

## The Role of External Audit Services in the Implementation of IPSAS in Tanzania

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### Abstract

*The study assessed accountants' perspectives regarding the influence of external audit services on the implementation of International Public Sector Accounting Standards (IPSAS) in Tanzania. IPSAS is seen as a necessary tool for addressing accountability, management and decision-making challenges that have hampered the effectiveness of Public Sector Entities (PSE). External audit services were grouped into three categories; namely, assurance services, attestation services and consulting services. Adopting the positivist research paradigm, the study employed a cross-sectional survey with a sample of 379 respondents. These respondents comprised PSE financial accountants, internal auditors and external auditors. A self-administered questionnaire was used to collect the data. The data analysis techniques employed were means, percentages, standard deviation and structural equation modelling. The findings suggest that external audit services influence IPSAS implementation. In the study context, a combination of assurance services, attestation services and consulting services is important for successful IPSAS implementation. On testing the sub-hypotheses, the findings suggested that assurance services have no significant influence on IPSAS implementation. Attestation services and consulting services were found to have significant positive influences on IPSAS implementation. External auditors in Tanzania conduct annual external audits of PSE to provide assurance that financial statements comply with IPSAS. It was, therefore, expected that assurance services would influence IPSAS implementation. One practical implication of the findings is that external audit services may have a profound impact in terms of solving the aforementioned challenges that have hampered PSE. Hence, the government should develop mechanisms to ensure that external audit services strengthen public financial management.*

**Keywords:** Assurance Services, Attestation Services, Consulting Services, IPSAS, Public Sector Entities

### Introduction

The emergence of new public management as an administrative paradigm has sparked an increased demand for accountability in the public sector (Christiaens, Vanhee, Manes-Rossi, Aversano & van Cauwenberge, 2015). New public management refers to the application of private sector management techniques and methodologies related to public sector management (Ofoegbu, 2016). Stakeholders have seen global accrual standards for public sector financial reporting as a necessary tool for addressing the challenges related to accountability, management and decision-making that have hampered the effectiveness of Public Sector Entities (PSE) (Olayinka, Uchenna, &

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Nwanneka, 2016). Thus, the implementation of accrual accounting by several governments worldwide aimed to improve the aforementioned challenges associated with PSE (Christiaens et al., 2015). The Accrual-based International Public Sector Accounting Standards (IPSAS), issued by the International Public Sector Accounting Standards Board (IPSASB), have become the international benchmark for evaluating governments' accounting practices worldwide (Chan, 2008). Rossi, Cohen, Caperchione and Brusca (2016) identified the strides made by IPSASB in developing global standards to ensure the cross-border relevance and comparability of PSE financial information. Therefore, the objective of accrual-based IPSAS was to achieve international accounting harmonisation and comparability, together with improving the reliability and transparency of public accounts in order to strengthen public financial management (Bellanca & Vandernoot, 2014). These standards may provide an opportunity for governments to modernize their existing accounting systems. As of January 2019, forty-two (42) IPSAS had been issued by the IPSASB (Heintges & Waldbauer, 2019).

Research indicates the successful implementation of the accrual accounting system in New Zealand and Australia. Both countries have demonstrated improved fiscal discipline since implementing the accrual methods (Christensen, 2002). Other countries that are in the process of transitioning towards accrual accounting include Romania and Brazil (de Sousa, de Vasconcelos, Caneca & Niyama, 2013). Adhikari and Mellemvik (2008) argued that it is unlikely that accrual accounting will be implemented successfully, particularly in the context of developing countries. Brusca Aljarde and Montesinos Julve (2014) assessed whether accrual accounting were a reality in Columbia and concluded that the accrual principle had not been implemented effectively there. Bellanca and Vandernoot (2013) analysed whether Belgian PSE were presenting their financial statements in compliance with IPSAS and found that compliance varied greatly across different entities. Athukorala and Reid (2003) investigated accrual accounting in developing countries and noted that the governments face challenges related to the treatment of property, plant and equipment; training and capacity building; personnel skills and numbers; and computerised accounting systems. The International Public Sector Financial Accountability Index indicated that, up until 2018, twenty-five percent of governments worldwide (thirty-seven governments in total) were reporting their financial information on accrual (IFAC & CIPFA, 2018). Tanzania is among the countries mentioned in the report as having implemented accrual accounting.

Mbelwa, Adhikari, and Shahadat (2019) employed Institutional Theory to investigate the factors that led to the effective implementation of accrual accounting reforms in the Central Government of Tanzania. The findings suggested that the coercive pressure from auditors, along with the normative pressure that has surfaced due to the training of employees, were among the factors that contributed to the effective implementation of accrual accounting. The role of auditors in the public sector is well explained by the agency theory (Akinbowale & Babatunde, 2017). Alrshah (2015) used the agency theory to analyse financial statements' reliability and concluded that the quality of the auditor enhances the financial reporting quality. In a similar study, Olayinka et al. (2016) investigated the impact of IPSAS on the quality of financial reporting in Nigeria's public sector and concluded that there is a positive relationship between IPSAS and the quality of financial reporting there.

International Federation of Accountants (IFAC) and the Chartered Institute of Public Finance and Accountancy (CIPFA) expect sixty-five percent of governments worldwide (ninety-eight

governments in total) to be reporting accrual financial information by 2023 (IFAC & CIPFA, 2018). The empirical literature argues that the level of stakeholder engagement explains why various governments have failed to implement IPSAS successfully (Huweish & Alshujairi, 2014; Rossi et al., 2016). Stakeholder engagement encompasses the inclusion of not only the external stakeholders in the IPSAS implementation efforts but also the internal stakeholders (Lüder, 1992). External stakeholders include external auditors, consultants, organisations representing professional interests and parliamentary accounts committees, whereas internal stakeholders include the producers of information, such as the central agencies, the managers of these agencies, PSE financial accountants and internal auditors (Christensen, 2002). Huweish and Alshujairi (2014) investigated the government accounting system reform and adoption of IPSAS in Iraq and concluded that an essential antecedent of internal stakeholder engagement is close collaboration between the finance and audit functions of PSE. In a similar study, Brusca, Gómez-villegas and Montesinos (2016) assessed the public financial management reforms in Latin-America and found that the skillset of the professionals handling the finance and audit functions in PSE influence the implementation of IPSAS. IPSAS implementation requires changing the assumptions that guide financial accountants and auditors when assessing the financial implications of various transactions. To change these assumptions, the acquisition of new skills is imperative. The ACCA (2018) established that, in developing the requisite skills that professionals need in order to use IPSAS, it is essential to enhance the capacity of these professionals to develop the narrative reports that clarify the data contained within the PSE financial statements.

External auditing services provided by external auditors can be used to address the skills shortages that have impeded IPSAS implementation (Brusca & Martínez, 2016). External auditors can provide the technical capability required to improve the performance of PSE and provide an enabling context for IPSAS implementation (Mbelwa et al., 2019). External audit services refer to the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria, performed by a competent independent person (Arens, Randal & Beasley, 2012). Arens et al. (2012) grouped external audit services into three categories; namely, assurance services, attestation services and non-audit services, also known as consulting services. Assurance services aim to confirm whether entities' financial statements comply with the requirements of IPSAS (Kandemir, 2016). Attestation services provide assurance regarding the reliability of an assertion made by another party (Kinney, 1988). Consulting services, meanwhile, are all other non-audit services that an independent auditor of an entity might provide to the company that is being audited (Wang & Hay, 2013). These services include training, network provision, capacity building, on-the-job support and the provision of knowledge bases (Jacobson, Butterill, & Goering, 2005). Christensen (2005) noted that the literature has yet to reveal a jurisdiction that has moved to accrual accounting without the aid of consultants. This study focused on the three categories of external audit services since they are directly involved in improving the accountability of PSE.

The role of external auditors in the implementation of IPSAS is especially true when one considers that IPSAS emerged as part of a broader call for administrative reform due to the rise of the new public management as a school of thought (Manes-Rossi, Aversano & Christiaens, 2012). External auditors have been mentioned in several studies as being among the external stakeholders who can influence accounting change (Manes-Rossi et al., 2012). The aforementioned studies did not focus solely on the influence of external audit services on the implementation of accrual accounting but considered external auditors as among the factors that can influence accrual accounting. Hepworth (2010) analysed the preconditions for the successful implementation of accrual accounting in the

Central Government. He concluded that successful implementation depends heavily upon an understanding of and willingness to support the system by the external auditor of the Central Government. However, Kobayashi, Yamamoto and Ishikawa (2016) found that the Central Government was the most influential promoter of accrual accounting in Japan. Nagirikandalage and Binsardi (2015) concluded that cultural and technological factors, sluggish attitudes towards costing and bureaucratic procedures are among the factors that influence public sector accounting. Athukorala and Reid (2003) investigated accrual accounting in developing countries and noted that the governments there face challenges related to the treatment of property, plant and equipment; training and capacity building; personnel skills and numbers; and computerised accounting systems.

In Tanzania, IPSAS was adopted by the National Board of Accountants and Auditors (NBAA) in 2004 (NBAA, 2009). Pitulice (2013) analysed accrual accounting adoption in the Romanian public sector and noted that the adoption process consists of three main stages; namely, initiation, the adoption decision and implementation. NBAA initiated IPSAS discussions with the stakeholders, including the Ministry of Finance and Planning, in early 2000. Tanzania is in the implementation stage. The implementation of accrual-based IPSAS started during the financial year ended 30 June 2012. The challenges noted by PSE in Tanzania include the recognition and measurement of inventories in the accounting system, impairment of non-financial assets, disclosure of related party transactions and balances and actuarial valuation of employees' defined benefit plans (NAOT, 2017). The annual external audit opinion on the consolidated financial statements of the Government of Tanzania from year ending 30 June 2012 to 30 June 2019 continued to note areas where the Government and PSE in Tanzania can improve the IPSAS implementation process and hence strengthen public financial management (ACGEN, 2019). Considering the aforementioned limitations of the existing studies and the usefulness of external audit services, it was considered important to investigate accountants' perspectives on the influence of external audit services on IPSAS implementation. External audit services may be one of the important accountability mechanisms in the public sector, if the findings demonstrate its influence with regard to IPSAS implementation.

### **Theoretical Background and Review of Literature**

This study employs two theories; namely, the Agency Theory and the Institutional Theory. External auditors provide assurance services as agents of the parliament; hence, the Agency Theory will be applied to accountants' perspectives regarding the influence of assurance services on IPSAS implementation. However, since external auditors are among the factors that are external to the organisation, the Institutional Theory will supplement the Agency Theory in assessing accountants' perspectives regarding the influence of attestation services and consulting services on IPSAS implementation.

### **Theoretical Perspective**

The Agency Theory resulted from Ross (1973)'s study, in which he considered agency relationships as the arrangements whereby one party, the principal, designates an agent to act on their behalf. According to Noreen (1988), the Agency Theory also assumes that people's limitless pursuit of their self-interest informs their actions, and that the agent's failure to serve the principal's interests can create an agency problem. The agency problem becomes severe in cases where the principal lacks the means or resources to monitor the agent (Eisenhardt, 1989). To solve

agency problems, the public, through their representatives in parliament and the executive, must monitor the actions of the managers of public organisations and bond them. The Agency Theory was used in this study to assess the relationship between the external auditors, Parliamentary Accounts Committees (PAC) and PSE. External auditors, as agents of the parliament, provide assurance services by auditing the PSE and reporting the results of audits back to the parliament through the PAC. The theory predicts that PSE will develop robust mechanisms to ensure adherence to the accounting standards. IPSAS prescribes the minimum reporting requirements for the public sector and, therefore, acts as a bonding mechanism that constrains these managers' discretion over financial reporting decisions and forces them to act in the public interest. Thus, IPSAS implementation is a strategy for managing the agency conflicts that may arise between the managers of PSE and the public, and the variation in the IPSAS implementation levels may reflect the differences in the scale of the agency problem facing various public organisations.

The Institutional Theory stresses that factors related to both the internal and external organisational expectations and values can serve as a primary motivation for change to improve efficiency and effectiveness (Meyer & Rowan, 1977). The Institutional Theory seeks to explain the isomorphism of organisations, a key feature of which is that organisations may accept certain characteristics in order to appear legitimate when, in fact, there are no technical economic efficiency gains from doing so (DiMaggio & Powell, 1983). DiMaggio and Powell (1983) recognise three types of institutional isomorphism; namely, coercive, mimetic and normative isomorphism. The Institutional Theory was used to assess whether external auditors, as an external factor to the organisation, can motivate change and so influence the acceptance of international accounting standards, such as IPSAS. The theory explains how external audit services may serve as a mechanism for diffusing global practices in PSE across Tanzania. The theory shows that external audit services facilitate the liaison between the actors in PSE and external auditors who are interested in improving the quality of financial reporting in Tanzania's public sector.

### ***Empirical Literature and Study Hypothesis***

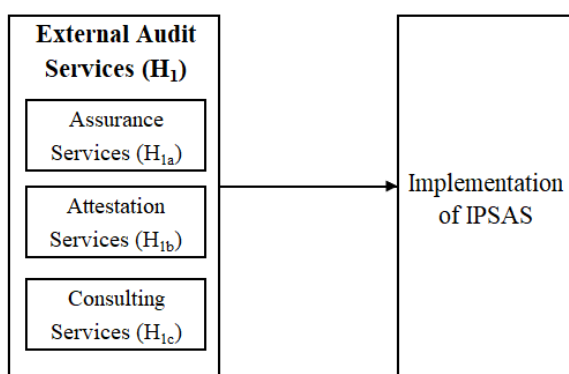
There is considerable empirical evidence that suggests that a correlation exists between external auditing services and new accounting standards implementation. Baker and Rennie (2006) investigated the forces leading to the implementation of accrual accounting by the Canadian Federal Government and found that the public sector accounting reform in Canada was due to the coercive influence of the Office of the Auditor General of Canada, supported by the normative influence of the Canadian Institute of Chartered Accountants' Public Sector Accounting Board. In a related study, Mbelwa et al. (2019) investigated the factors that influence the implementation of accrual accounting reform in Tanzania's public sector and found that coercive pressure from auditors, along with the normative pressure, were among the factors that had an impact on the designing of an effective administrative model of accrual accounting. Additionally, Schelker (2013) assessed public sector auditors and corporate governance and found that financial statement audits had a significant impact on an entity's adherence to the accounting standards and regulations. However, Ahmad (2016) investigated the factors influencing users' resistance to accrual accounting and found that external auditors have no influence regarding the introduction of accrual accounting.

In a different area, Fargher and Gramling (1996) examined the influence of attestation on pension fund managers' perceptions of assertion credibility in the investment manager selection process and found that an attestation of compliance with the performance presentation standards influences fund sponsors' perceptions of assertion credibility. Yunchen, Xuan, Manping, and Ran (2015)

investigated the influence of audit attestation services on the effectiveness of internal control in the information technology industry. They concluded that the audit attestation service offered by accounting firms helps to improve the effectiveness of internal control. Ciconte III, Knechel, and Mayberry (2014) investigated the influence of consulting services on improving clients' operating performance and risk management; they found that consulting services are positively related to subsequent increases in operating performance and also enhance entities' risk management. Joe and Vandervelde (2007) assessed whether auditor-provided non-audit services improve audit effectiveness and suggested that, in order to obtain positive knowledge transfer from non-audit services to audit services, the same personnel must work on both engagements.

Overall, the insights from the empirical studies support a correlation between external audit services and the implementation of accounting standards, and this study's theoretical framework suggests that these insights might apply to Tanzania's public sector as well. According to the Agency Theory, financial reporting is a bonding mechanism that a firm's owners can use to curtail the managers' opportunistic behaviour, while auditing is a monitoring mechanism that enhances the utility of financial reporting as a bonding tool. IPSAS implementation makes financial reporting more useful as a bonding tool and, since auditing also enhances the usefulness of financial reporting as a bonding tool, it is prudent to anticipate a relationship between the use of external audit services and IPSAS implementation. According to the Institutional Theory, coercive, mimetic, and isomorphic forces result in changes to organisational practices (DiMaggio & Powell, 1983). Auditors can play a role as a coercive and mimetic force that prompts organisations to adopt new accounting practices. The literature documents an increased audit risk following the implementation of new accounting practices, which means that auditors may use audit opinions to coerce organisations' managers to comply with new accounting standards. In addition, organisations turn to experienced auditors to mimic the accounting practices of the entities that these auditors have served and that have adopted the new accounting standards. Consequently, one should expect a relationship between external audit services and IPSAS implementation. The study developed a conceptual framework, based on the various literature reviewed. Figure 1 summarises the proposed study model.

**Figure 1: Conceptual Framework**



Developed from the Literature

External audit services have an influence on accounting change within organisations. The reviewed literature by Ahmad (2016); Manes-Rossi et al. (2012) and Mbelwa et al. (2019) suggest

that external audit services influence IPSAS implementation. One hypothesis that focuses on the direct effect was therefore developed:

*H<sub>1</sub>: External audit services positively influence IPSAS implementation.*

External audit services can be grouped into three categories; namely, assurance services, attestation services and consulting services (Arens et al., 2012). The audit procedures performed, awareness created of IPSAS non-compliance, together with the audit opinions issued by external auditors have been found to influence IPSAS implementation (Ahmad, 2016; Hepworth, 2003). It is therefore hypothesised that:

*H<sub>1a</sub>: Assurance services positively influence IPSAS implementation.*

Furthermore, external auditors can verify the amounts reported in the financial statements to confirm whether or not the measurement is in accordance with IPSAS, and that any non-compliance noted is rectified in a timely manner (Arens et al., 2012). External auditors verify IPSAS-related controls in performing their audit work and provide clarification regarding accounting treatment. External auditors' attestation reports can help PAC to demand accountability from PSE and hence influence IPSAS implementation (Schelker, 2013). It is therefore hypothesised that:

*H<sub>1b</sub>: Attestation services positively influence IPSAS implementation.*

Additionally, external auditors provide training to PSE as well as networks through their various clients which form a basis for IPSAS problem-solving (Jacobson et al., 2005). The support offered by external auditors when engaged in assisting with IPSAS implementation projects ensures the smooth implementation of IPSAS. PSE can also benefit from the training materials and capacity-building activities performed by external auditors. From this, the following hypothesis is developed:

*H<sub>1c</sub>: Consulting services positively influence IPSAS implementation.*

## **Research Methodology**

The study used the positivism paradigm and a cross-sectional design was used as the research design, while the deductive approach was used as the research approach. The study was conducted in Tanzania, to cover the PSE. On 30 June 2017, there were 559 PSE (ACGEN, 2018) using IPSAS. The financial accountants and auditors of the PSEs using IPSAS were randomly selected for inclusion in the study. Included in the 559 entities was the National Audit Office Tanzania (NAOT). The external auditors from the NAOT were randomly selected for inclusion in the study. The population of the study consisted of financial accountants, external auditors and internal auditors from Tanzanian PSE. There were 5,869 financial accountants, 686 external auditors and 707 internal auditors in PSE (ACGEN, NAOT and IAG Records, 2018). The unit of enquiry, which is also the unit of analysis, was the financial accountants, external auditors and internal auditors of PSE who are expected to possess adequate information regarding IPSAS implementation, the use of external audit services, the regulatory framework and auditors' characteristics. This study supports the findings of Huweish and Alshujairi (2014), who concluded that financial accountants and auditors are the best-informed individuals regarding an entity's accounting systems. The study, therefore, assessed financial accountants, external auditors and internal auditors' perspectives regarding the influence of external audit services on IPSAS implementation, due to their direct involvement in this process. This study applied Taro Yomane's formula ( $S = n / (1+n(e)^2)$ ), as cited

by Ahuja (2001), to determine the sample size. The maximum sample size was calculated at a 5% margin error and 95% confidence interval. Questionnaires were used to collect the data.

The Cronbach's coefficient was used as the reliability test. The acceptable statistic level of Cronbach's alpha was 0.7, which suggests that the research instrument possesses internal consistency. Also, the study examined the construct reliability (CR) which mainly focuses on the reliability measurement and internal consistency of the variables that form the latent construct. This study adopted the argument that CR should be at least 0.7 to claim construct reliability because, the larger the coefficient, the higher the construct reliability. The study assessed the construct validity in order to examine the quality of the structural equation model. The construct validity includes the convergent validity and the discriminant validity. The latter is attained when the interfactor correlations are less than the square root of the Average Variance Expected (AVE). The convergent validity is attained when the AVE is at least 0.5.

This study applied Means (M), Percentages, Standard Deviations (SD) and Structural Equation Modeling (SEM) analysis to analyse the data. The Coefficient of Variation (CV) was computed, which is the ratio of the standard deviation to the mean. The higher the coefficient of variation, the greater the level of dispersion around the mean. The lower the value of the CV, the more precise the estimate. In using SEM, the researcher assessed the goodness of fit indices; namely, absolute fit indices, incremental fit indices and parsimony fit indices. The absolute fit indices include the Goodness of Fit Index (GFI) and Root Mean Square Error Approximation (RMSEA), that were used to examine how well the prior model fits the data (McDonald & Ho, 2002). The incremental fit includes the Adjusted Goodness of Fit Index (AGFI) which is obtained by adjusting the GFI based on the degree of freedom (Tabachnick & Fidell, 2012). The Comparative Fit Index (CFI) is one of the incremental Fit Indices that assesses the extent of un-correlation of the latent variable and attempts to compare the sample covariance matrix.

### **Research Findings**

In this study, 379 self-administered questionnaires were distributed to the respondents throughout PSE in Tanzania. The respondents were 306 (80.7%) financial accountants, 37 (9.8%) internal auditors and 36 (9.5%) external auditors. There was a 100% response rate, as 379 questionnaires were collected from the respondents. This high response rate could be a result of the use of email to send out the questionnaires and the subsequent calls to follow up on the questionnaires. As all PSE financial accountants and auditors have access to email, the process of responding to the questionnaires was simplified. Furthermore, the prior relationships with the respondents and the fact that the questionnaire was blinded could have influenced the response rate. In terms of work experience, 121 (31.9%) of the respondents had between six- and ten-years' experience, while 215 (56.7%) had more than ten years' experience. This shows that those participating in IPSAS implementation have gained experience on-the-job. On the other hand, 218 (57.5%) of the respondents held a Masters' Degree and 259 (68.3%) are Certified Public Accountants by the National Board of Accountants and Auditors. This indicates that the accounts and auditing function is performed by staff with appropriate educational and professional qualifications.



### Descriptive Results

A descriptive analysis of the independent and dependent variables is presented in Table 1:

**Table 1: Summary of the descriptive statistics**

	Mean	Standard Deviation	Coefficient of Variation	Range	Max	Min	Sum	Count
IPSAS Implementation	4.27	0.491	0.115	2.61	5.00	2.39	1,623.61	379
External Audit Services	4.17	0.411	0.098	2.61	5.00	2.39	1,582.46	379
Assurance Services	4.16	0.556	0.134	3.33	5.00	1.67	1,578.17	379
Attestation Services	4.15	0.547	0.132	3.40	5.00	1.60	1,571.60	379
Consulting Services	4.22	0.491	0.116	2.60	5.00	2.40	1,597.40	379

Source: Field Data (2018)

The reliance on external audit services was high, based on the mean result of 4.17 (SD: 0.411, CV: 0.098). This was sufficiently high to confirm that external audit services are highly relied upon by entities in ensuring IPSAS compliance. The reliance on assurance services was high, based on the mean result of 4.16 (SD: 0.556, CV: 0.134). This was sufficiently high to confirm that assurance services are highly relied upon by entities in ensuring IPSAS compliance. Hence, assurance services were highly used to encourage entities to resolve matters giving rise to the modification of the audit opinion; hence, entities were determined to obtain a clean, unqualified opinion. The reliance on attestation services (M: 4.15, SD: 0.547, CV: 0.132) was slightly lower than that on assurance services. Even though the mean was lower than that for assurance, it was sufficiently high to confirm that attestation services are also highly relied upon by entities in ensuring IPSAS compliance. The reliance on consulting services was higher than on assurance and attestation services respectively, based on the mean result of 4.22, SD of 0.491 and CV: 0.116. The mean results hence showed that consulting services were highly used to support IPSAS compliance. Compliance with IPSAS was high, with a mean of 4.27, SD of 0.491 and CV of 0.115.

A confirmatory factor analysis for assurance services, attestation services, consulting services and IPSAS implementation were performed. The standardised regression weights and squared multiple correlations were examined. Where necessary, the models were modified by deleting the factors whose the standard regression weights and squared multiple correlation fell below the recommended levels. After modifying the models, the goodness of fit indices, namely CMIN/df, GFI, AGFI, CFI and RMSEA, were found to lie within the recommended values, which indicated that the model fitted the data well.

Table 2 provides the results of the correlation analysis between the independent variables: assurance services, attestation services and consulting services, and IPSAS implementation.

**Table 2: Summary of the correlation analysis**

	IPSAS Implementation	Assurance Services	Attestation Services	Consulting Services
IPSAS Implementation	1.000			
Assurance Services	0.375	1.000		
Attestation Services	0.574	0.428	1.000	
Consulting Services	0.521	0.320	0.448	1.000

Source: Field Data (2018)

The results show that positive correlations exist between all of the independent and dependent variables. Attestation services have a stronger positive correlation than consulting services and assurance services. The test shows that all of the coefficients in the model differ from zero. This indicates that the model is fit to explain the relationship between independent variables and the dependent variable. This gave the researcher confidence to test the hypotheses developed in the study. Table 3 provides the data regression results.

**Table 3: Summary of the regression results**

Independent Variables	Coefficients	Standard Error	z-Value	P-Value
External Audit Services	0.393	0.045	8.713	***
Assurance Services	0.037	0.027	1.375	0.169
Attestation Services	0.402	0.052	7.797	***
Consulting Services	0.255	0.047	5.406	***

Source: Field Data (2018)

\*\*\* means it is significant at 0.001

Hypothesis 1 (H<sub>1</sub>) stated: “External audit services positively influence IPSAS implementation”. This means that PSE that utilize external auditors’ services will successfully implement IPSAS. The study results indicate that external audit services have a significant positive influence on IPSAS implementation. The main hypothesis is, therefore, accepted.

Hypothesis 1 (H<sub>1a</sub>) stated: “Assurance services positively influence IPSAS implementation”. This means that PSE that utilize external auditors’ assurance services will successfully implement IPSAS. The study results indicate that assurance services have an insignificant positive influence on IPSAS implementation. The first sub-hypothesis is, therefore, rejected.

Hypothesis 2 (H<sub>1b</sub>) stated: “Attestation services positively influence IPSAS implementation”. This means that PSE that utilize external auditors’ attestation services will successfully implement IPSAS. The study results indicate that attestation services have a significant positive influence on IPSAS implementation. The second sub-hypothesis is, therefore, accepted.

Hypothesis 3 (H<sub>1c</sub>) stated: “Consulting services positively influence IPSAS implementation”. This means that PSE that utilize external auditors’ consulting services will successfully implement

IPSAS. The study results indicate that consulting services have a significant positive influence on IPSAS implementation. The third sub-hypothesis is, therefore, accepted.

### **Discussion of the Findings**

**External Audit Services and IPSAS Implementation:** The study found that external audit services influence IPSAS implementation. This conclusion indicates the necessity of ensuring that the key stakeholders in the public sector understand its implications. The major implication is that the stakeholders' engagement is key to successful IPSAS implementation. Engagement with internal and external stakeholders and cooperation between the finance and audit functions are among the fundamental aspects of stakeholders' engagement. Capacity-building is an additional factor for successful IPSAS implementation. In some of the countries that have not implemented IPSAS fully, skills shortages in the public sector have impeded IPSAS implementation. Thus, to ensure successful IPSAS implementation, investment in training programmes that seek to bridge the existing skills gap is required. IPSAS ensures that PSE presents accounting data reliably and in an easily comparable manner in order to help the stakeholders to understand and analyze the financial position of PSE and enhance the risk management's effectiveness. External audit services provide the foundation for good governance in the public sector. Public sector auditing enables PSE managers to fulfil their governance roles effectively. The findings support prior studies by Christensen (2002), Hepworth (2010) and Mbelwa et al. (2019), who concluded that external audit services are among the factors contributing to the effective implementation of accrual accounting.

**Assurance Services and IPSAS Implementation:** The study found that assurance services do not have a significant influence on IPSAS implementation. A positive influence was predicted because external auditors, as agents of PAC, are required to audit PSE and report back to PAC regarding how PSE have utilised the resources entrusted to them. Moreover, their position as agents of PAC could lead to coercive or mimetic isomorphism to PSE. The descriptive results indicated that external auditors perform audit procedures to confirm IPSAS compliance and make the management aware of any non-compliance. Furthermore, the descriptive results showed that the type of audit opinion has an impact on IPSAS implementation. During the confirmatory factor analysis, the factors indicating that external auditors perform audit procedures to confirm IPSAS compliance and make the management aware of any non-compliance were considered unimportant and were, therefore, dropped. This may be because the main objective of assurance services is considered to be the issue of audit opinion. Generally, there has been an increase in unqualified audit opinions, from 289 PSE for the year ending 30 June 2013 to 515 entities for the year ending 30 June 2018. This indicates an increase in IPSAS compliance, but the study findings suggest that this was influenced by neither the types of audit opinion offered nor the reports issued by the external auditors. The Controller and Auditor General report for the year ending 30 June 2018 noted that the implementation status of the issues raised in the external audit reports showed inadequate improvement compared to the previous years, owing to the inadequate management follow-up to address the outstanding audit recommendations. Assurance services will lose their importance unless the weaknesses noted by the external auditors are rapidly rectified by the PSE management. This probably explains why the research data failed to support the hypothesis that a positive relationship exists between assurance services and IPSAS implementation. The findings support prior studies by Chukwunedu and Okafor (2011), who concluded that, at times, a public sector audit might prove ineffective as an accountability tool. This might be due to factors such as the inadequate independence of the external auditors, poor accounting environment, lack of executive capacity, unsatisfactory performance of PAC and poor use of technology.

**Attestation Services and IPSAS Implementation:** The study found that attestation services have a significant positive influence on IPSAS implementation. External auditors, as external stakeholders, can create mimetic isomorphism when undertaking PSE engagements. The quantitative findings showed strong support for the hypothesis regarding a positive relationship between attestation services and IPSAS implementation. The descriptive statistics revealed that the verification of IPSAS-related controls, verification and review of the amounts reported in the financial statements and clarification of the accounting treatment by external auditors influence IPSAS implementation. Furthermore, the descriptive results indicated that attestation reports pave the way for PAC to push entities to implement IPSAS. Through the confirmatory factor analysis, the factor indicating that external auditors review the financial statements to ensure that any non-compliance with the IPSAS requirements is rectified by the management before signing the audit opinion was dropped. This suggests that the respondents did not consider this factor important, compared to other factors. It might also be supported by the noted management delay in implementing external auditors' recommendations ((NAOT, 2017). The quantitative results indicated that attestation services influence IPSAS implementation. Considering the influence of attestation services on IPSAS implementation, the findings of this study support other studies, such as Fargher and Gramling (1996) and Yunchen et al. (2015), that found that the attestation services provided by accounting firms help to improve the organisation and influence the users' perception of the information's credibility. The findings support the Institutional Theory because the services offered by external auditors were found to motivate change within organisations (Yunchen et al., 2015).

**Consulting Services and IPSAS Implementation:** The study found that consulting services have a significant positive influence on IPSAS implementation. External auditors, as external stakeholders, can create normative isomorphism through knowledge-sharing activities in PSE or mimetic isomorphism when providing IPSAS support to PSE. The research data support this hypothesis. The descriptive results indicate that the IPSAS-related training, training materials, support, network and capacity-building provided by consultants facilitate IPSAS implementation. On performing confirmatory factor analysis, the factor was dropped indicating that the network provided by consultants through their various clients provides a basis for IPSAS problem-solving. This might be because PSE already have an automatic network as they are all Government-owned. These findings support prior studies, such as Ciconte III et al. (2014), who argued that external auditors' consulting services led to improved operating performance and risk management, and Christensen (2005), who asserted that the role and impact of consulting firms' actions can be better understood by applying concepts of non-coercive isomorphism and the interplay between self-interest and perceived public interest. Consulting firms promote accounting change in the zealous belief that bringing public sector accounting into line with private sector accounting is an inherently logical objective (Christensen, 2005). The findings support the Institutional Theory, because the services offered by external auditors were found to motivate change within organisations (Akinbowale & Babatunde, 2017; Ciconte III et al., 2014; Kandemir, 2016).

### **Conclusion and Implications**

The study concluded that external audit services significantly influence IPSAS implementation. Regarding the individual components of external audit services, assurance services were found to have an insignificant influence on IPSAS implementation. This is a surprising finding because PSE in Tanzania are subjected to annual external audits to enable the Controller and Auditor

General to provide assurance that PSE financial statements have been prepared in compliance with the IPSAS requirements. External auditors report their findings to PAC, which is then responsible for holding PSE accountable for any audit issues reported by the external auditors. The accountability report to PAC is the external auditors' report rather than the financial statements prepared by PSE. Thus, one would expect assurance services to influence IPSAS implementation. Attestation services and consulting services were found to have a significant positive influence on IPSAS implementation. There appears to exist an overlap between attestation services and assurance services, mainly because, when performing assurance services, external auditors are required to perform procedures relating to attestation accordingly. The use of attestation services creates an internal environment that supports adherence to the best accounting practice principles and, therefore, IPSAS implementation seems to be an outcome of the use of these services. Moreover, the regular changes to IPSAS cause PSE to align their accounting practices with the emerging demands, and external auditors offer PSE an opportunity to understand the trends and developments that could render their internal policies inappropriate. Therefore, the engagement of external auditors in providing consulting services is likely to influence IPSAS implementation.

The study findings affirm the utility of the Agency Theory and Institutional Theory in explaining the design of the PSE accounting policies and procedures. The Agency Theory could be viewed as a conceptual configuration of the set of agency conflicts inherent in the public sector. PSE receive resource allocations from the public. Despite the public's best efforts to ensure that PSE managers possess all of the resources they require to execute public programmes and policies, there is no guarantee that PSE will perform in a manner that is consistent with the public's expectations. Hence, there is a need for external auditors to provide assurance services and report to the PAC regarding whether or not the actions of PSE managers are consistent with the stakeholders' expectations. The support for the study's hypotheses also affirms the utility of the Institutional Theory in explaining the design of PSE accounting policies and practices. One could examine the dynamism of the PSE accounting policies through the isomorphic forces. The results of this study suggest that, over time, PSE acquire rich insights into the working of various configurations of accounting policies and practices that provide the impetus for change that enhances the ability of PSE to address the emerging challenges. Therefore, IPSAS implementation in the public sector is the outcome of the application of the insights that these entities have accumulated through institutional isomorphism.

The thesis makes a unique methodological contribution by applying multi-theoretical approaches to assess the influence of external audit services on IPSAS implementation. It is the combination of these theories in a developing country that allows a novel, deeper understanding of the forces that drive public sector accounting in Tanzania. Prior studies focused largely on studying the factors influencing IPSAS implementation in developed countries (Christensen, 2002; de Sousa et al., 2013; Saleh, 2008), which means that the factors influencing accrual accounting in developing countries, like Tanzania, are less well understood and remain under researched.

In a practical sense, if the Government of Tanzania wishes to encourage IPSAS implementation in PSE, it must build structures that encourage organisational learning and improvement. They should implement a strong mechanism to ensure that external auditors' recommendations are being implemented. NAOT needs to train its staff regarding the current developments in the accounting profession and ensure a close working relationship with PAC. External auditors need to be trained on how to design and execute audit procedures in a way which will add value to and improve PSE processes. Furthermore, PSE may adopt structures through which their managers and employees

could learn of the developments within the practices of a given functional area and hence place them in a better position to take advantage of the opportunities arising from isomorphism forces.

The study focused on the influence of external audit services on IPSAS implementation. There may be other factors that determine the level of IPSAS implementation in PSE. For instance, the size of an entity could influence the resources that it receives and, in turn, the resource allocation determines the accountability pressures facing PSE managers. Furthermore, the study's methodological approach may have reduced the depth of the insights that the researcher obtained. The use of a cross-sectional design prevented the researcher from making certain pertinent observations. The factors influencing IPSAS implementation are dynamic and using a cross-sectional design to study them assumes that they are static. It takes a long time for an entity to experience the effects of using external audit services so studying this effect at one point in time could lead a researcher to miss important observations. Thus, the methodological approach adopted in the dissertation potentially curtailed the researcher's ability to make important observations.

It is necessary to undertake further research using a longitudinal design, as this would allow the researcher to track the factors that influence IPSAS implementation over time. For instance, using this design, a researcher could examine the level of PSE reliance on external audit services and assess how that reliance changes over time. If the level of IPSAS implementation also changes over the period during which a researcher has tracked an entity's reliance on external audit services, this might provide a reliable basis for attributing the changes in IPSAS implementation to changes in the reliance on external audit services.

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