units of the Czech Republic, random selection
Form of data collection	A questionnaire survey, interviews with respondents
Number of contacted accounting units	350
Number of relevant questionnaires	201
Response rata	57.42 %
Number of questionnaires from Public sector units	63 (31.34 %)
Number of questionnaires from Private units	138 (68.66 %)

The accountants and other members of the accounting departments were contacted via email and telephone. The addressed entities were randomly selected companies of two types, namely business entities, and non-profit organizations of the public sector. Methods of descriptive statistics were used to process the results, and chi-square dependency tests of monitored answers on the type of accounting units were

used. The tests were evaluated at a 5% level of significance, and the Cramer coefficient of contingency was quantified to assess the dependence force.

Table 2 shows the characteristics of the research sample. All sizes of organizations based on the number of employees were represented in the surveyed sample. Most entities prepare financial statements using their own accounting departments, and only 20.9% of all respondents have their accounting outsourced. Two-thirds of accountants have signed a confidentiality clause in their contracts.

Table 2. Characteristic of the sample

Alternatives	Accounting Units Type		
	All Units	Public Units	Private Units
Company size			
Micro	66 (32.8%)	30 (47.6%)	36 (26.1%)
Small	54 (26.9%)	16 (25.4%)	38 (27.5%)
Medium	59 (29.4%)	13 (20.6%)	46 (33.3%)
Large	22 (10.9%)	4 (6.3%)	18 (13.0%)
How is accounting processed?			
Internally (Own employees)	159 (79.1%)	50 (79.4%)	109 (79.0%)
Externally (Outsourcing)	42 (20.9%)	13 (20.6%)	29 (21.0%)
Do you have the position of financial manager in your company?			
Yes	64 (31.8%)	16 (25.4%)	48 (34.8%)
No	137 (68.2%)	47 (74.6%)	90 (65.2%)
Does your company utilize the confidentiality clause in their contracts with employees?			
Yes	141 (70.1%)	39 (61.9%)	102 (73.9%)
No	60 (29.9%)	24 (38.1%)	36 (26.1%)

Note: All respondents' N = 201; Public sector units N= 63; Private units N= 138. The percentage of responses applied to a number of entities is presented in the brackets.

3. Results and discussions

Respondents answered their opinion on the problems with the Czech accounting standards. Answers to questions Q1 to Q5 were tested for dependency based on the type of accounting entities (public and private units). Using the chi-squared test, a zero-hypothesis of the independence of answers to questions on the type of entity against an alternative hypothesis about interdependence was tested. The chi-squared criteria and the corresponding p-value are listed in Table 3.

Table 3. Values of statistical and a p-value test of dependency of answers on the type of accounting unit. Source: own research

Question	4 Answers (definitely yes, rather yes, rather no, definitely no)		2 Answers (definitely or rather yes, definitely or rather no)	
	χ^2 value	p-value	χ^2 value	p-value
O1	3.551	0.314	2.620	0.106
O2	0.787	0.853	0.179	0.672
O3	Conditions of the test are not met		1.954	0.162
O4	3.052	0.384	0.701	0.403

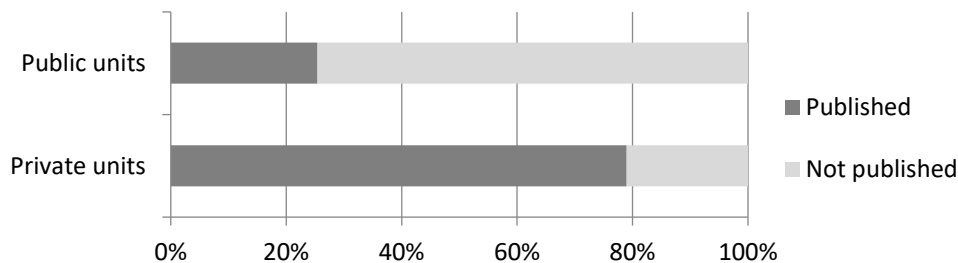
For answers to questions Q1 to Q4, the test led to the conclusion that there are no statically differences in opinion between private and public entities (see Table 4). Values of statistical and a p-value test of dependency of answers on the type of accounting, unit confirmed statistical hypothesis zero stating the independence on the type of a unit.

Table 4. Values of statistical and p-value tests of dependency of answers on the type of accounting unit for the question. Q5

Question	χ^2 values	p-value	Cramer contingency coefficient
Q5	52.825	0.0000	0.513

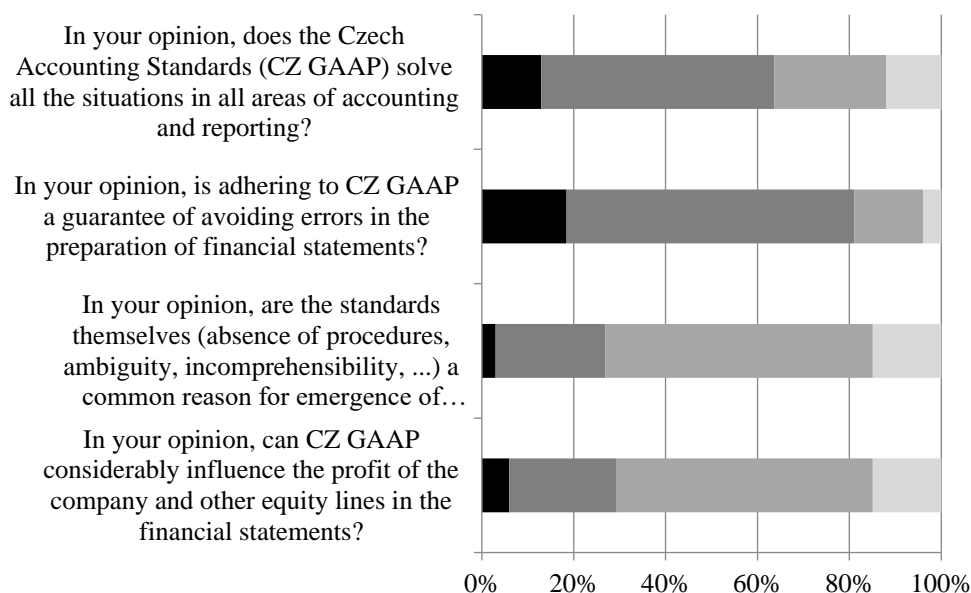
Representation of enterprises according to whether they publish the financial statements in the Commercial Register based on the type of enterprise is shown in Figure 1.

Figure 1. Relative representation of accounting units publishing their financial statements in the commercial register based on their type



For the response to the Q5 question, the chi-square test leads to the rejection of the zero hypotheses. We state that the disclosure of the financial statements in the Commercial Register differs significantly in the test sample of business and public units.

Figure 2. The relative representation of answers to questions Q1 to Q4



Because the dependency test of Q1 to Q4 questions on the type of entity led to the adoption of a zero hypothesis about their independence, the response rates are shown in Figure 2 in a summarized form. The percentage of positive answers (Definitely yes and rather yes) is shown in Table 5.

Table 5. Percentage of positive answers (Definitely yes and rather yes) for questions Q1 to Q4

Does the Czech Accounting Standards (CZ GAAP) solve all the situations in all areas of accounting and reporting?	63.7 %
Is adhering to CZ GAAP a guarantee of avoiding errors in the preparation of financial statements?	81.1 %
Are the standards themselves (absence of procedures, ambiguity, incomprehensibility ...) a common reason for the emergence of errors in accounting?	26.9 %
Can CZ GAAP considerably influence the profit of the company and other equity lines in the financial statements?	29.4 %

The majority (81.1%) of respondents agreed with the opinion that compliance with accounting standards leads to a reduction in the number of errors in the preparation of financial statements. A smaller but still significant percentage (63.7%) of respondents agree that the current standards address all situations in all areas of accounting and reporting. Less than one-third of respondents agree with the opinion that the Czech accounting standards are the usual cause of errors. Even less than a

third of respondents believes that CZ GAAP can significantly influence profit. Respondents were somewhat reluctant to assess the possibility of influencing the profit or loss and equity items of the financial statements by using insufficiencies in accounting standards. In an approximately same attitude, they agree that accounting standards are the very cause of errors.

There are 23 Czech Accounting Standards for private sector units (001 – 023), but only ten standards (701 – 710) regulate the accounting of public sector units after the year 2010. Hakalova (2015) found that although some municipalities do not acknowledge any problems, more than 50% of respondents to a questionnaire found that accounting by municipalities is not yet sufficient. The findings from our current survey were somewhat different from what the authors expected, i.e., that the number and content of the Czech accounting standards would be insufficient for respondents from non-profit public sector organizations.

However, the results of the survey did not show any significant difference between the two respondent group's responses. Overall, 63.7% of all respondents agree that the Czech Accounting Standards deal with all situations. 55% of the respondents from the public sector also have the same opinion. Thus, in the area of public sector accounting, research results from 2015 (Hakalova, 2015) were confirmed. Unfortunately, since 2015 there has been no change in the number of accounting standards for the public sector in the legislative process in the Czech Republic. This finding indicates that the level of accounting quality of public entities is still insufficient and further improvements are necessary.

Nevertheless, the respondent's responses to the research questions revealed that 94% believed that their mistakes did not substantially affect the financial statements and noted that the errors were not made regularly (97%). However, this view is not surprising, the authors of the research anticipated such a result, and it corresponds to the fact that 70% of respondents have signed a confidentiality clause in their contracts. Again, the responses of both tested groups of respondents did not differ significantly.

4. Conclusions

The paper presents the results of the quantitative and qualitative evaluation of our scientific question that was made in order to understand how the Czech accounting standards are utilized and how can they affect the error rate in accounting and to test the relationship between opinions on these questions between respondents from public units and private units. The answers to the questions have been subjected to a test of dependency on the type of entity (public and private units). By using the chi-squared test, a zero hypothesis about the independence of answers on the type of entity against the alternative hypothesis of interdependence was tested. For the questions related to the Czech accounting standards, a p-value of more than 0.5% was determined, and a zero hypothesis was adopted. The responses to the questions concerning the quality of the Czech accounting standards and their impact on

accounting, errors are not statistically significant for business and accounting entities in the public sector.

The respondents' replies have shown that compliance with accounting standards can lead to the avoidance of errors in financial statements and that the standards themselves are not considered the cause of errors. Respondents mostly disagree with the view that accounting standards can substantially affect profit or loss. The respondents, for the most part, believe that their mistakes do not substantially affect the financial statements and that errors are not made regularly.

The goal of the paper was to identify the problems of quality of accounting information when Czech accounting standards are being used in public sector accounting after the accounting reform of public finances. The partial aim was to compare the impact of the Czech accounting standards on the accounting error rate of private entities and public sector entities. Based on the questionnaire survey conducted with the public and private entities in the Czech Republic, it was found that the impact of the Czech Accounting Standards on accounting errors is not statistically significant for business entities and entities in the public sector. In addition, it was proved that, according to respondents to this research, the Czech accounting standards after the accounting reform are not considered the usual cause of errors in accounting, and compliance with them can help avoid errors when preparing financial statements. In the area of public sector accounting, research results from 2015 (Hakalova, 2015) were confirmed. This finding indicates that the level of accounting quality of public entities is still insufficient and further improvements are necessary.

This paper did not manage to fully confirm or decline the positive impacts of accounting reforms and the application of IFRS and IPSAS but adds to existing literature that promotes this trend as a positive one. It can be concluded that this paper is in line with the findings of Kubickova and Jindrichovska (2016), Tassadaq and Malik (2015) and Remenarić et al. (2018) However, it contradicts the findings of other researchers (e.g. Cordazzo (2013); Liapis et al. (2013); Alsaqqa and Sawan (2013), Tsalavoutas and Dionysiou (2014), André, Filip, and Paugam (2015)).

The analyzed problem is greater because the globalization of the economy and the interconnection of international markets require that accounting qualifications be transferable across national borders. Achieving a high level of accounting qualifications is defined in European Union documents (8th Directive), recommendations issued by the UN (UNCTAD / ITE / EDS / 9 guidelines on national qualification requirements for professional accountants), and the requirements of the International Standard on Training for Professional Accountants (IES), issued by the International Federation of Accountants (IFAC). The consolidated financial statements for the Czech Republic and the sub-consolidation units of the state and their analysis can help provide a picture of the real economic situation of the state, and will subsequently be used for more efficient, effective and economical management of state property and its control. They will strengthen financial and budgetary planning (rules and procedures) with an emphasis on ensuring healthy and long-term sustainable management of the government and

municipal sectors. Last but not least, it will enable users (professional as well as the general public) of financial statements for the Czech Republic and for partial state consolidation units to gain a realistic view of the state's finances.

All these aspects show a great need for further research which would help with identifying the main problems of implementation of modern approaches in public accounting. The results of this paper are limited by the total scope of the research, but still, provide valid data in order to reach conclusions and steer future research. Future research should be concentrated on the empirical study with a broader number of respondents, which will discuss the quality accounting information for public finance and performance measurements in this area. Additionally, the results are applicable only when viewing the Czech accounting standards as a whole. The impact of individual accounting standards on the quality of accounting information needs to be further investigated.

The policy recommendation is to continue preparing the new Czech accounting Standards to regulate state accounting. It is necessary to pursue maximum compliance with EU directives. In general, it can be concluded that the implementation of IPSAS and the IFRS in Czech accounting should be only the first step in financial reporting reform if we aim to promote the quality of accounting information both in the private and public sectors.

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