

MIDLANDS STATE UNIVERSITY



FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

**THE LINK BETWEEN INTERNATIONAL ACCOUNTING
STANDARDS AND THE QUALITY OF FINANCIAL REPORTING. A
CASE STUDY OF ZIMSTAT.**

BY

JUDITH SHUMBA

R111588Q



*This dissertation is submitted in partial fulfilment of the requirements of the Bachelor of
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MIDLANDS STATE UNIVERSITY

P.BAG 9055
260404/2560337

Tel: (263)54

Gweru

Fax: (263)54 260233/260311

Zimbabwe

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

RELEASE FORM

NAME OF STUDENT

SHUMBA JUDITH

DISSERTATION TITLE

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260404/2560337

Tel: (263)54

Gweru

Fax: (263)54 260233/260311

Zimbabwe

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

APPROVAL FORM

The undersigned certify that they have supervised the student Judith Shumba's dissertation entitled The link between international accounting standards and the quality of financial reporting. A case study of Zimbabwe National Statistical Agency, submitted in partial fulfilment of the requirements of the Bachelor of Commerce Accounting Honours Degree at Midlands state University.

.....

SUPERVISOR

.....

DATE

.....

CHAIRPERSON

DATE

.....

EXTERNAL EXAMINER

DATE

DEDICATIONS

This dissertation is dedicated to my family for their support both financially and morally. I would also like to dedicate this research to the Almighty who gave me life and time to complete this project.

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May God Bless You All!!!!

ABSTRACT

The purpose of this study is to examine the link between the international accounting standards and the quality of financial reporting by the Zimbabwe National Statistical Agency. The study used quantitative methodology with self-administered questionnaires to obtain data from employees of the Zimbabwe National Statistical Agency. Structured interviews were also used to determine the relationship between international accounting standards and the quality of financial reporting. Limited literature using African data meant that the research could not be compared with previous researches. The results indicated that international accounting standards have got a positive relationship with the quality of financial reporting. The findings of this research imply that ZIMSTAT needs to adopt another approach in the preparation of its financial reports so as to improve the quality.

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CHAPTER 1

INTRODUCTION

1.1 Background of the Study.

According to a research carried out by Barth et al (2006) Firms applying IPSAS generally exhibit higher accounting quality than when they previously applied domestic GAAP. The research carried out by Nkundabanyanga et al,(2013) also indicated that accounting standards and legal framework are all positively and significantly associated with the quality of financial reporting, providing evidence of the effect of accounting standards and legal framework on the quality of financial reporting in Uganda. On the other hand, Jeanjean and Stolowey (2008) asserted that the adoption of accounting standards does not improve the quality of financial reporting, which means the debate is inexhaustive. The current study extends the debate to ZIMSTAT, as a government institution which operates under the Ministry of Finance and is mainly funded by government and donors. The company uses the cash basis of accounting in preparing its financial reports.

Auditor General's report (2009) gave a qualified opinion concerning ZIMSTATS financial statements and the basis for qualifying the opinion was encompassed around the company not complying with the qualitative characteristics of financial reports. The framework for the preparation and presentation of financial statements (2010) states that for financial statements to be useful to their users, they have to meet both fundamental and enhancing qualitative characteristics to reinforce the quality of financial statements.

Among the basis of qualifying the opinion was the company's financial information not being verifiable. In 2011, vouchers in support of the payments that were being done could not be produced and without the supporting documentation, it was difficult to determine the legitimacy and accuracy of the expenditure figures disclosed in the financial statements. An amount of \$1 560 000 was not reflected in the financial statements of ZIMSTAT as expenditure for a certain exercise they had conducted, (2011 Audit report). Failure to provide relevant information to the Auditor General who acts as a public representative reflects non-compliance to the qualitative characteristics of a good and reliable set of financial statements.

The organisation is facing financial problems since the donors are not persuaded to donate in it due to the fact that financial statements are not reflecting their true and faithful representation it purports to present. The donors vest their decisions in the financial statements together with the auditor's report for them to donate their funds. (Annual General Meeting minutes, January 2012)IPSAS 17 property plant and equipment stipulates that tangible assets must be recorded at cost less accumulated depreciated and accumulated impairment loss. The organization records its assets at the cost of purchase each financial year so as to comply with the cash basis of presenting financial statements.

According to the Auditor General report(2010),ZIMSTAT failed to submit their financial reports on time. The framework for the preparation and presentation of financial statements (2010) states that for financial statements to be useful to their users, they have to be timely. Failing to submit the accounts on time affected the progress of audits and

subsequent production of the annual report as said by the comptroller and auditor general in his report. This study therefore aims at drawing evaluative conclusions on whether the adoption of international public sector accounting standards enhances quality of financial statements.

1.3 Statement of the problem

ZIMSTATS's financial statements are not being recommended by both the Auditor General and users of financial statements. Donors are not willing to fund the organization and reports against the current cash basis of preparing financial statements which does not truly bring about the recommended qualitative characteristics of a good set of financial statements persuaded this research to be undertaken.

1.4 Main Research Question

Does the use of International Accounting Standards improve The Quality of Financial Reporting.?

1.5.1 Research Objectives

1. To evaluate the current financial reporting system-Cash basis
2. To determine the value adding attributes of Public Sector Accounting Standards to financial reporting quality.
3. To assess the effects of Chief Financial Officers' manipulation of accounting standards on the quality financial reports.
4. To evaluate the challenges in implementing international accounting standards.
5. To determine the best practice in the quality of financial reports

1.4.1 Research Questions

1. What is the current financial reporting system being used by ZIMSTAT?
2. What are the value adding attributes of IAS to financial reporting quality?
3. What are the effects of manipulating international accounting standards on the quality of financial reports?
4. What are the challenges in implementing international accounting standards?
5. What are the best practices that can be put in place to have quality financial reports in a public sector?

1.6 Delimitations of the study

This research focused on the link between international accounting standards and the quality of financial reporting. The research was limited to ZIMSTAT-Harare and the data collected covered period January 2009 to December 2013. Due to the nature of the study, the sample population will be obtained from management and accounting personnel.

1.7 Limitations of the study

- **Confidentiality** The researcher's access to confidential information useful to carry out the report was limited. However this limitation was negotiated with management and absolute assurance was provided that findings would be used for academic purposes only.
- **Experience** The researcher's lack of experience will negatively affect the results, However the researcher will seek assistance from supervisors and also consult researches that were previously submitted,

1.9 Justification of the study

A number of previous researches have been focusing the research of the link between international accounting standards and the quality of financial reporting on the private sector, studies that link this study to the public sector are limited. This study is therefore justified by the need to extend predominantly the private sector based research to a public sector body in a developing country. Secondly this research is motivated by the need to recommend a suitable policy in the improvement of financial reporting quality by the Zimbabwe National Statistical Agency.

1.10 Abbreviation/ Acronyms

IPSAS- International Public Sector Accounting Standards

GAAP-Generally Accepted Accounting Practice

ZIMSAT-Zimbabwe National Statistical Agency

1.11 Summary

The chapter looked at the background of the study, statement of the problem, research objectives, research questions, significance of the study, limitations, assumptions, delimitations and definition of key terms and abbreviations. Further chapters will look at literature review, research methodology, data presentation, analysis, conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

This chapter will review the literature of factors which affects the relationship between international accounting standards and the quality of financial reporting derived from the objectives of the area of study .To gather up the literature the researcher made use of journals, related literature and other publications that provided current literature on the issues which were relevant to the topic.

2.1 THE CURRENT ACCOUNTING SYSTEM

2.1.1Cash basis system

Cash accounting is defined by Hoek (2005) as a system that records a transaction when the funds are paid out of an appropriation authority or when the funds are received Maseko and Manyani (2011) asserted that cash basis accounting means that an entity recognises a transaction only when cash is received or paid. The cash book and the receipt and payment accounts is the main book in this system. Caperchione (2006) also defined cash basis of accounting as a structure that records the inflow and outflow of cash irrespective of when revenues are earned or expenses are incurred.it. Perrin (2010) indicated that Future liabilities for example payment of a retirement pension are not reflected in the official budgets and statements until the pension comes due and payment

is made. There is no full balance sheet only cash receipt, cash disbursement and opening and closing cash balances are recognised in the balance sheet Brown (2011) According to Hoek (2005) government, is basically an income-spending household. The financial results are not what is relevant but rather the social outcome of public expenditure. Cash basis is still very important for macroeconomic analyses. In support of this Rosen (2008) indicated that cash basis of accounting was partly used because cash expenditure was required in the macroeconomic models used for fiscal policy decision making

2.1.2 Strengths

Chan (2010) asserted that the cash method of accounting is an easier method for small enterprises or for businesses that conduct business primarily in cash. This method often provides adequate information to monitor performance Pina et al (2009). It has particular regulations and guidelines of accounting records, a chart of accounts, accounting books, financial and budget settlement statements. This helps accountants implement accounting easily and effectively. The present accounting system is also serving well financial managers as well as auditors in controlling and supervising financial activities. Nasi and Steccolini (2008) were of the opinion that the cash basis system meets the requirements of budget control, and has been suitable for government financial management policies. The system of financial and budget settlement statements showed that there are enough budget reports for budget accounting to control the budget. Again, as a result of using the cash-based accounting, it is simple, easy to implement for accountants Guthree (2009)

2.1.3 Weaknesses

Loughran (2011) was of the opinion that using the cash basis of accounting is not easy. Revenue is recorded when the company is paid and expenses when they are paid. The method fails to match revenues to the expenses the company incurs to earn that revenue. Because of this, cash basis financial statements usually do not present as accurate a picture of how the business is performing. Noncash expense such as depreciation on plant assets, bad debt expense are ignored in the cash basis Kieso et al (2013). Therefore, financial statements shows very little information about financial performance and position of an entity. In other words, financial reports are hardly used to make decisions. The accounting information does not give enough basis to evaluate if the government finances are sound and sustainable. Hoek 2009 further highlighted that the system does not provide information that the government need to operate efficiently and effectively. Information provided by the cash accounting system is considered insufficient either for transparency and accountability or for decision making. Chan (2011) said that cash basis of accounting is no enough to keep the books accurately. It does not provide a full set of financial statements. This helps the public when it does not have time or the ability to inspect the accounts. Governments have to make the task easier by preparing comprehensible as well as comprehensive financial statements. The method may offer misleading financial picture if an organisation has unpaid expenses outstanding receivables or cash receipts that are unavailable for immediate use. Cash basis does not provide adequate information regarding the income and expenses of the entity, does not account for outstanding commitments or prepayments does not allow for more accurate net income Bergmann (2012).

According to GAAP Guidebook (2014) the cash basis has got a disadvantage of that it is possible under the cash method to amend reported earnings, and the IFRS is suspicious for the use of it though it still allowed. Revenue under the cash method can be manipulated. A business receives a check from a customer near the end of its fiscal year, but does not cash it until the next year, in order to delay the recognition of taxable income. On the other hand expenses can also be manipulated for example a business pays its suppliers early, in order to recognize more expense in the current fiscal year, thereby reducing its taxable income.

2.2 VALUE RELEVENCE OF INTERNATIONAL ACCOUNTING STANDARDS

Barth et al. (2008) indicated that the value relevance of accounting information is a function of country-specific factors. Barth et al. (2008) found that firms adopting accounting standards have more value relevant accounting earnings. Bartov et al. (2005) compared the value relevance of German firms trading on stock exchanges. They found a higher coefficient of IAS and earnings thus high accounting quality. On the other hand, Hung and Subramanyam (2007) found that the German earnings have higher coefficient in a regression of price on book value and earnings. Daske et al. (2008) examined the economic consequences of mandatory IFRS adoption around the world. They showed that market participants use accounting information and that accounting information has economic consequences. Another international study found analysts upgraded their recommendations following the adoption of international accounting standards, consistent with there being signalling and bonding benefits when a firm committed to applying international accounting standards (Karamanou and Nishiotis 2009). An Australian study found that IFRS adoption had resulted in more accurate earnings

forecasts where reported goodwill was a larger component of the firm's assets (Chalmers et al. 2010b).

2.2.1 Full set of financial statements

Chan(2010) asserted that the IAS allows for the provision of comprehensive financial statements which measures the cash and other financial consequences of past transactions and events, including, but not limited to, budget execution. Provision of a full set of financial statements is capable of keeping track of the levels and changes in assets, liabilities, revenues and expenditures or expenses. The form and content of financial reports should be guided by the rights and need to know of intended users. With the same idea, Ball (2006) explained that the adoption of these standards enabled us to present more complete and better quality. In a study conducted by Nafti et al (2013) the adoption of these standards increases information content of the financial statements. The results from this research indicated that the adoption of IAS-IFRS will increase the information content of accounting figures and specifically earnings, liabilities, revenues, and equity. This production of full set of financial statements occurs only when the entity is using IAS, and this does not apply to the public sector which uses the cash basis of accounting. Financial statements recommended by IPSAS are general purpose financial statements which mean they provide a wide range of users with information useful for decision making and demonstrate accountability of the entity for resources entrusted to it. Unlike IAS, the accounts prepared with the current cash do not illustrate types of assets and liabilities in order, and net assets/equity, but demonstrates accounts. Hence, it does not reflect an agency's financial position. Besides, financial reports only reflect some elements and accounts of an accrual-based accounting, while IPSAS guideline financial

statement reporting on a full accrual basis of accounting. Adhikari and Mellemvik (2011) cited that imposing very strict financial reporting requirements in entities like international standards permits government and public to become better informed on the financial position and performance of these entities.

Therefore further study is still necessary using the public sector to assess if the adoption of IPSAS will improve the content of financial statements in a public sector since previous studies is focused on the private sector

2.2.2 Comparability and Transparency of financial Statements

According to Armstrong et al (2007) the “comparability argument” is founded on the assumption that using international accounting standards makes it less costly for investors to compare entities across and countries. He went on to say that even if the quality of financial statements does not improve it will still be possible that financial statements will still be useful to investors. For example, a common set of accounting standards will help investors to distinguish between lower and higher quality firms and this reduces information asymmetry among investors. This is also supported by Barth et al (2008) who said that adopting IFRS reduces the cost of comparing firms across borders. It also reduces the cost to the investor of evaluating the quality of financial reports between two firms. The net effect of adopting IFRS on accounting quality is therefore uncertain. The adoption of IFRS in Australia and Europe has been researched and it was found that IFRS improved the comparability of accounting information produced by companies in common law and code law countries Clarkson et al (2010).

According to Barth et al (2010) the adoption of IFRS improved the comparability of a firm's results with those of US firms reporting under US GAAP, although differences have remained. The transparency and comparability arguments suggest that accounting quality should improve. Improved comparability of financial statements is another potential benefit of adopting IFRS Kvaal and Nobes (2010). Adopting standards will make the reported numbers more comparable across firms or improve firms' reporting behaviour. Firms that oppose the switch to IFRS or move towards greater transparency are unlikely to make material changes to their reporting policies Ball(2006). In particular, changes in the comparability of accounting numbers in Germany and Italy, both code law countries, have been studied Cascino and Gassen(2010) and while comparability improved regional and firm levels have remained influential. According to Nafti et al (2013) the difference in quality of the information disclosed was mainly due to differences among countries. The International Accounting Standards Board has established international standards to ensure more comparability and transparency and higher-quality financial statements on the other side. Creta et al (2011) cited that the adoption of IPSAS can be done for international harmonisation so as to achieve the objective of uniformity. The benefits of adopting IFRS are to eliminate barriers to cross border investing, increase the reliability, transparency and comparability of financial reports to increase market efficiency and to decrease the cost of capital.

Further research on developing countries is still necessary since previous literature focused on developed countries and the research will focus on a developing country giving emphasis to the public sector.

2.2.3 Efficiency, Effectiveness and Improvement in quality of financial reporting of financial statements

According to Nkundabanyanga et al (2013) IASs enhances the quality of financial reports. Complying with government standards and the legal framework improves both the quality of financial reports and reduces the number of accounts being qualified by the Auditor General. In support of the above the research carried out by Barth et al 2008 on the link between International Accounting Standards and the quality of financial reporting indicated that firms using IAS shows less earnings management, more timely loss recognition and more value relevance of accounting amounts than those that apply domestic standards, all of which they interpret as evidence of higher accounting quality. Ashbaugh and Pincus (2010) also said that firms' financial information became more predictable following their adoption of IAS and consequent reduction in the variation in measurement and disclosure practices. Christensen et al (2008) supported the above in his research in which his results were positive, that is firms that adopted IFRS experienced an increase in the quality of their financial reports. Kohikeck and Warfield (2012) were also in support of the positive relationship that is said to exist between accounting standards and accounting quality.

In contrast of the above Jeanjean and stolowy (2008) did a research on three countries, Australia, France with different legal traditions. The results that the pervasiveness of earnings management does not decline after introduction of IFRS and in fact increased in France. There are other factors that need consideration as management incentives and national institutional other than accounting standards alone. Neel et al (2013) indicated that mandatory IFRS adoption leads to improved accounting quality but doubts were

raised about such inferences and he suggested that the favourable economic consequences associated with mandatory adoption may be driven factors other than improved accounting quality, Secondly he said there is need to look at the role of implementation guidance in standard setting. According to a study by Leuz and Wysocki (2008) the results concluded that accounting standards alone do not determine financial reporting outcomes. Holthausen 2009 indicated that financial reporting outcomes refer to the quality of financial reporting, measured in a variety of ways. Several factors shape the quality of financial reporting, and accounting standards should be viewed as but one of those factors. Indeed, the international accounting literature suggests that the effect of accounting standards alone may be weak relative to the effects of other factors such as managers' incentives, auditor quality and incentives, regulation, enforcement, ownership structure, and other institutional features of the economy in determining the outcome of the financial reporting process. Soderstorm et al 2008 argued that although previous literature has found a positive relationship between IAS and accounting quality one cannot generalise results based upon historical voluntary IAS adaptations. He then summarized four financial reporting incentives: financial market development, capital structure, ownership structure and tax system, and found that each of a country's legal and political system affects each of them. Barth et al. (2008) also noted two reasons why the adoption of IFRS can diminish accounting quality. First, IFRS could eliminate accounting alternatives that are most appropriate for communicating the fundamental economics of a business thus forcing managers of these firms to use less appropriate alternatives, thus resulting in a reduction in accounting quality. Second, because IFRS are

principles-based, they inherently lack detailed implementation regulation and thus afford managers greater flexibility (Langmead and Soroosh 2009).

From the preceding literature, it can be concluded that the results from the relationship between IAS and accounting quality are mixed and they are limited only to the private sector, further research thereby is necessary considering the public sector.

2.3 THE EFFECTS OF CFOs MANIPULATION OF IAS ON THE QUALITY OF FINANCIAL REPORTING

2.3.1 Effects of manipulating standards on revenue.

According to Biscorf et al (2008) CFOs may overstate revenue by inflating sales. This can be achieved by entering fictitious sales or by entering a sale before the revenue is earned actually in the financial statements. CFOs often have the ability to modify the timing of events such that the accounting system will record those activities in the period that is most advantageous to them Ugrin and Odom (2010). The activity does not alter the long-term economic value of the transaction, just the timing and thus, affects comparability of financial statements. For example, a company could accelerate its sales and delivery process such that it records sales in December that normally would have been reported in January. Thus, the company reports higher fourth quarter sales, revenue and profits. In the long-term, the company would ultimately report the same sales and profits; however, it has inflated its growth in the near term, and reduced profits in the future period. According to Perols and Lougee (2010), the timing of the recognition of revenue is the most likely area to target for CFOs and manipulation. Gerety and Lehn

(2010) asserts that from an operational standpoint, firms can take aggressive actions to boost revenues and sales in one period through providing incentives to their sales force, utilize overtime to push shipments out the door. They may also take aggressive accounting actions such as selling securities classified held for sales recognize gains in income versus stockholders equity, aggressive in the timing of the recognition of sales or aggressive in the application of broad or unclear accounting guidance. However Feng et al (2009) said that it has the effects of undermining the quality and integrity of the financial reporting It destroys the careers of individuals involved in the fraud It causes bankruptcy or economic losses by the company engaged in the fraud It encourages a higher level of regulatory intervention and It causes destructions to the normal operations and performance of the alleged companies. This research seeks to find out how manipulation of international public sector standards affects revenue in a public sector.

2.3.2 Effects of CFOs manipulation of Accounting Standards on equity.

According to Aparicio et al (2010) errors, misstatements and misapplication of accounting principles and standards have been overlooked if they fell below the materiality threshold. A company may knowingly misstate earnings by amounts that fall below the materiality threshold by not correcting known errors or other misstatements. If the practice continues for a number of periods retained earnings may become significantly misstated. Consistent with this argument, Jiang et al. (2010) document that discretionary accruals CFO equity incentives play a similarly important role in accounting manipulations that is earnings management activities outside of GAAP. Previous research has shown that material accounting misrepresentations can have

extremely negative capital market effects. Karpoff et al. (2008) the CFOs of a company may choose to manipulate financial reporting if the personal assets or capital of the management is closely associated with the performance of the company in terms of profit sharing. Enough opportunities are present for the CFOs to commit the financial statement fraud Stergiou et al (2009).According to Hui (2010) manipulation of equity has had an effect of diminishing the confidence of capital markets and market participants in the reliability of financial information and it may result in litigation losses.

2.4. CHALLENGES IN THE IMPLEMENTATION OF IAS

According to Creta et al (2011) adoption of accounting standards can be done for international harmonisation so as to achieve the objective of uniformity. However there are challenges associated with the implementation of IPSAS.

2.4.1 Shortage of resources

Presenting financial statements using IAS claims professional expertise as accountants and Auditors; it requires the availability of professional accounting skills framework. According to the Federation of European Accountants (2013) involvement of the profession in the setting of accounting standards on its own is insufficient to achieve success in the application of accounting standards to the public sector. The government as the leading user of these standards will therefore require undertaking massive capacity building to enlighten its accountants on IAS. This will be a challenge both in terms of capacity building costs and the required change management issues from traditional cash basis Creta et al (2011). Lack of expertise among corporate accountants who find it

challenging to prepare financial statement according to the international standards Daske et al.(2009)

2.4.2 Training

According to Kiugu (2008) First time implementation costs are important in the form of staff training, internal controls, information systems and terms of contracts involving financial measures Similarly to other small countries in the region, the lack of education and training of public sector accountants and an absence of a code of ethics are regarded to be the other factors widening the gulf between the present accounting system and IPSASs requirements. According to IFRS Hot topic (2009) training is crucial to the compliance with international standards. Early training helps companies clear this problem. Development of a training program for accounting personnel helps reduce reliance on external consultants as the project progresses

2.4.3 Information systems

According to Nafti et al (2013) the adoption of IFRSs in France has created the need for important upgrades of software for both large groups and small- and medium-sized enterprises (SMEs). The change in accounting policies will transform and the operations of financial markets, companies, and economies, and the preparation of financial statements.

2.4.4 Communication

Creta et al (2011) implementing standards is associated with vocabulary communication problems since it is an English language standard and especially cultural

incompatibilities, economic systems socio political environment legal system accounting profession and the standards themselves are complex. IPSAS are highly complex with a considerable volume (currently exceeding 1200 pages) and difficult to interpret given the economic and financial nature which does not correspond directly to each country's own legal terminology. Hail et al (2009) is of the opinion that more accounting information is required now than before therefore compliance with standards strains more effort from companies. The challenges facing global adaption have been the varying levels of compliance with international accounting standards.

2.4.5 Complexity of standards

Each public institution has a system adapted to its own characteristics whilst IPSAS are uniform, they are not flexible depending on the particularities of each public institution Rista and Jianu (2010). It increases the difficulty of annual financial reports, subsequently leading to more work, and resulting in liable financial statements. Daske et al. (2009) the continuous revision of international standards leads to confusion about the applicable standard. IPSAS does not cover all transactions that happen in the public sector IPSAS is time and money consuming therefore requires additional commitment of effort and time from staff IPSAS adoption is a complex and change management process. It however offers numerous benefits over the medium and long term thus its benefits outweighs the disadvantages. IPSAS are highly complex, with a considerable volume (currently exceeding 1200 pages) and difficult to interpret, given the economic and financial nature which does not correspond directly to each country's own legal terminology. In addition, IPSAS not treat all transactions that occur in specific public sector. (Ristea & Jianu, 2010).Adaptation of IPSAS to the specific Romanian public sector particularities, namely

the various public institutions, and preparation of financial statements so treated, is an extremely complex activity, requiring a lot of patience and rigor. According to ACCA Research Report No 74 (2001) complying with IASs is lower in developing countries. Africa in particular is facing most of the challenges of IFRS adoption and compliance associated with developing nations. Critics argue that IAS are not flexible, therefore they do not cope with variances in accounting practices and accounting standards in different countries

2.4.6 Lack of implementation guidelines

Barth et al. (2008) also note two reasons why the adoption of IFRS may reduce accounting quality. First, IFRS could eliminate accounting alternatives that are most appropriate for communicating the underlying economics of a business thus forcing managers of these firms to use less appropriate alternatives, thus resulting in a reduction in accounting quality.

Second, because IFRS are principles-based, they inherently lack detailed implementation guidance and thus afford managers greater flexibility (Langmead and Soroosh 2009).

For some important areas such as revenue recognition for multiple deliverables, the absence of implementation guidance would significantly increase discretion and allowable treatments depending upon how they are interpreted and implemented. Given managers' incentives to exploit accounting discretion to their advantage documented in prior studies such as Leuz et al (2003), the increase in discretion due to lack of implementation guidance is likely to lead to more earnings management and thus lower accounting quality. Given the competing arguments, whether mandatory IFRS adoption results in an increase or a decrease in accounting quality is an empirical question.

According to Schipper (2011) at the same time, implementation guidance could increase comparability by reducing the effects of judgment in the implementation of the standard, and render the accounting numbers more verifiable, less subject to earnings management, and more enforceable. Finally, increased disclosure could be associated with less earnings management due to increased transparency of accounting judgments, making it easier to detect earnings management.

2.5. BEST PRACTICE

2.5.1 Accounting Standards being supported by powerful international institutions

Notably, widespread use of IPSASs, particularly the cash basis IPSAS in the developing world is twofold (Chan, 2005). First, the IPSASs have the advantage of being supported by powerful international financial institutions, namely the World Bank, the International Monetary Fund and the Asian Development Bank. Furthermore, the South Asian Federation of Accountants (SAFA), a forum of professional accounting bodies for the South Asian countries, has constituted a working group to help governments in the region implement accrual accounting using the IPSASs (SAFA, 2006). However, there is little research about the process and manner in which the IPSASs are being implemented in South Asia. According to a research by Melemivic and Adhikari (2010) the evidence presented in the study led to an argument that normative and strong pressures have been more influential in driving the South Asian countries' journey toward accounting standards implementation. This means that the studies, recommendations, and projects conducted by international financial institutions, particularly the World Bank and the ADB, and the accounting professionals in the region, have forced the countries involved

to undertake a move in the IASs direction. According to Subramanian (2008) the move of South Asian countries in the direction of the IAS have predicted the possibility of updating their accounting so as to reflect the internationally agreed minimum standards of best practice and reporting given the requirements of the IPSAS, which are closer to current practice and are less costly to adopt.

According to Brown (2011) the financial support of international organizations, such as the World Bank and the IMF, constitutes a favourable assessment of the expected contribution of IPSASs to government financial accountability. Another way to promote IPSASs is to link it to membership obligations to international organizations, such as the United Nations, the World Bank, the IMF, the Organization for Economic Co-operation and Development (OECD), and the European Union. These international organizations set an example by adopting the IPSASs themselves, as the OECD have done. Each country's own way of adopting government accounting standards will affect their likelihood of using IPSASs Chan (2011). The shift from cash to accrual is clearly illustrated by the fact that half of OECD member countries use some form of accrual accounting in their financial reporting. According to Hoek (2011) IPSAS are authoritative requirements established to improve the quality of financial reporting in the public sector around the world. Several international organizations and South Africa have explicitly adopted the IPSAS, while it can be expected that a growing number of countries will do so too Hoek 2005.

2.5.2 Accounting standards getting recommendation for public sector by other scholars

According to Chan (2011) the IPSASs ideas are being increasingly recommended as the best government accounting alternatives that the global accountancy profession can offer to the public sector. This support other scholars has made the IPSASs a de facto benchmark for improving evaluating, and harmonizing the government accounting systems of developing nations. Representing the group of developing nations, the South Asian countries no longer form an exception to the IPSASs trend. Subramanian (2008) states that all South Asian countries, have either initiated or are contemplating initiating public sector accounting reforms aimed at introducing IPSASs. IASs have turned into a standard for international financial institutions to assess the quality, transparency, and comparability of accounting information in developing countries. Furthermore, the reform ideas commonly disseminated by these institutions or professional bodies (in this study, the use of IPSASs) have a tendency to possess acceptability based on the idea that they are reasonably effective. Actually, this has made it difficult, or even impossible, policy makers in the region to disregard IASs concepts while improving their public sector accounting. A number of studies have shown that IPSASs are to be approved in the majority of developed countries Christian and Reyniers (2010). IPSASs could raise the prestige of government accountants, who are often regarded more as civil servant than accredited professionals like certified accountants. IPSASs might facilitate the entry of private sector accountants and auditors into the public sector IPSASs might serve as a catalyst for including government accounting in the common body of knowledge expected of all accountants Chan (2011).

2.6 Chapter Summary

In summary, the literature has provided important information on the importance of IAS with specific examples locally and globally. It is however evident from the literature that there is a positive relationship between IAS and the quality of financial reporting though previous researches are limited to the private sector, there is still need for an investigation into the public sector. The following Chapter will focus on the Research methodology.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This Chapter focuses on the research methods that were used in gathering information and justification thereof. Research methodology as defined by Jankowics (1995) is a systematic, focused and collection of data so as to obtain information in order to solve problems. Covered in this topic are aspects of research design and techniques employed, population from which the sample was drawn, validity and reliability of instruments used and also the way in which data was analysed.

3.1 Research methods

According to Burns and Burns (2008) research methods refers to procedures, algorithms and schemes used in a research. Research methods can also be described as all methods used by a researcher during a research or methods that help in finding solutions to the problem as they help in collecting data, samples and find a solution to the problem. The researcher used quantitative research method which calls for explanations based on collected facts, measurements and observation not just on reasoning alone, they accept explanations which can be verified. Quantitative is gathered by using a structured approach involving a sample of the population to obtain quantifiable insights into behaviour attitudes and motivations. Wilson 2006. Quantitative research produces data that can be analysed using statistics and results expressed numerically. The researcher chose to use quantitative research as she was measuring variables and wanted to verify existing theories and hypothesis and even questioning.

3.2 Research Design

According to Shea and Yanow (2013) research design refers to the basic structure of a research project, the plan for carrying out an investigation focused on a research question that is central to the concerns of a particular epistemic community. Kothari (2000) also defined a research design as an analytical and rational approach that shows the way in which information was gathered and includes instruments used to congregate approve and safeguard the validity of the findings. The research design used in this study is descriptive research. A descriptive research is a process of collecting data so as to test hypothesis or to answer questions concerning the subjects in the study Sekaran 2000. According to Churchill (2002) descriptive research is used to describe characteristics of a population being studied. The characteristics used to describe the situation or population are usually some kind of scheme also known as descriptive categories. The descriptive research design was chosen as it enabled the researcher to generalise findings to a larger population. It was also chosen in this research because it allows discovery of associations among variables. The researcher wanted to analyse the link between quality of financial reporting and the international accounting standards. The researcher also used the descriptive research because it is systematic and accurate. It was flexible and it allowed the researcher to obtain information from Zimstat staff. It also provided the researcher with the opportunity to use quantitative data in order to find solutions to the problem.

3.3 Population, Sample and Sampling techniques

3.3.1 Target Population

According to a research population is a collection of individuals or objects that is a main focus of a research. Kervin (2006) also defined a population as a group of individuals, social interactions, social interactions or list possible object units from which a sample is obtained. In this research the target population comprised of 20 staff of ZIMSTAT and other stakeholders including, Financial Management Systems Managers, Principal Accountant, Principal Assistant Secretary and finance managers. Due to the large sizes of the population, the researchers could not test every individual as it is time consuming and expensive, thereby sampling techniques was used.

3.3.2 Sample

A sample is a portion of a population that is selected to represent the target population Monoharan (2010). Rao 1995 defines a sample as a complete listing of all the members of the population. The concept of sampling arises due to the inability of researchers to use the whole population or to test each and every individual in a population. The sample should have a good size and must be a representative of the population in which it was drawn. In this study the sampling frame consists of 20 staff of Zimstat and was generated in line with Fielding (2007)'s table guide for sampling, it postulates that a sample must be at least 30% of the total target population. This research is perfect as it has 82.62%.

Table 3.1 ZIMSTAT's population and sample of the study

FUNCTION	POPULATION	SAMPLE SIZE	% SAMPLE SIZE
Chief Finance Officer	1	1	100%
Principal Accountant	2	2	100%
Financial Management Accountants	7	5	71.4%
Assistant Accountants	4	5	75%
Interns	6	4	66.7%
TOTAL	20	17	82.62%

3.3.3 Sampling Technique

The researcher used probability sampling technique on all the population to ensure that each unit of the population has an equal chance of being selected. Random probability sampling was used which is a mathematical process that ensures that each element is given a chance of being selected. This sampling technique was used because the researcher wanted to find out how closely the sample represented the larger population from which it was drawn by estimating the sampling error. This was done so as to minimise chances of errors and bias and to make sure that the samples are a true representatives of the target population. It was used so as to identify a representative sample from which to collect data. In this research those who were involved in the preparation and use of financial statements were selected, that was the representative sample.

3.4 Sources of Data

According to Kumar 2011 there are two sources of data that are used in a research namely primary source of data and secondary data. The study used primary and secondary sources of data so as to obtain a deep understanding of concepts under the study and improve the quality of results.

3.4.1 Primary source of data

Primary research is defined as the collection of data for the first time and for certain purposes. Gratton and Jones (2010).Sinha (2000) also defines primary data as new information gathered to satisfy the purpose of the study. This refers to the method of gathering information that aims specifically at extracting first-hand information from the respondents. The researcher used management and staff personnel of Zimstat to gather information .Questionnaires and structured interviews was used.The researcher obtained first-hand information through the use of questionnaires and structured interviews with Zimstat staff. These were used because they addressed the current problem as up to date information was obtained. The information obtain was also reliable because it was original and was directly obtained from employees. However the use of primary data was associated with certain limitations as travelling expenses but the researcher made use of telephone and emails so as to overcome this limitation.

3.4.2Secondary source of data

Secondary data is information that already exists which has been collected for other purposes Kumar (2003). Pannerslam (2005) indicates that secondary data exists within or outside the company, the data is collected and processed by others for purposes other than the problem at hand.This method saved time as the data was available and also it

was authentic as it was professionally gathered Creswell (2003). Secondary data used in this research was collected from the related literature which includes journals from recognised institutes, financial reporting text books and website of other renowned organizations like IMF, government reports, and prior researches that are related to this research to cover for the gap left by primary data. Secondary data was used because the data collected was reliable and relevant and useful as it was from reputable sources. Data was also cheap to gather. However some of the data obtained from the secondary sources was not easy to comprehend and to interpret due to technical jargon and other symbols used.

3.5 Research Instruments /Data Collecting Techniques

Research instruments are tools used to collect data that is applicable and relevant to accomplish research objectives. This study used interviews and questionnaires. Questionnaires were sent to the target population to collect first-hand information.

3.5.1 Interviews

The research used structured interviews which is a quantitative research method normally used in survey research. This was used so as to ensure that each interview is offered with exactly the same questions and in the same order so as to regulate and standardise results. This guarantees that answers can be reliably collected and comparisons can be made with confidence. The questions asked were in a standardised order and this had an advantage of that the interviewer did not deviate from interview schedule or probe beyond the answers received. Questions were based on structured or closed ended questions. Structured interviews are easy to interpret because a fixed set of closed questions are used and are easy to quantify thereby easy to test reliability. Structured interviews were chosen

because they were quick to conduct and with the limited time the interviewer had, this was the best method to use and a large sample was obtained and findings got the ability to be generalised to a large population.

3.5.2 Questionnaires

According to Zikmund (2000) a questionnaire is an instrument for collecting data through laid down questions. The questionnaire is filled by the respondent rather than the interviewer Skinner (1990). Questionnaires were prepared and distributed to the targeted population and the questionnaires were in the form of open and closed ended questions. These are structured questions that the researcher used. Under this category, the respondent give answers with the set parameters (Kumar, 2011). The use of the closed questions was quicker and easier for respondents to answer. The answers from different respondents were easier to compare, contrast and to analyse. The responses clarified questions or meaning of respondents. Open ended questions were also partly used. Open ended questions offer respondents the greater the chance to express them freely as there were not restricted to any certain response format. This technique was directed to those issues that the researcher deem to need or demand clear and well explained answers. The respondents provided information by filing in the blank space of the questionnaire in their own words (Kumar, 2011). Advantages of open ended questions to this research it permitted an unlimited number of possible solutions to each question. Quantitative research relies on quantifying responses to a predetermined set of questions, a lot of closed ended questions have to be asked so that responses will not vary and at the end of the study something comparable can be produced. The respondents gave answers in full detail, qualified and clarified their responses according their knowledge. . Ordinal and

interval data is much better than nominal data when conducting quantitative research
Thus, you should rely on using a Likert-type scale for many questions about attitudes and beliefs

The researcher used five Likert items with scores distributed as follows:

Table 3.2 Likert scale

Strongly Agree	Agree	Uncertain	Disagree	Strongly disagree
5	4	3	2	1

The researcher used Likert-scaling method as it produced questions, which were quick and economical to administer. They were easily adapted to most attitude measurement situations. They provided straight and trustworthy assessment of attitudes when scales are well structured.

3.6 Validity and Reliability of Research instruments

3.6.1 Validity

According to Saunders et al (2004) validity means that an instrument measures what it is supposed to measure correctly. It refers to the extent to which the research instruments, are measuring what they are intended to measure Panneerslvan (2005). The researcher gathered all the questionnaires and checked if they were correctly completed. Before the questionnaires were analysed all the questionnaires were checked for validity. To guarantee validity the researcher used short and precise questions that were not

ambiguous to the respondents. Validity of the results determines the credibility of the results. It ensures that data collected is free from error and bias. In this research all the information is crosschecked to access its validity. The researcher will consider a percentage of 50 to measure validity in line with what is asserted by Fielding (2008).

3.6.2 Reliability

Before distributing questionnaires, a pilot study was undertaken to ensure reliability and that the questionnaire was free from errors and removing confusing words. This process involved checking all questions for completeness and interviewing quality. This was done with the help of friends. Editing of questionnaires was also done which is the review of the questionnaire with the objective of increasing accuracy and precision.

3.7 Data Presentation and analysis tools

Data analysis is the refining of data to prepare it for application of logistical inferences. It refers to how the findings are presented Guercio (2003). Microsoft excel will be used in arranging data and making statistical analysis of responses received from respondents. Similarities will be calculated using percentages, mean standard deviation and mode. Various ways of presenting the data which gives a clear understanding of the findings including pie charts, graphs and tables are going to be used. Graphs gave a summary of gathered information and an analysis in words after every paragraph will be highlighted to make it more understandable. General purpose tables will also be used to record raw data from questionnaire and special purpose tables to facilitate analysis, interpretation and summarisation of selected material. Data collected will be checked for completeness, then summarized, coded and tabulated with assistance of statistical packages. Descriptive

statistics such as means, standard deviation and frequency distribution are going to be used to analyse the data. Data containing the study results will then be presented using pie charts, bar charts, graphs, percentages and frequency tables to ensure information gathered is clearly understood

3.8 Summary

This chapter identified the research methods and techniques in coming up with the target population, sampling methods and techniques used in data collection. Strengths and weaknesses of the techniques used were also discussed in this chapter. The reliability and validity of data collected enclosed the research methodology as a convincing agent to the accuracy of gathered data. The following chapter will look at the actual presentation, interpretation and analysis of the collected data.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.0 Introduction

This chapter focuses on the presentation of data, interpretation and analysis of findings using various statistical tools. Data collected from the field through the questionnaires administered to the respondents will be presented. This chapter will therefore seek to give answers to the research questions detailed in Chapter 1. Diagrams such as tables, pie charts and bar graphs will be used to aid the analysis. The data is in line with the objectives of the link between international accounting standards and the quality of financial reporting.

4.1 Response rate

Response rate is the number of participants who completed their questionnaire divided by the total number of participants who were asked to take part in the research. If the response rate is high the probability of major bias is low. The rate verifies openness of the results and is an important pointer of the assurance that can be found on research results. Fifteen questionnaires were distributed to the general accounting staff and five managers were interviewed so as to make a thorough research by asking for clarification where the researcher did not understand. Fifteen questionnaires were sent, they had closed ended questions and all of them were returned in time. Two interviews were conducted and all of them were successful.

4.1.1 Questionnaire response rate

Description	Responses	% Response
Questionnaires returned	15	100
Questionnaires unreturned	0	0
Total sent out	15	100

Table 4.1 Questionnaire Response Rate

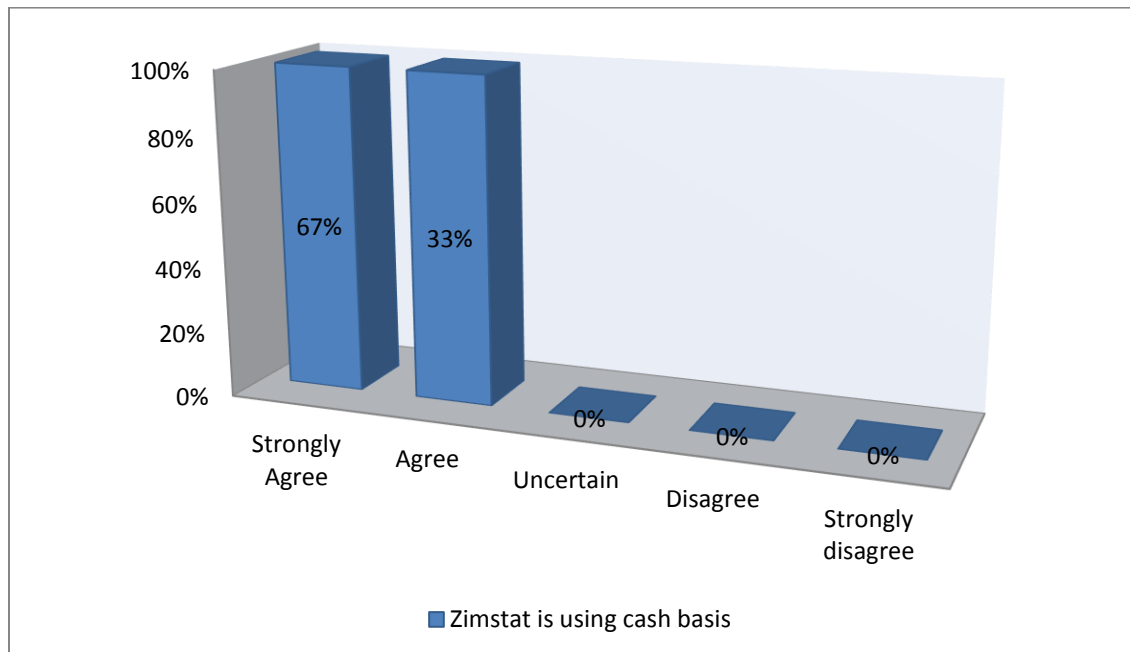
The researcher managed to get a remarkable responds from the questionnaires administered. 15 out of 15 (100%) returned the questionnaires in time completely filled. The researcher considered that the rate will not bring any significant difference to the study. The following table shows a summary of the response rate of questionnaires administered. This response rate is valid as it is supported by Fielding (2008) who said for the response rate to be valid it has to be at least 50%.

4.2 Findings and discussion

4.2.1 Is ZIMSTAT using cash basis of accounting

The aim of this question was to find out if ZIMSTAT uses the cash basis of accounting in preparing its financial statements.

Fig 4.1 Zimstat's use of cash basis.



Source; Raw data

From fig 4.1.1 above, of the 15 questionnaires sent out, it can be noted that 10 out of 15 which is 67% of the respondents strongly agreed and 5 out of 15 which is 33% agree

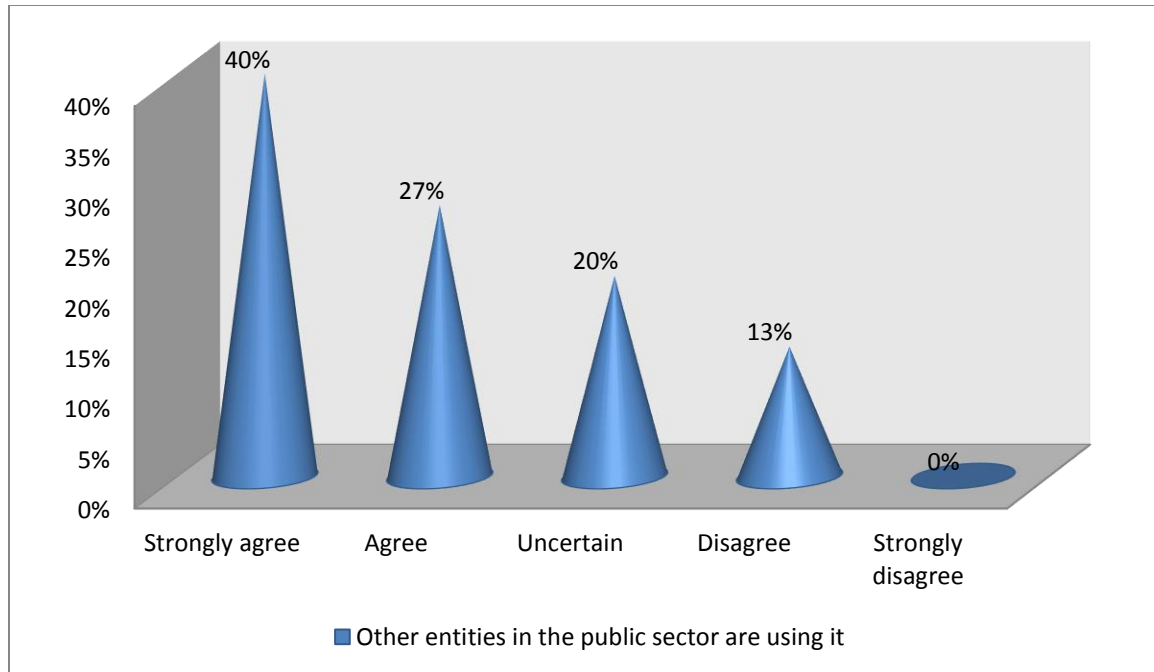
This shows that 15/15 agreed which means that ZIMSTAT is currently using the cash basis in the preparation of financial statements. This is in line with what was said by Hoek (2005) who postulated that the method is usually used in government which is basically income spending household. 0/15 disagreed. Which means that no one is of the opinion that the cash basis method is not being used by ZIMSTAT.

4.2.2 Reasons for using cash basis system

4.2.2.1 Other entities in the public sector are using it

The aim of this question was to confirm if the reason behind using the cash basis was that the other entities in the public sector uses it.

Fig 4.2 Other entities in the public sector are using it



(Source: Primary data).

From fig4.1.2 above 6/15 (40%) strongly agreed and 4/15(27%) agreed 3/15(20%) were uncertain and 2/15(13%) disagreed.

This means that 10/15(67%) agree that the reason behind the use of cash basis is because other entities in the public sector uses it and this is in support of what was said by Trang (2012) who said that most of the government entities uses the traditional cash basis because it is used by most entities in the public sector, not that it is the best practice to use.5/15(33%) disagree which means that they are not of the opinion that the reason

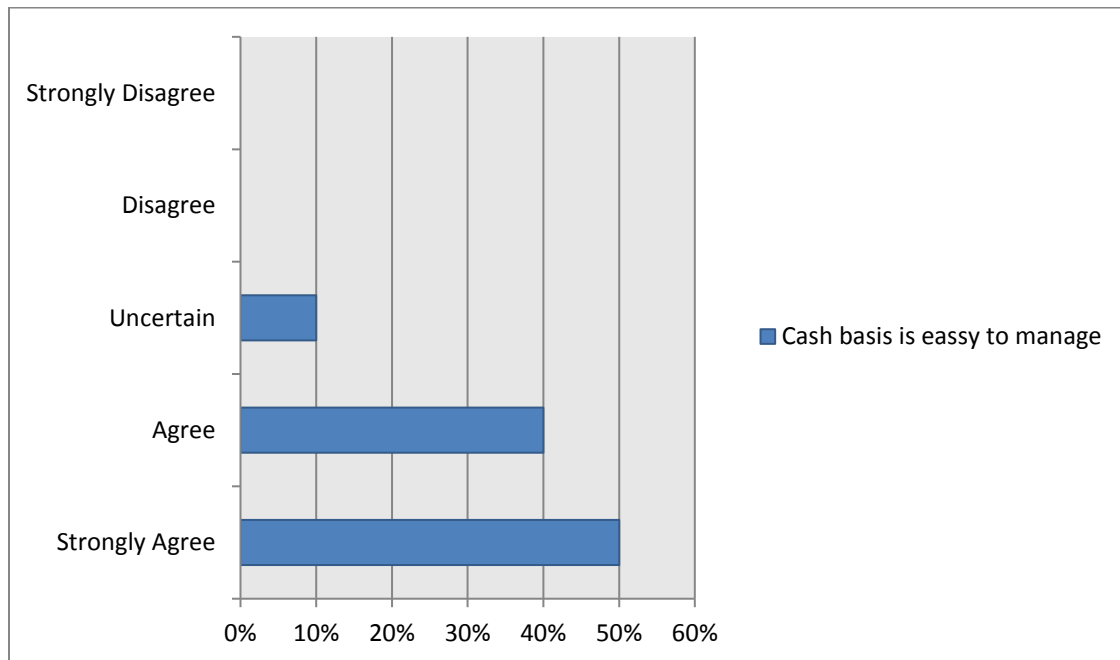
behind the use of cash basis is because other entities in the public sector are using it. This is in line with what was said by Rosen (2008) who cited that there are other reasons for using cash basis methods besides it being used by other entities in the public sector.

Using a modal of 10 as a measure of central tendency, it can be concluded that the respondents are in support of the notion that cash basis is used because other sectors in the public sector are using it.

4.2.2 Cash basis is easy to manage

The aim of this question was to confirm if the reason behind the use of cash basis is because it is easy to manage.

Fig4.3 Cash basis is easy to manage



Source (Primary data)

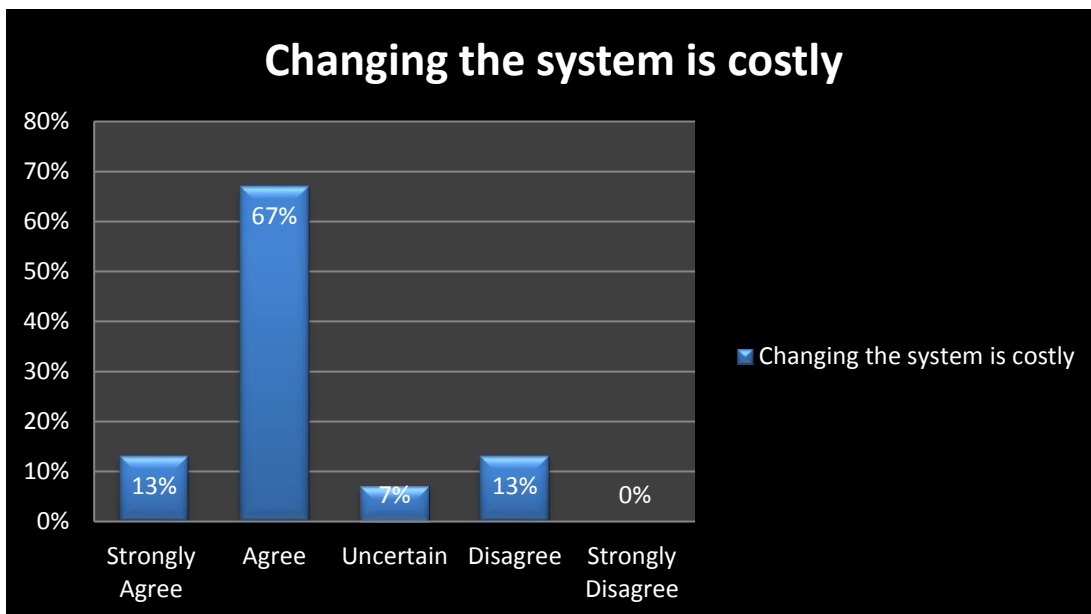
Fig 4.1.4 above, 7/15 (50%) strongly agree and 6/15(40%) agree. and 2 /15(10%) were uncertain and 0/15 disagreed.

This shows that 13/15(90%) agree which means that the reason behind using cash basis is that it is easy to manage. This is in line with Guthree (2009) who indicated that the cash basis accounting is used because of its simplicity and that it is easy to implement for accountants. However 2/15 (10%) disagreed which means that they do not support the notion that cash basis is easy to manage, This is in line with what was cited by Pina et al (2009) who argued that the system can be a bit complex if not properly managed.

4.2.2.1 Changing the system is costly

The aim of this question was to confirm if the reason behind the use of the traditional cash basis of accounting was because changing the system to another form of accounting system is costly.

Fig 4.4 Changing the system is costly



Source (Primary data)

From fig 4.1.5 above 2/15 (13%) strongly agree and 10/15 (67%) agreed.1/15 (7%) respondent was uncertain and 2/15 (13%) disagreed.

This means that 12/15 (80%) of the respondents agree that cash basis system is used because changing the system is costly. This is in line with what was said by Nasi and Steccolini(2008) who said that the shift the shift from government accounting requires extra funding hence most government agencies avoids changing the system.

3/15 (20%) disagree which means that thy do not support the perception that cash basis is used because changing the system is costly .This was supported by Chan (2010) who said that the cost of changing the accounting system should not be considered as they come with more benefits.

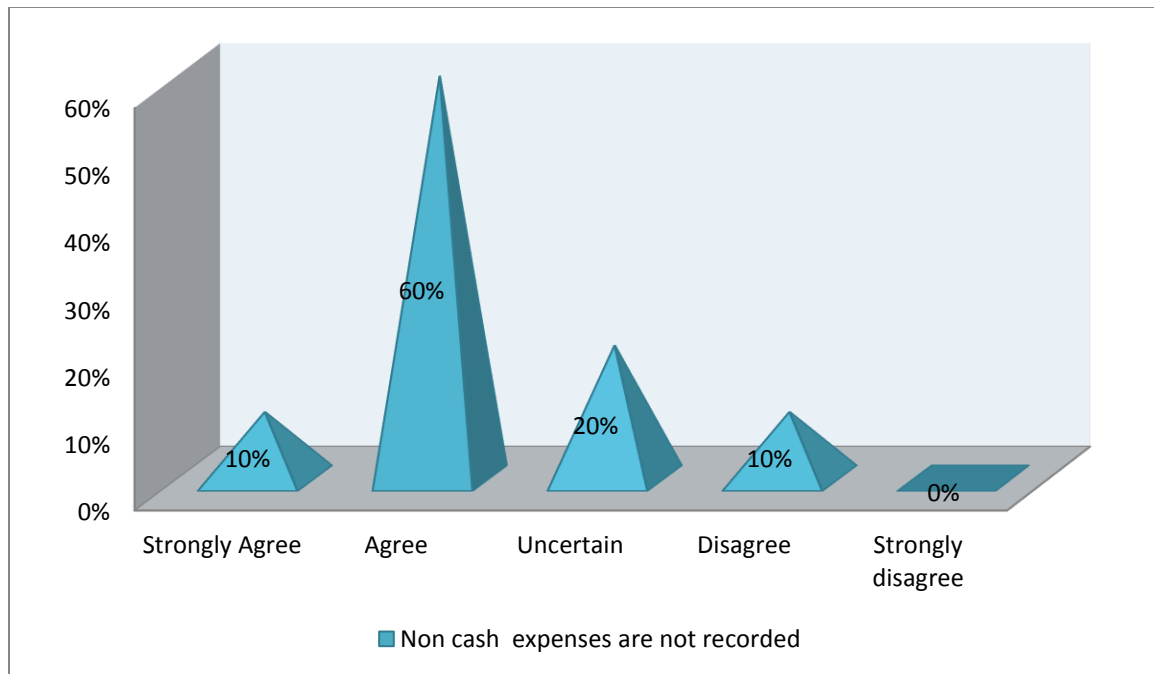
Using a mode of 10 respondents who agreed as a measure of central tendency it can be resolved cash based accounting is used because the changing process is costly.

Weakness of using the cash basis

4.2.2.2 Non-cash expenses are not recorded

The aim of this question was to confirm if using the cash basis of accounting have got a weakness of not including non-cash expenses.

Fig 4.5 Non-cash expenses are excluded



Source (primary data)

From fig 4.3.1 above 1/15 10% strongly agree and 9/15 (60%) agree, 3/15 (20%) were uncertain and 2/15 (10%) disagree.

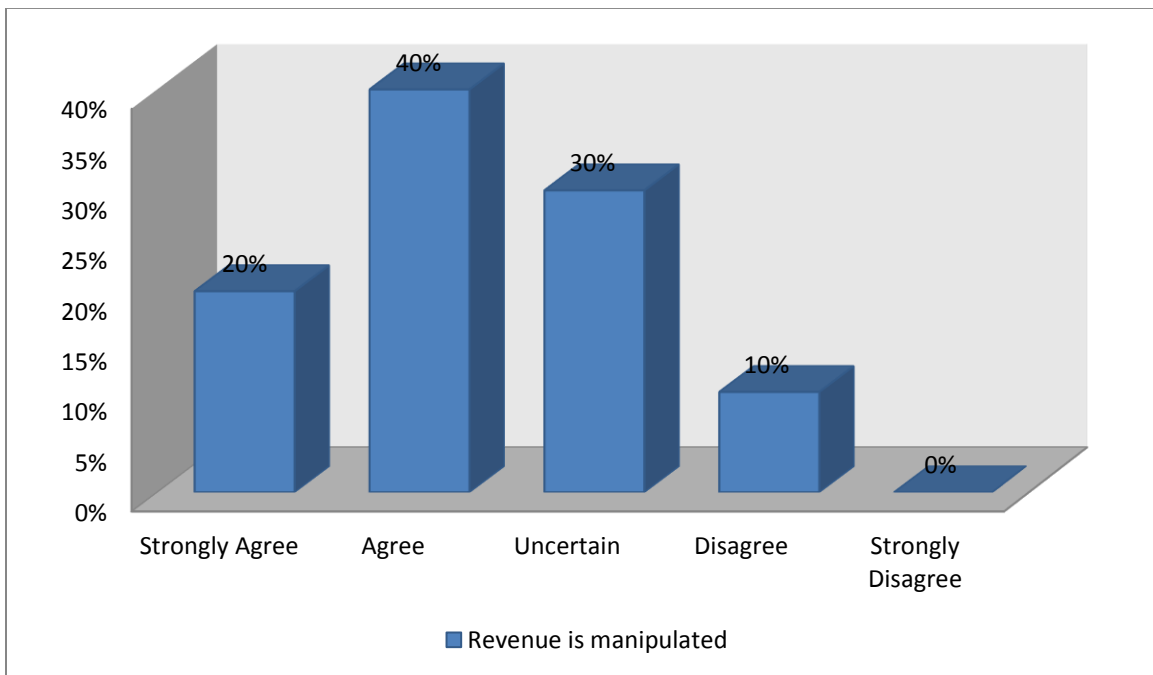
This means that 10/15 (70%) agree and this means that the weakness of using cash basis of accounting is that non cash expenditure are not recorded. This was supported by Kieso et al (2013) who said that noncash expense such as depreciation on plant assets, bad debt expense are ignored in the cash basis Therefore, financial statements shows very little information about financial performance and position of an entity.4/15 (30%) were uncertain if the use of cash basis excludes the noncash expenses.

Using a mean of 5 as a measure of central tendency it can be recognized that the respondents agreed that cash basis of accounting does not record non-cash expenses.

Revenue is manipulated

The intention of this question is to confirm if the use of cash basis of accounting system manipulates revenue of an entity.

Fig 4.6 Revenue is manipulated.



Source; primary data

From fig 4.3.2 above 3/15 (20%) respondents strongly agree and 6/15 (40%) agree. 3/15 (30%) were uncertain and 3/15 disagree, 0/15 strongly agreed.

This means that 9/15 (60%) agree that the cash basis method has got a weakness that revenue can be manipulated. These results are in line with the GAAP handbook (2014) which cited that it is possible under the cash method to amend reported earnings, and the IFRS is suspicious for the use of it though it still allowed. 6/15 (40%) disagree to the view that the use of cash basis accounting manipulates revenue.

Using a mean of 4 as a measure of significant trend, it can be recognized that the cash basis has got a disadvantage that when it is used revenue can be manipulated.

4.2.3.2 Information about the financial performance of the entity is not shown.

The question asked wanted to confirm if using the cash basis of accounting does not reveal the financial position of an entity,

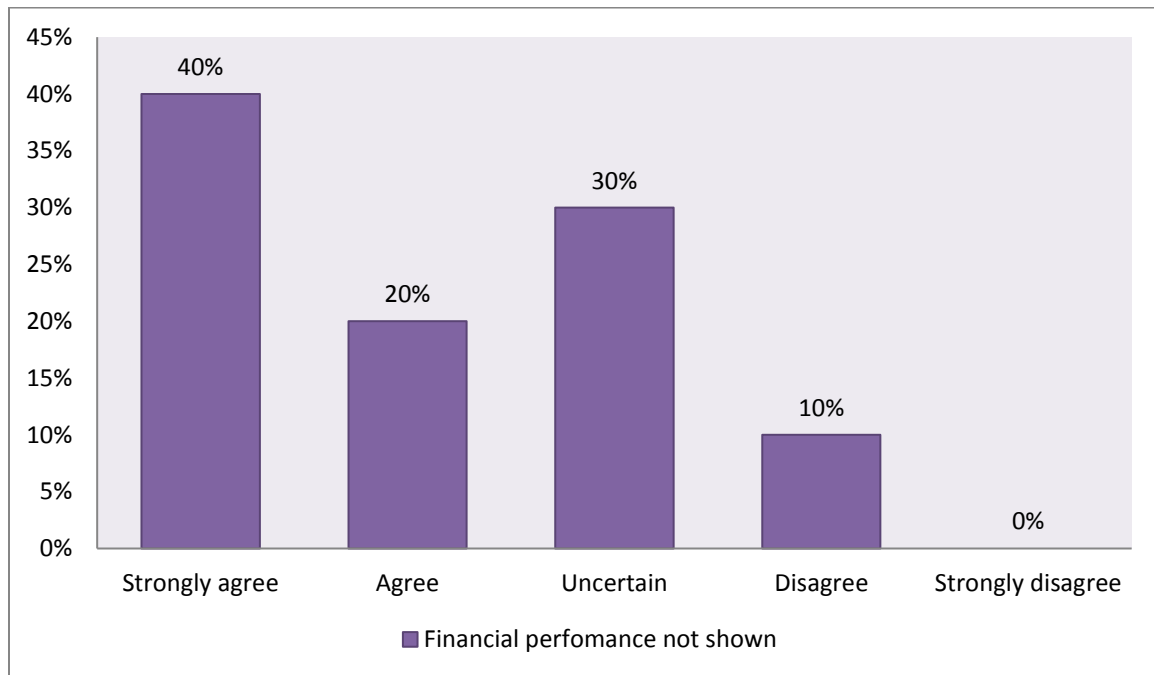


Fig 4.7 Financial performance is not shown.

Source (Primary data)

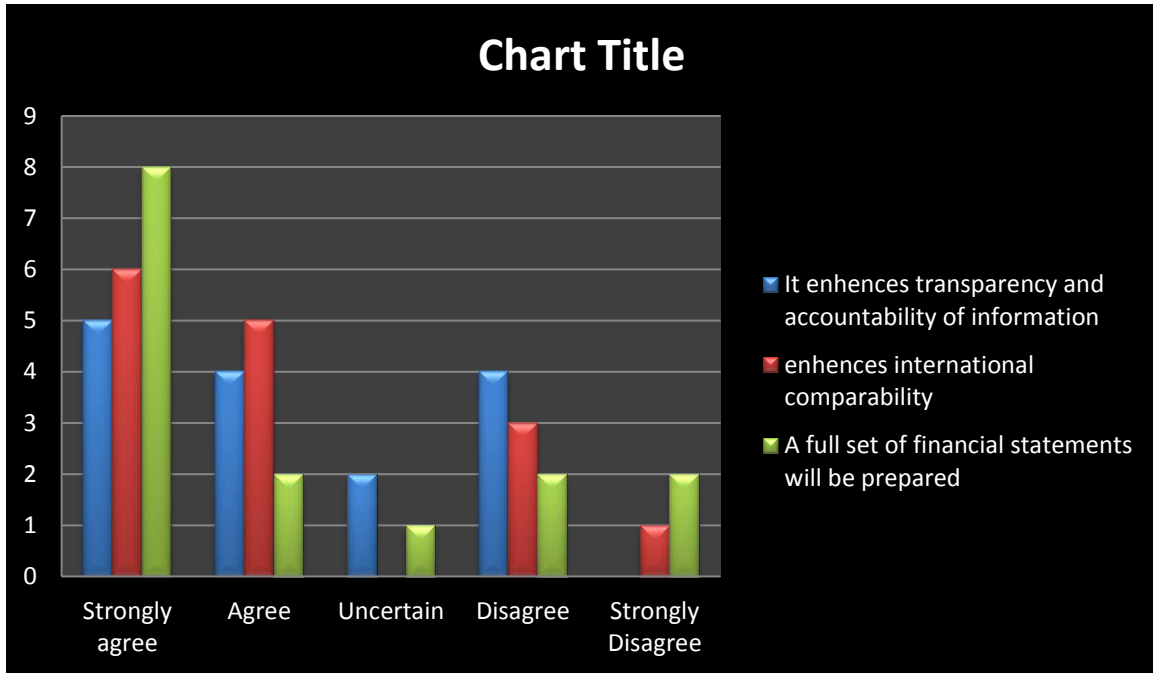
From fig 4.7 above, 6/15 (40%) strongly agree and 3/15 (20%) agree while 4/15 (30%) were uncertain and 2/15 (10%).

This means that 9/15 (60%) agree which means that when using the cash basis of accounting the financial performance of the entity is not shown in the financial statements. This is in line with what was said by Hoek (2009) who said that financial statements shows very little information about financial performance and position of an entity. In other words, financial reports are hardly used to make decisions. The accounting information does not give enough bases to evaluate if the government finances are sound and sustainable. 6/15 (40%) were uncertain if the use of cash basis does not reflect the does not reflect the financial position of the entity.

Using a modal of 9 as a measure of highest frequency it can be emphasised that the cash basis does not show the financial performance of the entity.

4.2.4 The following are value adding attributes International Accounting Standards have on the quality of financial reporting.

Fig 4.8 Benefits of international accounting standards



Source: primary data

4.2.4.1 It improves transparency and accountability

5/15 strongly agree and 4/15 agree and 4/15 disagree and 2/15 are uncertain .This means that 9/19 (60%) agrees which means that adopting IAS enhances accountability and transparency. This is supported by Creta et al (2008) who highlighted that The International Accounting Standards Board has established international standards to ensure more comparability and transparency and higher-quality financial statements on the other side.6/15 (40%) disagree that the use of IAS enhances accountability this is supported by Hope et al (2008) who argued that accounting standards on their own do not provide comparability of financial statements.

Using a mean of 5 as a measure of central tendency, it can be argued that using international accounting standards improves transparency and accountability of financial information.

It enhances international comparability

From the figure above 6/15 strongly agrees and 5/15 agrees and 4/15 disagrees and 1/15 strongly disagrees.

This means that 11/15 (73%) agree that international accounting standards enhances international comparability of financial information. This is in line with Barth et al (2010) who highlighted that the adoption of IFRS improves the comparability of a firm's results with those of US firms reporting under cash basis .On the other hand 5/15 disagree that the use of international accounting standards enhances international comparability. This is supported by Kiugu (2013) who asserted that there are still more factors to enhance the comparability other than the accounting standards.

Using 4 as a mean and a measure of central tendency it can be noted that the adoption of IASs enhances international comparability. ,

4.2.4.2 A full set of financial statements will be prepared

10 out of 15 respondents agree (8 strongly agree and 2 agree) which is 67% agree that when international standards are used a full set of financial statements will be prepared. However 5 out of 15 (1 uncertain, 2 disagree and 2 strongly disagree) 33% disagree to the notion that when IAS are adopted a full set of financial statements will be prepared.

Using a mode of a 8 as a measure of highest frequency, it can be noted that the results are in support of the view that when IAS are adopted ,a full set of financial statements will be produced. This is supported by Chan (2010) who asserted that the IAS allows for the

provision of comprehensive financial statements which measures the cash and other financial consequences of past transactions and events, including, but not limited to, budget execution.

Challenges in the implementation of IAS

4.2.4.3 IAS are complex to use

The aim of the question was to find out if the challenges of implementing IAS are that they are complex to use.

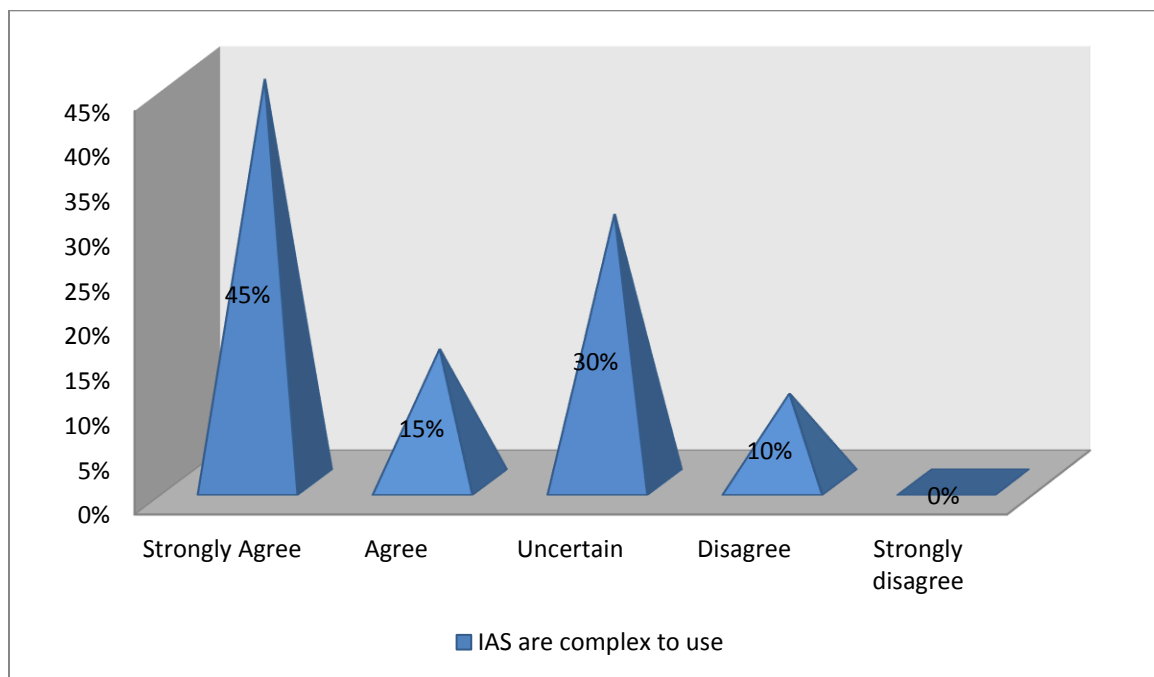


Figure 4.9 International accounting standards are complex

Source; primary data

In fig 5.1.1 above, 7/15 (45%) strongly agree and 2/15 (15%) agree and 4/15 (30%) were uncertain and 2/15 (10%) disagree.

It can be noted that 9/15 (60%) agree which means that the challenge of implementing international accounting standards is that they are complex to use. This is supported by Daske et al cited in Chapter 2 who said that IAS increases the difficulty of annual financial reports, subsequently leading to more work and continuous revision of international standards leads to confusion about the applicable standard.

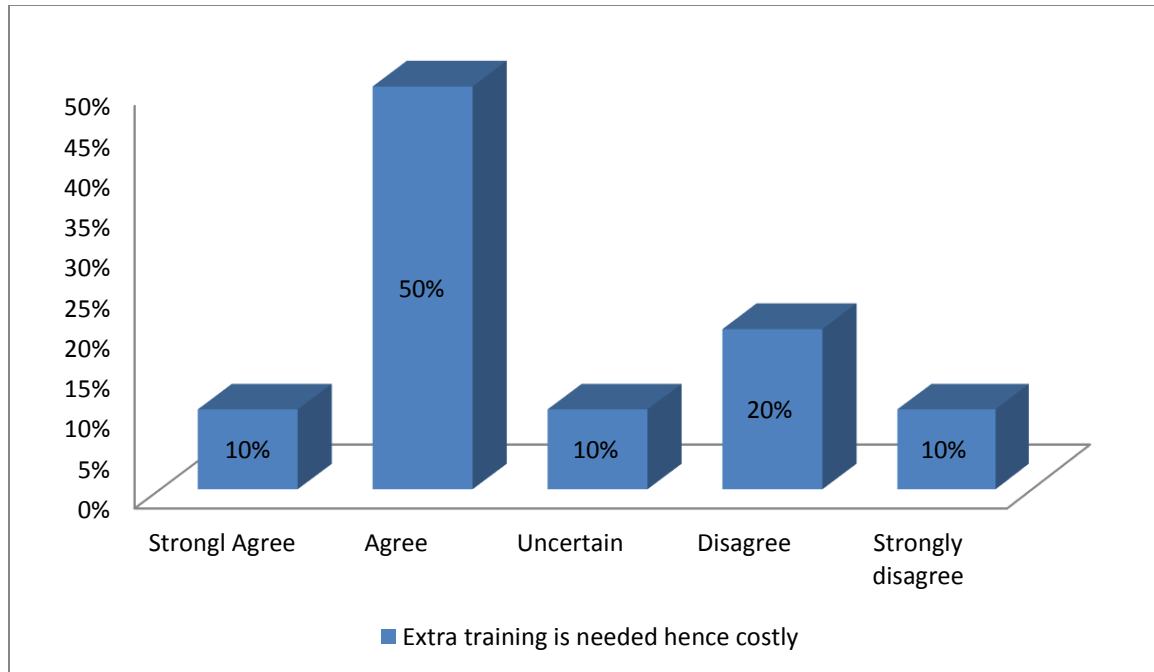
6/15 disagree which means that they do not go with the idea that international standards are complex to use. This is supported by Kerry (2009) who said that IAS is not complex to use, they just require commitment from management.

A mode of 7 respondents as a measure of highest frequency indicates that the challenge of implementing international accounting standards in a public sector is that they are complex to use.

4.2.4.4 Extra training needed hence costly.

The researcher wanted to confirm if international accounting standards need extra training hence they will be costly to implement.

Fig 4.10 IAS requires training hence they are costly.



Source; primary data

From the above graph, 2/15 (10%) strongly agree and 8/15 (50%) agree, 1/15 (10%) was uncertain and 2 /15 (20%) disagree 1/15 (10%) strongly disagree.

From the above it can be noted that 10/15 (60%) agrees which means that when IAS are to be used extra training is needed hence it is costly. This is supported by Kiugu (2008) cited in the literature review who said that first time implementation costs are incurred in the form of staff training, internal controls, information systems and terms of contracts involving financial measures.5/15 (40%) do not agree with the idea that IAS are costly,

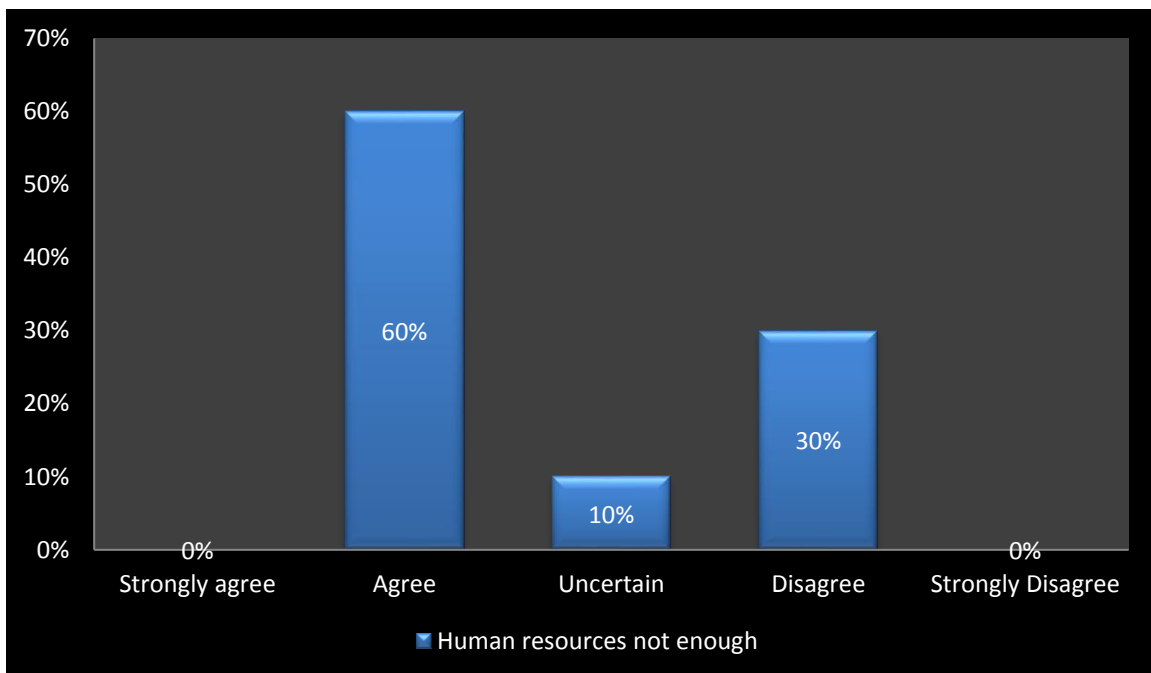
this is supported by Pina and Yetano (2009) who mentioned that the costs of implementing IAS for the first time should not be considered as they are significant.

Using a frequency of 10 as a measure of central tendency it can be recognized that IAS implementation is costly.

4.2.4.5 Human resources not available enough to understand and follow IAS

The aim of this question was to ask if the government does not have enough human resources to understand and follow international accounting standards

Fig 4.11 Unavailability of human resources



Source: primary data

From fig 4.11 above 0 /15 (0%) strongly agree and 9/15 (60%) agree and 2 /15 (10%) were uncertain and 4/15 (30%) disagree which is 40% disagree.

This shows that 9/15 (60%) agree which means that the human resources available in government is not enough to understand and follow international accounting standards. This is in line with what was postulated by Creta et al (2011) who cited that the government as a user of these standards will therefore require undertaking massive capacity building to enlighten its accountants on IAS. This will be a challenge both in terms of capacity building costs and the required change management issues from traditional cash basis.

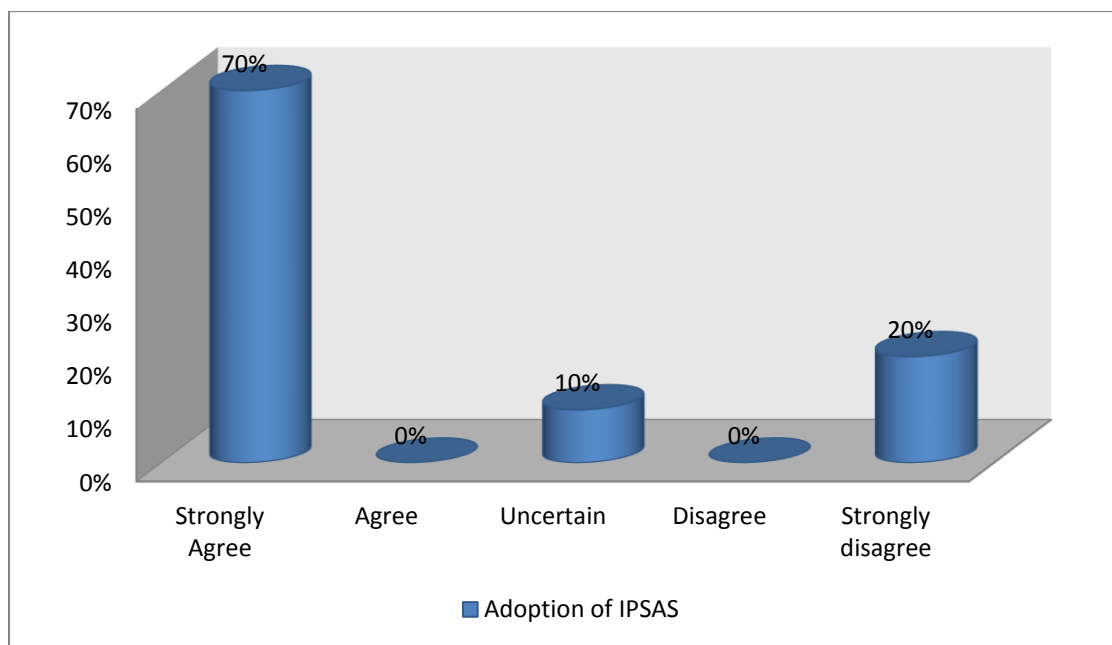
The findings implies that the modal which is 60% of the respondents agreed that the human resources is not enough to understand and follow IAS and this is a challenge in the implementation of IAS in the private sector.

4.2.5 Best practice in preparation of financial statements.

4.2.5.1 Adopt IPSAS

The researcher wanted to confirm if the adoption of international accounting standards can be a best practice in the preparation of financial statements in a public sector.

Fig 4.12 Adoption of IPSAS.



Source; primary data

From the fig4.12 above 11/15 (70%) strongly agree and 0/15 (0%) agree 1 /15 (10%) was uncertain and 3 /15 (20%) strongly disagree and 0/15 (0%) disagree.

It can be noted that from the 11/15 (70%) agree which means that the best practice in public sector financial reporting is the adoption of IPSAS. This is in line with what was postulated by Subramanian (2008) who said that studies, recommendations, and projects conducted by international financial institutions have forced the countries involved to

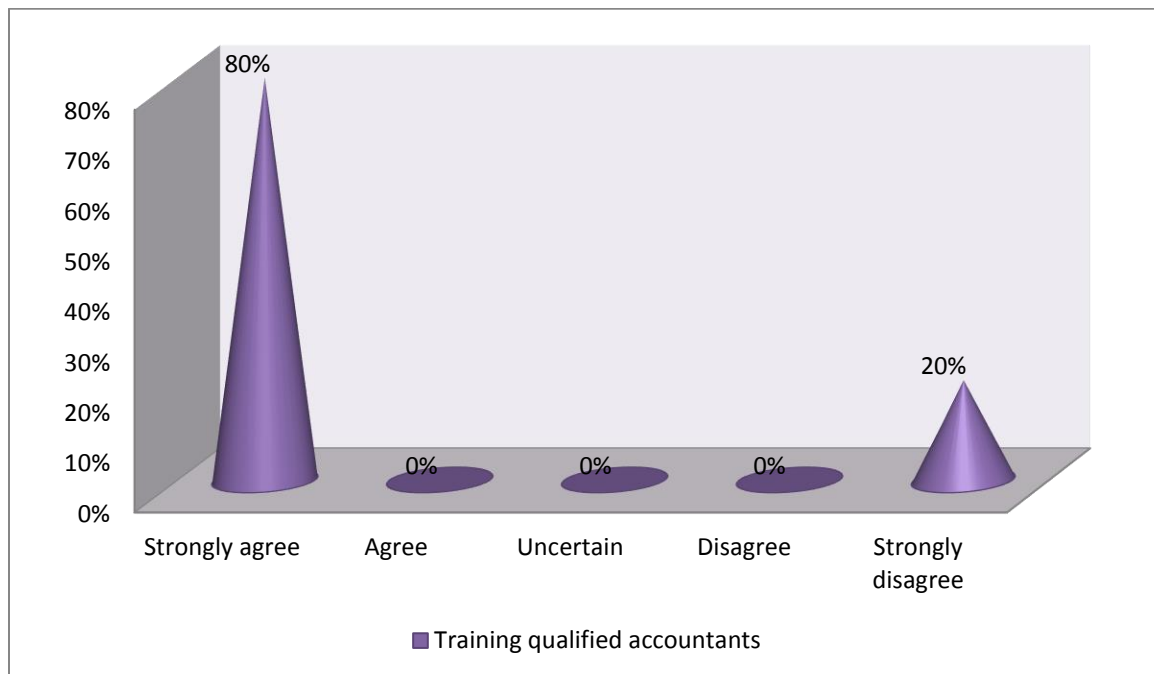
undertake a move in the IPASs direction. 4/15 (30%) disagree which means that they do not support the view that adopting IPSAS is the best practice in financial reporting quality. This is supported by Zaman (2005) who said that IPSAS may not be the best in government accounting as there are other easier methods of doing financial reporting in government like simple using the accruals method.

Using the highest frequency of 11 it can be concluded that it is of benefit to adopt IPSAS in the public sector.

Training highly qualified accountants in the public sector

The aim of this question was to confirm if training highly qualified accountants in the public sector improves the quality of financial reporting.

Fig 4.13 Training qualified accountants.



Source: primary data

From the fig 4.13 above 12 out of 15 respondents which are 80 % strongly agree and 3 out of 15 respondents which are 20% strongly disagree that the government should train highly qualified accountants as to help and increase the quality of financial reports.

It can be noted that 80% agree which means that training highly qualified accountants in government is the best practice. These findings are supported by CHAN (2011) who mentioned that training accountants on IPSASs could raise the prestige of government accountants, who are often regarded more as civil servant than accredited professionals like certified accountants. However it also can be noted that 20% disagreed which means that they are not with the idea that training is necessary for accounting quality to be improved in government. This is supported by Shevlin and Wellie (2011) who cited that it is unnecessary to train accountants in the public sector as this may increase costs however the government can use the present system they have efficiently.

4.3 INTERVIEW ANALYSIS AND PRESENTATION

4.3.1 Is Zimstat using the cash basis accounting?

From the 2 interviews conducted, all of the respondents interviewed were in support of the question asked. This means that 100% of the respondents agreed that Zimstat is using the cash based system of accounting in the preparation of financial statements which is supported by Chan (2011) who said that this is the best system to use in government.

4.3.2 In relation to financial reporting quality do you think adopting IAS can reduce the problems the company is facing using the cash basis?

The finance manager agreed that IAS improves the quality of financial statements. This is in line with Christensen et al (2008) who supported the above in his research in which his results were positive, that is firms that adopted IFRS experienced an increase in the quality of their financial reports. The principal accountant on the other hand disagreed to the notion that IAS improves the quality of financial reports. This is supported by Barth et al (2008) cited in Chapter 2 who) also noted two reasons why the adoption of IFRS can diminish accounting quality. First, IFRS could eliminate accounting alternatives that are most appropriate for communicating the fundamental economics of a business thus forcing managers of these firms to use less appropriate alternatives, thus resulting in a reduction in accounting quality. Secondly, because IFRS are principles-based, they inherently lack detailed implementation regulation and thus afford managers greater flexibility (Langmead and Soroosh 2009).

4.3.3 Chief financial Officers can manipulate IAS?

From the interview findings, 100 % agreed that the Chief financial officers can manipulate international accounting standards; they mentioned effects that the manipulation can have on the quality of financial statements. The interviewee said that revenue may be manipulated as a result of improper application of IPSAS. This was supported by Biscorf et al (2008) who cited that CFOs may overstate revenue by inflating sales. This can be achieved by entering fictitious sales or by entering a sale before the revenue is earned actually in the financial statements.

4.3.4 What are the challenges in implementing international accounting standards?

From the interviews conducted, both of the interviewee indicated that challenges may rise in the form of

- a) Big implementation costs of IPSAS, 1 out of 5 argued that it is a minor challenge while the rest said it is a big obstacle.
- b) Accounting information system not capable of making IPSAS possible in the public sector, 3 thought that it is not an obstacle at all while 2 said that it's a huge challenge.

Overall the results of the challenges were more aligned to the implementation cost though of the interviewees mentioned those human resources available is inadequate. This is supported by Dask et al (2009) who cited that lack of expertise among corporate accountants who find it challenging to prepare financial statement according to the international standards.

4.4 Summary

The research findings from chapter three were presented for analysis. The questionnaires were 100% successful, and the interviews were wholly subscribed with 100% success rate. The findings are presented question by question under the broad headings in the sub research questions. Data was presented in tables, graphs and some on pie charts. The next chapter will focus on the conclusions and recommendations.

CHAPTER 5

RESEARCH CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter comments on the results of the study in relation to the objectives and the extent to which they were achieved. It summarises the highlights of the research and conclusions are made regarding the extent to which the findings conforms with the other findings by other researchers on the link between international accounting standards and the quality of financial reporting. This chapter sums up recommendations to the intended beneficiaries and also suggested areas for further research are given.

5.1 Executive summary

Chapter one introduced the problem of the study which is that the organisation's financial statements have not been recommended by both the Auditor General and other users for the past 3 years. The researcher highlighted that because of this the quality of the financial reporting are questionable. The main research question was addressed which is to research if there is a positive relationship between international accounting standards and the quality of financial reporting. The chapter went on to reveal the gap that is in the previous literature which is mostly private entity based and that the research was to be extended to the public sector.

Chapter two reviewed literature by other authors basing on the research objectives in Chapter1. It was however evident from the literature that there is a positive relationship between IAS and the quality of financial reporting .The current literature that was mainly private sector based was linked to the public sector and linked to the organisation under study.

Chapter three highlighted that the research uses quantitative methodology using instruments namely interviews and questionnaires .Different documents to be analysed including articles, journal, minutes of meetings and the AG' reports were cited. The reliability and validity of data collected enclosed the research methodology as a convincing agent to the accuracy of gathered data.

In chapter four, the research findings from chapter three are presented for analysis. The questionnaires were 100% successful, and the interviews were wholly subscribed with 100% success rate. The findings are presented question by question under the broad headings in the sub research questions. Data was presented in tables, graphs and some on pie charts.

5.2 Major Research findings

This section presents the conclusions of the research study. The conclusions are based on the findings from the various tests that were undertaken during the research period. Hereunder is an outline of major findings in this research.

- It was concluded that the Zimbabwe national statistical agency uses the cash basis of accounting which has got its strength and weaknesses and that the weaknesses mostly outweigh the strengths. The weaknesses of cash basis include that it does

not provide full financial disclosures and incomplete financial records are maintained. It also fails to keep track of the levels and changes in assets, liabilities, revenues and expenditure relative to budgeted amounts.

- Overall results indicated that international accounting standards have got a positive relationship with the quality of financial reporting. Various factors were identified that were used to measure the accounting standards and they had a positive influence in the quality of financial information. Production of a full set of financial statements, reliability, comparability, understandability and timeliness was used to measure the quality of financial reporting and they showed a positive relationship. The results indicated that IPSAS has got many advantages to the government accounting including providing financial position and performance, meeting requirements of international financial organisation or sponsors such as WB and ADB, Other advantages are that they improve accountability and transparency for government resources being a benchmark for evaluating and improving government accounting and public financial management, implementing NPM reforms.
- From the finding of this research it was concluded that implementing IPSAS comes up with challenges, the challenges that arose from this research included that they are costly, calls for extra training, accounting standards are complex on their own and that implementing standards is associated with vocabulary

communication problems since it is an English language standard. Thus this shows that ZIMSTAT encounters obstacles affecting level of application.

- IPSAS are associated with costs of implementation, shortage of high qualified and professional accountants, and the not good enough government IT-accounting system. The shortage of trained human resources is the biggest challenge.
- From the research findings, it was concluded that the best practice in preparing financial reports is implementing IASs. This was recommended as the best practice in public sector accounting as many other financial institutions are supporting it.

5.3 Recommendations.

The above findings have implications for the quality of financial reporting by Zimbabwe National Statistical Agency. Given that the AG's reports (2008-2011) lamented the quality of financial reporting by government agencies. The researcher recommends that

- ZIMSTAT should consider adopting IPSAS in preparing its financial statements. They can start of by choosing an appropriate level of accrual accounting before full implementation of IPSAS. There are several ways that the accrual based information can be reported in financial statements, They range from simple lists of liabilities, assets, expenditure and revenue to financial statements that shows

the financial position, changes in the financial position cash flows and operating results. They will have to take into account cost considerations, the need to accumulate experience and also secure political support. The accruals system requires a comprehensive registration of assets first and sound cost management systems. As such Zimstat should apply accrual based accounting gradually and then later implement a dual accounting system that is combine it with IPSAS

- Since many OECD countries have shifted their accounting systems from cash to accrual basis, the change is only feasible in the context of adopting wider public sector management reforms. Countries which have been creating administrative units in government that conform to private competitive businesses have got a high degree of Accrual accounting. Also agencies with a high degree of managerial decentralisation also show developments towards IPSAS implementation. Adoption of full accrual IPSAS is only possible in developed countries. Although the government accounting cannot apply the IPSAS with a high level as the developed countries, in order to feasibly apply the IPSAS, the government should implement public sector management under New Public Management principles. Northern countries are generally more advanced in NPM style reforms and they are ahead in the implementation of IPSAS. The move to accrual accounting is normally part of a bigger set of their reforms. The implementation reforms increases delegation in the public sector and departments are governed so as to provide a service for citizens rather than to follow the laid down rules. This increases openness of public sector in terms of performance

measurement and reporting. Zimbabwe National Statistical Agency thereby needs to improve the financial management mechanism and policy to enable accrual based accounting and IPSAS to be implemented. This can be done by firstly autonomy and discretion should be given to spending units so that each spending unit manager manages their own units. Secondly budget allocations should be improved so as to provide information of the outputs and outcome influences and recognize short term assets and liabilities and even long term ones which are future obligations and effects on transactions.

- Since public sector accountants are used to cash based accounting, when moving to IPSAS which is a new method that requires accountants and many skills such as knowledge, there is need to train high qualified and professional accountants. Furthermore the company needs to build and also develop an integrated financial management information system together with information technology, to gain financial information accurately, promptly and timely.

5.4 Suggestions for further studies

Future research may wish to extend the research to other government ministries to see if the results are similar. It would also be important for future researches to carry out such studies over a number of years

5.5 Summary

In the light of the findings, applying the above recommendations the quality of financial reporting may be improved and also the number of accounts being qualified by the AG

may be reduced. The improvement in the quality of financial reports produced by ZIMSTAT is important as it will demonstrate public accountability to its stakeholders whose support is vital in achieving its objectives.

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APPENDIX A:
COVER LETTER



Midlands State University
P Bag 9055
GWERU

19 September 2014

To whom it may concern

REF: QUESTIONNAIRE TO SOLICIT FOR INFORMATION

My name is Judith Shumba, a final year student at the Midlands State University, doing a Bachelor of Commerce Accounting Honors Degree.

In partial fulfilment of the programme we are required to carry out a research project. The title of my project is: **The link between international Accounting Standards and the Quality of Financial Reporting.**

All information obtained will be treated with strict privacy and confidentiality and will be used for academic purposes only. Anonymity shall be maintained at all levels. Please assist by answering the below questions. There is no or right answer.

Your positive response on this is greatly appreciated.

Yours faithfully

Judith Shumba

Registration number R111588Q

APPENDIX B: QUESTIONNAIRE

Instructions

1. Do not write your name on the questionnaire.
2. Show response by ticking the respective answer box and fill in the relevant spaces provided.

Questions

Q1. The following are some of the reasons Zimstat uses cash basis of accounting

No.	Item	Strongly Agree	Agree	Unsure	Disagree	Strongly do not agree
i.	Other entities in the public sector uses it					
ii.	Changing the system is costly					
iii.	Cash basis is easy to manage					

Q2. Weaknesses of the cash basis accounting

No.	Item	Strongly Agree	Agree	Unsure	Disagree	Strongly do not agree
i.	Non-cash expenses are not recorded					
ii.	Revenue can be					

	manipulated					
iii.	No information about the financial performance of the entity is shown.					

Q3. Management is aware that International Accounting Standards can be used in the preparation of financial reports.

Strongly agree	Agree	Unsure	Disagree	Strongly do not agree
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Q4. The following are value adding attributes of using International accounting standards on the quality of financial reporting.

No.	Item	Strongly Agree	Agree	Unsure	Disagree	Strongly do not agree
i.	IPSAS enhance information transparency and accountability of government to citizens, voters, their representatives, and the general public.					
ii.	IPSAS enhance					

	(inter)national comparability of financial information.					
iii.	A full set of financial statements will be prepared					

Q5. Challenges that is associated with the implementation of International accounting standards in a public sector

No.	Item	Strongly Agree	Agree	Unsure	Disagree	Strongly do not agree
i.	International Accounting Standards are complex to use					
ii.	IAS requires extra training hence it is costly					
iii.	Human resources not available enough to understand and follow IAS					

Q6. Best practice in the preparation of financial statements

No.	Item	Strongly Agree	Agree	Unsure	Disagree	Strongly do not agree
i.	Using IPSAS as they are supported by financial sponsors such as WB					
ii.	Training high qualified and professional Accountants in public sector.					

Appendix C Interview Guide



Research Project Interview Guide

Interview Guide

Questions

1. Is Zimstat using the cash basis accounting?
2. In relation to financial reporting quality do you think adopting IAS can reduce the problems the company is facing using the cash basis?
3. Chief financial Officers can manipulate IAS
If yes what can be the effects of manipulating international accounting standards on the quality of financial reporting
4. What are the challenges in implementing international accounting standards?