The Influence of IPSAS 3 Adoption on Accounting Information Disclosure

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ABSTRACT

The need to enhance financial reporting in the public sector has led many countries to adopt international standards such as IPSAS to promote transparency and global comparability. This conceptual paper evaluated how the adoption of IPSAS 3 influences accounting information disclosure in public sector entities. Employing a qualitative research approach, the study conducts a theoretical analysis based on secondary data drawn from scholarly literature, accounting standards, and government documents. Rather than collecting new empirical data, the study synthesizes existing research to develop insights into IPSAS 3's impact. The methodology involved a systematic literature review and thematic analysis, focusing on publications from 2015 to 2024. Key databases such as Scopus, Google Scholar, JSTOR, and ScienceDirect were searched using terms like "IPSAS 3" and "public sector financial reporting." Through critical examination, the paper identified recurring themes and conceptual linkages between IPSAS 3 components: disclosures of accounting policies, changes in estimates, error corrections and improved accounting information disclosure. The analysis revealed that structured implementation of IPSAS 3 enhances the transparency, consistency, and reliability of financial statements. Findings are consistent with prior research conducted in countries such as Libya, Nigeria, Indonesia, Morocco, *and Greece, confirming that IPSAS adoption supports better governance and accountability in the public sector. In conclusion, IPSAS 3 significantly strengthens financial disclosure practices, and it is recommended that public sector financial officers be regularly trained to ensure accurate and effective application of the standard. This contributes to improved financial oversight and alignment with international reporting expectations.*

Keywords: *Accounting information disclosure, IPSAS 3 adoption, disclosures of accounting policies, changes in estimates, error corrections and improved accounting information disclosure.*

INTRODUCTION

In the contemporary landscape of public sector financial management, the adoption of International Public Sector Accounting Standards (IPSAS) represents a pivotal paradigm shift towards enhancing transparency, accountability, and the overall quality of financial reporting (Adewara et al., 2024; Awotomilusi et al., 2023). Among the significant standards within the IPSAS framework, IPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors," stands out as a crucial benchmark influencing the disclosure practices of public sector entities (IMRPSA, 2008). This study delves into the intricate dynamics surrounding the adoption of IPSAS 3 and its consequential impact on accounting information disclosure in the public sectors of two prominent African nations.

The imperative to improve financial reporting in the public sector has gained momentum globally, with many nations embracing international standards to align their accounting practices with globally recognized benchmarks (Akinadewo et al., 2023; Egolum & Ndum, 2021). This study is motivated by the need to empirically assess and compare the outcomes of IPSAS 3 adoption in two diverse yet economically significant African countries. Nigeria and South Africa serve as compelling case studies due to their distinct socio-economic contexts, governance structures, and levels of financial development (Emmanuel et al., 2023).

The central objective of this research was to scrutinize the extent to which the adoption of IPSAS 3 has influenced accounting information disclosure practices within the public sector. By conducting a comparative analysis, this study seeks to identify variations in the implementation and impact of IPSAS 3 across these nations, shedding light on potential factors that may shape the effectiveness of this adoption in different contexts.

Through an interdisciplinary approach that integrates accounting, public administration, and governance perspectives, this research aims to contribute valuable insights to both academia and practitioners. As governments strive to foster transparency, accountability, and responsible fiscal management, understanding the implications of adopting international accounting standards becomes imperative. The findings of this study are expected to inform policy discussions, guide future research endeavors, and provide practical recommendations for policymakers, standard-setting bodies, and public sector practitioners in African countries, and beyond.

LITERATURE REVIEW

Conceptual Review

This section provides definitions on the concepts used in this study.

Accounting Information Disclosure

Accounting Information Disclosure refers to the practice of making relevant financial and non-financial information accessible and transparent to various stakeholders (Falana et al., 2023; Raji & Dagunduro, 2024). In the context of accounting, disclosure involves providing details about a company's or organization's financial position, performance, and other key aspects of its operations (Ahmad et al., 2023). This information is typically communicated through financial statements, reports, and accompanying notes (Akinadewo et al., 2024). The purpose of accounting information disclosure is to enable users, such as investors, creditors, regulators, and the general public, to make informed decisions about the entity's financial health and performance (Awotomilusi et al., 2022; Igbekoyi et al., 2023). Transparent and comprehensive disclosure is essential for building trust and confidence among stakeholders, as it allows them to assess the entity's financial soundness, risk exposure, and overall business activities (Awotomilusi et al., 2024; Bui et al., 2023).

Accounting information disclosure encompasses a wide range of details, including but not limited to: These include the balance sheet, income statement, and cash flow statement, providing a snapshot of the entity's financial position and performance (Akinadewo et al., 2023; Javier & Lourdes, 2021). Accounting information disclosure plays a crucial role in fostering transparency, accountability, and good governance, facilitating the assessment of an entity's financial health and aiding stakeholders in making informed decisions (Awodiran et al., 2024; Sunny, 2021).

International Public Sector Accounting Standard (IPSAS 3)

IPSAS 3, titled "Accounting Policies, Changes in Accounting Estimates and Errors," is a standard issued by the International Public Sector Accounting Standards Board (IPSASB). This standard outlines the principles and guidelines governing the selection, application, and disclosure of accounting policies in the public sector (Vincent, 2022). It also guides accounting for changes in accounting estimates and handling errors in financial statements. IPSAS 3 emphasizes the importance of transparency and accountability in financial reporting. Public sector entities are required to disclose changes in accounting policies, changes in accounting estimates, and the correction of errors in their financial statements (Olympia & John, 2022). By providing clear guidance on these aspects, IPSAS 3 aims to enhance the quality, consistency, and transparency of financial reporting in the public sector, enabling users to make informed decisions based on reliable and accurate financial information. It aligns with the broader objective of IPSAS, which is to improve the financial reporting of public sector entities worldwide (Okolocha & Odimmega, 2019).

Accounting Policies Disclosure

Accounting Policies Disclosure refers to the presentation and communication of an organization's chosen accounting methods, principles, and practices in its financial statements and related documents. These disclosures are essential for providing transparency and clarity about how financial transactions are recognized, measured, and reported in the entity's financial statements

(Vincent & Teerooven, 2022). The disclosure of accounting policies is a fundamental component of financial reporting, enabling users to understand the basis on which financial information is prepared.

The disclosure of accounting policies is crucial for financial statement users, including investors, creditors, analysts, and other stakeholders, as it enhances the understanding of the financial statements and facilitates meaningful comparisons between different entities. Transparent and comprehensive accounting policy disclosure contributes to the overall credibility and reliability of financial reporting (Efeeloo & Kenule, 2021). IPSAS 3 guides public sector entities in selecting appropriate accounting policies for the recognition and measurement of various elements in financial statements. The goal is to ensure consistency and comparability in financial reporting. The standard emphasizes the importance of consistency in applying accounting policies across reporting periods unless a change is justified. Any changes in accounting policies should be applied retrospectively unless it is impracticable to do so (El-Toby et al., 2023).

Changes in Accounting Estimates Disclosure

Changes in Accounting Estimates Disclosure refers to the communication of alterations made to the estimates used in financial reporting by an organization. Accounting estimates involve making judgments and approximations regarding various items, such as the useful life of assets, provisions for doubtful debts, and contingent liabilities (Ogunwale, 2022). When new information becomes available or circumstances change, it may be necessary to revise these estimates, and such changes should be disclosed in the financial statements. Changes in accounting estimates are generally applied prospectively, meaning they affect the current and future periods without adjusting the results of prior periods (Ogiriki et al., 2021).

Changes in accounting estimates are a natural part of financial reporting as conditions evolve, and entities gain more information over time. Transparent disclosure of these changes is essential for financial statement users to understand the dynamics of financial reporting and make informed decisions. It contributes to the overall reliability and credibility of an organization's financial statements. IPSAS 3 addresses the accounting treatment for changes in accounting estimates. Changes in estimates arise when new information becomes available, leading to a revision in the estimates used in prior periods (Muthupandian, 2014).

Correction of Errors Disclosure

Correction of Errors Disclosure refers to the communication of adjustments made to rectify significant errors in an organization's previously issued financial statements. Errors may arise due to mistakes, oversights, misinterpretations, or miscalculations in the application of accounting principles. When such errors are identified, it is imperative to correct them and communicate the corrections to users of the financial statements to ensure accuracy and reliability. The standard guides how to identify errors in financial statements (Mathew & Olabode, 2020). Errors can occur due to mistakes, oversights, or misinterpretations of facts. When errors are identified, IPSAS 3 requires their correction through retrospective application. This means that the prior period financial statements are restated to correct the error and provide users with accurate historical information (Maruf et al., 2019). Correction of errors is a crucial step in maintaining the integrity of financial reporting. Timely and transparent disclosure of error corrections enhances the reliability of financial statements, rebuilds stakeholder trust, and ensures that users have access to accurate and complete information for decision-making (El-Toby et al., 2022).

IPSAS 3 and Accounting Information Disclosure

IPSAS 3 plays a significant role in shaping accounting information disclosure practices in the public sector. The standard guides the selection and application of accounting policies, the accounting treatment for changes in accounting estimates, and the correction of errors in financial statements (Rasa & Greta, 2019). IPSAS 3 sets the framework for disclosing the accounting policies adopted by public sector entities. It emphasizes the importance of transparency in communicating the principles and methods used for recognizing, measuring, and presenting financial information. Public sector entities are required to disclose their significant accounting policies, including details based on measurement (historical cost, fair value, etc.) and any specific policies relevant to their operations (Ahmad et al., 2023).

IPSAS 3 guides how changes in accounting estimates should be handled. When there is a change in estimates, public sector entities are required to disclose the nature of the change, the reasons for the change, and its impact on the financial statements. This ensures that users of financial statements are informed about alterations in estimates and can better understand the reasoning behind such changes (Efeeloo & Kenule, 2021). In cases where errors are identified in financial statements, IPSAS 3 prescribes the correction of these errors. The standard requires public sector entities to disclose the nature of the error, the impact on financial statements, and the period(s) restated. The disclosure of error corrections enhances transparency, providing stakeholders with a clear picture of the adjustments made to rectify inaccuracies.

IPSAS 3 emphasizes the importance of consistency in applying accounting policies and changes in estimates across reporting periods. Consistency contributes to comparability, allowing users to analyze financial information over time (Javier & Lourdes, 2021). Public sector entities are encouraged to disclose any changes in accounting policies, estimates, or corrections of errors consistently to maintain the integrity and reliability of financial reporting. The principles outlined in IPSAS 3 are often reflected in the Management Discussion and Analysis (MD&A) section of financial reports. Management can provide additional context, explanations, and insights related to accounting policies, changes in estimates, and corrections of errors (Muthupandian, 2014). IPSAS 3 establishes a framework for transparent accounting policies, changes in estimates, and error corrections in the public sector. Adherence to these principles enhances the quality of accounting information disclosure, providing stakeholders with reliable and meaningful financial information for decision-making and accountability (Rasa & Greta, 2019).

Theoretical Framework

The study is grounded in Agency Theory, an economic and organizational framework initially developed by Stephen Ross and Barry Mitnick in 1973 and later popularized by Michael Jensen and William Meckling in 1976. Agency Theory examines relationships and conflicts of interest between principals (such as government entities) and agents (such as public sector managers). In this context, the theory is utilized to analyze how the adoption of IPSAS 3 functions as a mechanism to align the interests of various stakeholders, mitigate agency costs, and enhance accounting information disclosure in the public sector. Agency Theory posits that principals delegate tasks to agents, expecting them to act in the principal's best interests. However, there can be instances where agents prioritize their interests over those of the principals. IPSAS 3 adoption is considered a mechanism to address this agency problem within the public sector. By establishing standardized accounting policies and disclosure practices, IPSAS 3 is expected to enhance transparency and accountability, aligning the interests of public sector managers with those of government entities.

While the theoretical ideal scenario involves agents consistently acting in the best interest of principals, the study acknowledges that this is not always the case. The study recognizes that, despite the potential benefits of IPSAS 3 adoption in reducing agency costs and improving accounting information disclosure, there are associated challenges and costs. These challenges may include the complexity of implementation, resistance to change, and the need for ongoing monitoring and enforcement to ensure compliance with the standards. This study draws on Agency Theory to analyze the dynamics between principals and agents in the public sector, using IPSAS 3 adoption as a lens to examine how this standard influences the alignment of interests, reduces agency costs, and enhances accounting information disclosure. It recognizes the theory's insights into potential challenges and costs associated with implementing IPSAS 3 within the context of agency relationships in the public sector.

Empirical Review

Aboukhadeer et al. (2023) investigated the impact of corporate governance and IPSAS on the quality of accounting information in the Libyan government sector. Their study aimed to identify the significance of applying governance standards and IPSAS in influencing accounting information quality. The research involved members of accountants, non-audited members, internal auditors, board directors, and department heads in Libyan government entities. Data from 400 questionnaires were analyzed using SPSS and PLS-SEM. The findings revealed five latent variables related to ensuring sound governance, disclosure, responsibilities of the board of directors, preservation of stakeholders' rights, and fair equal treatment, which significantly explained the variance in the quality of accounting information among Libyan bank employees.

Juanda et al. (2023) conducted an analysis of local government accounting disclosure based on International Public Sector Accounting Standards (IPSAS) in Indonesia. The study aimed to investigate the impact of government openness, government financing, economic growth, audit opinion, and prior experience with International Financial Reporting Standards (IFRS) in the public sector on the level of local government accounting disclosure under IPSAS. The research covered the entire population of local governments in Indonesia from 2016 to 2020, with a sample size of 64 local governments selected based on specific criteria. Utilizing secondary data, the researchers employed multiple regression analysis to analyze the data. The findings revealed that government openness, previous adoption of IFRS in the public sector, and audit opinion significantly influenced the level of local government accounting disclosure under IPSAS. However, government financing and economic growth did not support the disclosure of financial statements based on IPSAS.

Awotomilusi et al. (2023) aimed to investigate the role of adherence to International Public Sector Accounting Standards (IPSAS) 23 in improving the efficient utilization of tax revenues in Ekiti State, Nigeria. The study utilized a survey design, with questionnaires distributed directly to Revenue Officers of the Ekiti State Internal Revenue Service (EKSIRS). The total population consisted of 428 revenue officers, and a census sampling method was employed, covering the entire population at 100%. Out of the distributed questionnaires, 311 were returned with completed responses. The collected data underwent analysis using both descriptive and inferential statistical techniques. The findings revealed that adherence to IPSAS 23 regulations, which encompassed revenue recognition, presentation, disclosure, and measurement, significantly predicted tax revenue redemption by the Ekiti State Government of Nigeria.

El-Randour et al. (2023) conducted investigative research on the role of control mechanisms in enhancing the reliability of public financial information in Morocco, particularly in the context of IPSAS adoption. The study aimed to evaluate the contribution of control mechanisms to the reliability of public financial and accounting information and proposed new guidelines to achieve higher transparency and reliability. Through empirical analysis, the research focused on two main approaches: studies examining control mechanisms related to the reliability of public accounting information and studies analyzing accounting practices in the context of IPSAS adoption. The research emphasized the importance of implementing effective control mechanisms to ensure reliable and comparable public financial information, both internally and internationally.

Gkouma and Filos (2022) assessed the impact of IPSAS on financial reporting and public management in Greece. Their study examined the implications of IPSAS adoption on financial reporting and public management in Greece, discussing anticipated benefits and challenges. The results indicated that Greece was in a premature stage regarding IPSAS adoption, with significant expected impacts on financial statements due to the gap between IPSAS accounting principles and current practices. While the move towards IPSAS had the potential to transform accounting and financial reporting practices in the public sector, implementation faced several challenges that needed to be addressed to realize these benefits.

Ogunwale et al. (2022) investigated the impact of organizational factors and the adoption of International Public Sector Accounting Standards (IPSAS) on the relevance of financial reporting in the Nigerian public sector. The study aimed to assess how organizational factors and IPSAS adoption influenced the relevance of financial reporting in Nigerian public institutions. Data were collected from the audited financial statements of ninety public institutions for the years 2017 and 2018. Panel regression analysis was employed, and the results indicated that both IPSAS adoption and organizational characteristics collectively had a significant effect on the relevance of financial reporting. Additionally, the study highlighted the importance of financial reporting relevance for government accountability and transparency, emphasizing that IPSAS adoption independently contributed to the relevance of financial reports for decision-makers in the public sector.

Tawiah and Soobaroyen (2022) explored the relationship between the adoption of International Public Sector Accounting Standards (IPSAS) and government financing sources in emerging markets. Drawing upon signalling theory and employing robust econometric techniques, the study analyzed data from 54 emerging nations over a 13-year period. The research findings indicated a significant association between IPSAS adoption and increased financing from international sources and overseas aid. However, there was no significant relationship observed concerning local credit. Moreover, the study revealed that this relationship was more pronounced in developing countries that adopted accrual-based IPSAS compared to those adopting cash-based IPSAS. Interestingly, the association between IPSAS and government financing remained consistent across different levels of institutional quality. These findings suggest that adopting IPSAS may signal increased debt financing opportunities, indicating the incremental value international capital providers place on IPSAS-based public sector financial reports.

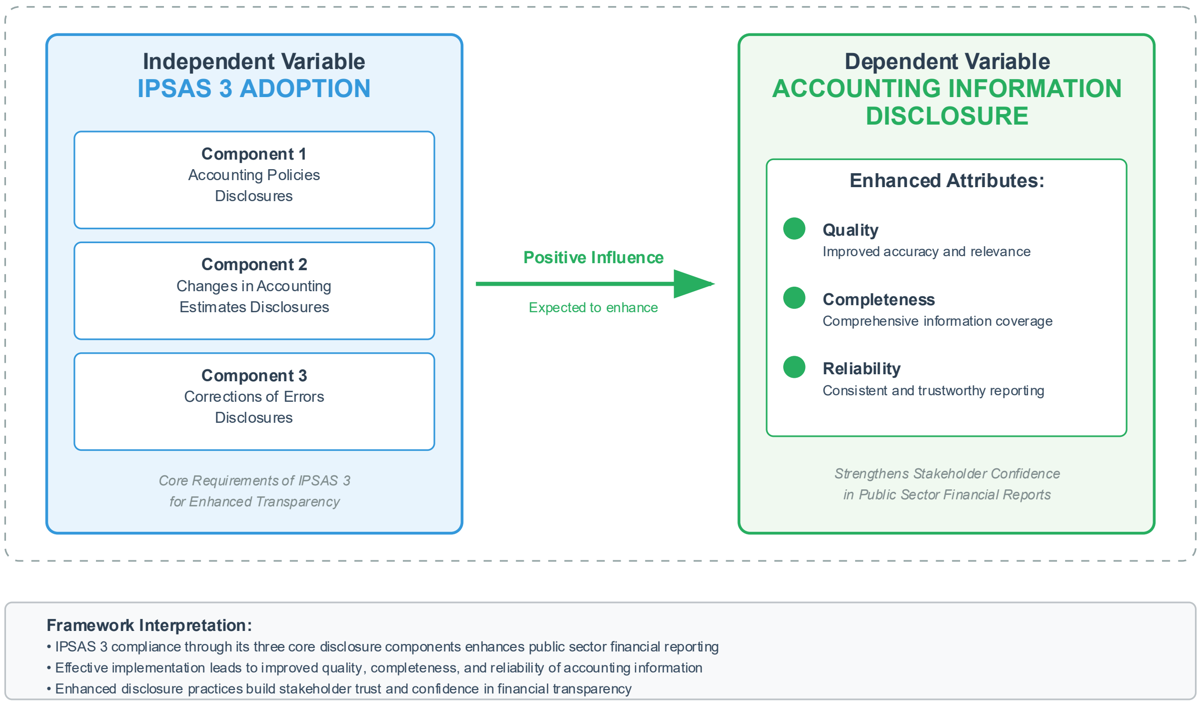
Garcia-Lacalle and Torres (2021) investigated the impact of financial reporting quality and online disclosure practices in Spanish governmental agencies. Their research aimed to explore how key governance features relate to the quantity and quality of information disclosed online. Using the Structural Equation Modeling, Partial Least Squares (PLS-SEM) approach, the study examined the relationship between the governing body, financial performance, organizational features, online transparency, and financial reporting quality. The findings indicated that the size of the governing body and the presence of independent members influenced the quality of financial reports. Additionally, financial reporting quality was affected by pressure from Eurostat requirements, leading to the use of smoothing practices. Online disclosure practices were influenced by the size of the agencies and financial results, with higher financial reporting quality correlating with higher online disclosure levels.

Kanapickiene and Keliuotyte-Staniuleniene (2019) conducted a study on the disclosure of non-current tangible assets information in the financial statements of local governments in Lithuania. The research aimed to assess the quality of accounting information disclosure regarding non-current tangible assets in Lithuanian municipalities' financial statements and identify municipal characteristics influencing this disclosure quality. Through content analysis of consolidated annual financial statements of Lithuanian municipalities from 2013 to 2016, they calculated a disclosure quality index and evaluated and compared the disclosure quality of tangible assets. The findings indicated that the accounting information disclosure quality of Lithuanian municipalities was not significant in 2013. However, in subsequent periods, the disclosure of mandatory information became more significant, resulting in an average quality of information disclosure. Multiple panel regression analysis revealed that key factors such as municipality debt-paying capacity, revenue, size, and tangible assets significantly influenced the accounting information disclosure quality.

2.4 Conceptual Framework

Figure 1 illustrates the conceptual framework showing the interaction between the independent variable; IPSAS 3 adoption and the dependent variable; accounting information disclosure. The independent variable is broken down into three key components derived from IPSAS 3: accounting policies disclosures, changes in accounting estimates disclosures, and corrections of errors disclosures. These elements represent the core requirements of IPSAS 3, which aims to enhance transparency and consistency in public sector financial reporting. The framework suggests that the effective adoption and implementation of these disclosure requirements are expected to positively influence the quality, completeness, and reliability of accounting information disclosed by public sector entities. This interaction reflects how compliance with IPSAS 3 can strengthen stakeholders' confidence in financial reports through improved disclosure practices.

Figure 1: Conceptual Framework
IPSAS 3 Adoption and Accounting Information Disclosure



Source: Authors' Concept (2025)

METHODOLOGY

This conceptual paper adopted a qualitative research approach, focusing on theoretical analysis, synthesis of existing literature, and logical reasoning to explore the influence of IPSAS 3 adoption on accounting information disclosure. The study does not involve the collection or analysis of primary empirical data. Instead, it relies on secondary data sourced from peer-reviewed journal articles, academic books, international accounting standards, government reports, and reputable institutional publications. This approach allows for the comprehensive examination of current knowledge, identification of key themes, and development of theoretical propositions.

The methodology involved systematic literature review and thematic analysis. A purposeful sampling technique was used to select relevant literature published between 2015 and 2024, with a particular focus on public sector accounting, IPSAS implementation, and financial reporting practices. Databases such as Scopus, Google Scholar, JSTOR, and ScienceDirect were searched using keywords like "IPSAS 3," "accounting information disclosure," "public sector financial reporting," and "accounting standards compliance." The selected literature was critically analyzed to identify common patterns, conceptual frameworks, and theoretical perspectives. The insights gained from this review form the basis for synthesizing the key arguments, identifying research gaps, and proposing a conceptual model that links IPSAS 3 components with accounting information disclosure outcomes.

RESULTS AND DISCUSSION OF FINDINGS

Discussion of Findings

The study investigated the influence of IPSAS 3 adoption particularly disclosures related to accounting policies, changes in accounting estimates, and correction of prior period errors on accounting information disclosure in the public sector. The analysis found that the structured application of IPSAS 3 improves the transparency and reliability of financial reporting, aligning with prior studies in Libya, Nigeria, Indonesia, Morocco, and Greece. The results showed that the adoption of IPSAS 3 acts as a catalyst for accountability and high-quality disclosures, particularly in public institutions that face pressure to align with international financial standards and improve financial governance. The findings align with Aboukhadeer et al. (2023), who emphasized that IPSAS, alongside sound governance practices, plays a vital role in improving accounting information quality in Libyan government institutions. Similarly, this study finds that proper implementation of IPSAS 3 significantly enhances the transparency, completeness, and reliability of financial disclosures, reinforcing stakeholders' confidence.

Supporting evidence from Juanda et al. (2023) and El-Randour et al. (2023) also highlights that IPSAS implementation through openness, previous IFRS experience, and effective control mechanisms positively influences financial disclosure quality in both Indonesia and Morocco. In this study’s context, compliance with IPSAS 3 facilitates systematic presentation and correction of accounting information, thereby minimizing ambiguity and error in financial reporting. The results also corroborate Gkouma and Filos (2022) and Ogunwale et al. (2022), who reported that IPSAS adoption enhances public financial reporting, provided that institutional and organizational readiness supports the change. Thus, the current findings reinforce the assertion that IPSAS 3 serves as a critical tool in achieving accurate and reliable accounting disclosures across diverse public sector environments.

CONCLUSION AND RECOMMENDATIONS

This study examined the influence of IPSAS 3 adoption focusing on three disclosure areas: accounting policies, changes in estimates, and error correction on accounting information disclosure in the public sector. The analysis found that the structured application of IPSAS 3 improves the transparency and reliability of financial reporting, aligning with prior studies in Libya, Nigeria, Indonesia, Morocco, and Greece. The results showed that the adoption of IPSAS 3 acts as a catalyst for accountability and high-quality disclosures, particularly in public institutions that face pressure to align with international financial standards and improve financial governance.

Conclusion

The adoption of IPSAS 3 significantly enhances the quality and efficiency of accounting information disclosure in the public sector. The standard’s requirements for full disclosure of accounting policies, consistent treatment of changes in estimates, and correction of prior period errors contribute to better-informed decision-making by stakeholders. These findings affirm that proper implementation of IPSAS 3 not only strengthens compliance but also promotes credibility and comparability in public sector financial reporting. Moreover, the study highlights that IPSAS adoption, when supported by sound governance and internal controls, leads to more meaningful and accountable financial disclosures.

Recommendations

1. Strengthen training and capacity building: Government financial officers and accountants should receive regular training on IPSAS 3 implementation to ensure proper application and interpretation of disclosure requirements.
2. Improve monitoring and compliance mechanisms: Regulatory bodies should implement strong oversight systems to ensure consistent compliance with IPSAS 3 across public entities.
3. Integrate IPSAS with broader governance reforms: As demonstrated in prior studies, the benefits of IPSAS adoption are enhanced when combined with improved governance structures, internal controls, and audit practices.
4. Encourage technological support for IPSAS reporting: Investment in accounting information systems tailored to IPSAS compliance will further support accurate and efficient disclosures.
5. Promote stakeholder engagement: Active stakeholder engagement should be encouraged to foster trust and increase the usability of disclosed financial information.

Contributions of this Study

This study makes significant contributions to the growing body of literature on IPSAS adoption in the public sector. First, it empirically validates the specific role of IPSAS 3 in enhancing disclosure practices, offering nuanced insights into how policy, estimates, and error disclosures contribute to information quality. Second, the study extends the understanding of IPSAS impact within a developing country context, reinforcing earlier works like those of Aboukhadeer et al. (2023) and Awotomilusi et al. (2023). Lastly, it informs policymakers, practitioners, and regulatory authorities about the practical implications of IPSAS 3 adoption and underscores its role in achieving transparency, accountability, and trust in public financial management.

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