
The reality and challenges of Algeria's success in modernizing its public accounting system through the application of international public sector accounting standards (IPSAS)

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Abstract---This study aims to modernize public accounting systems through Algeria's orientation towards reforming its accounting systems in the public sector, and the success of these systems towards the application of international accounting standards in the public sector, and this experience is successful at the international level for countries that seek to change and reform their accounting system, and adapt various accounting rules and regulations with the requirements of the International Public Sector Accounting Standards. According to the findings of this study, IPSAS cannot be fully implemented, but incremental strategies can be applied to ensure successful change. Furthermore, we concluded this study with the lines of lessons learned from the experience of the Directorate of Public Equipment under study.

Keywords---public accounting, international accounting standards, public sector.

1. Introduction

The regulatory bodies of major economies have standardized public accounting in order to overcome differences in the financial analysis of the economic situation of the public sector. This provides users of financial analysis with a unified approach, with the aim of preparing clear financial statements on how public funds are used. This arrangement has led to the removal of barriers between countries and the emergence of a unified international agreement, prompting countries to adopt comprehensive reforms of their various systems and policies by addressing aspects of public finance that enable countries to perform their social and economic functions.

Algeria remains one of the countries that has decided to adopt international accounting standards for the public sector to regulate financial reporting. This decision is due to the success of accounting standardization for economic institutions around the world. All this is thanks to the International Federation of Accountants' initiative to establish a council dedicated to these standards, whose primary mission is to formulate and issue high-quality standards that primarily serve public sector institutions in all countries around the world.

This study was conducted to highlight Algeria's success in reforming and modernizing its public accounting system in light of the application of international public accounting standards and the challenges it faced.

In light of the above, we pose the following question: **To what extent has Algeria succeeded in reforming public accounting in accordance with international accounting standards for the public sector?**

To answer the research question, the following hypotheses were formulated:

H1: The success of accounting standardization in Algeria's public sector can be linked to the establishment of rules and principles of good governance and optimal use of public finances, as well as the promotion of accountability for public funds.

H2: Algeria is expected to move towards adopting international accounting standards in the public sector after its failed experiment with the national accounting plan based on the French system.

H3: Algeria's experience in standardizing public accounting in the public sector may result in the optimal use of public funds and eliminate corruption and mismanagement of state funds.

H4: The challenges hindering the transition to international standards can be addressed by working to demonstrate the importance of this change to the government and the general public.

2. Literature review

The topic of International Public Sector Accounting Standards (IPSAS) has been relatively limited, a fact attributed by **LUDER** to the lack of interest among many researchers in the field of accounting, financial reporting, budgeting, and auditing of public sector entities. They don't even consider it a viable research area. However, some studies related to this topic can be presented, including:

- (Ijiome,N.B & Oghoghomeh,T,2014) study, which aimed to demonstrate the impact of adopting IPSAS standards on financial reporting in the Nigerian public sector. It concluded that adopting and implementing IPSAS would revolutionize public accounting in a country like Nigeria, where corruption is rampant. IPSAS increases the reliability, credibility, and integrity of financial reports in government units and emphasizes accountability to citizens, thus contributing to combating corruption and enhancing transparency in government.

- (Toudas ,k & Partos,E, 2003) study focused on issues related to International Public Sector Accounting Standards (IPSAS) and their legislation. It discussed globalization and its impact on the accounting sector, highlighting the alignment between national accounting systems and IPSAS. The researchers demonstrated that accounting methods used in local public sectors are inevitably influenced by IPSAS. The study concluded that formulating standards is a preliminary step in a long process of accounting reform in governments. Sufficient and appropriate knowledge about the nature and benefits of these standards is essential for governments to clearly and accurately define their requirements. The study also recommended that the IPSAS design team include marketing specialists to explain the advantages and encourage the adoption and application of these standards, as well as to demonstrate their suitability for different governmental accounting environments.

- (Bellanca & Vandernoot, 2014) study aimed to evaluate the accounting environment in Belgium by focusing on three International Public Sector Accounting Standards (IPSAS) to determine the extent to which the accounting environment accepts them, and to assess the benefits of accounting reform in Belgium in 2003. To understand the reality of the financial accounting situation, this study analyzed the extent to which the accounting environment in Belgium adheres to three IPSAS standards, namely: 1 (Preparation of financial statements), 6 (Consolidated and separate financial

statements), and 22 (Disclosure of financial information about the public sector). The study concluded that these standards, which were chosen by the researchers, are not applicable to the Belgian financial environment for several reasons, including: the difference in the level of the Belgian government in the field of accounting systems, the lack of conviction among accountants in Belgium and their non-compliance with the application requirements, and finally, the lack of information required to apply the aforementioned three standards in the annual financial reports published by the National Bank of Belgium.

2.1. Definition of public accounting

Public (government) accounting All legal rules and provisions that define and govern how the accounts and operations of the state, the Constitutional Council, the National People's Council, the Accounting Council, supplementary budgets, local authority budgets, and public institutions of an administrative nature. It also specifies the obligations and responsibilities of authorizing officers and public accountants. Budget implementation refers to both the execution of expenditure and the collection of revenue.¹

(Ahmaro, 2003) defined it as a set of studies of a group of accepted principles, activities, and standards, and an applied study of technical methods of collecting, classifying, summarizing, and analyzing data related to government activity, with the aim of imposing financial and legal oversight on government revenues and expenditures, as well as for the purpose of making appropriate decisions.

2.1.1 Modernization of public accounting in Algeria

The public accounting system in Algeria underwent several reforms, particularly in 1995, due to the shortcomings of the system in light of global developments. This led to the adoption of the French model in preparing the state's accounting plan. However, this plan was quickly abandoned because it did not meet international accounting standards. Algeria then introduced a new reform in 2005, and this time the accounting plan for the state's financial operations was based on internationally accepted standards. To date, Algeria has been unable to implement this new reform, as it seeks the right climate for its implementation. Here, we will discuss the main motives that led the Algerian regime to adopt these reforms.

2.1.2. Public sector accounting standards

International Public Sector Accounting Standards will enable managers to use this new set of standards to aid decision-making by mitigating them with initiatives based on the desire to justify budgets by any means necessary. (Mhamed, 2022)

¹ Law 90-21 on public accounting, 1990, published in the Official Journal of the Algerian Republic

2.1.3. Advantages of adopting public accounting standards in the public sector

There are many advantages that can be achieved if political systems adopt international accounting standards in the public sector at the local and global levels, which can be summarized as follows: (Abou REDA & Abu Yousef, 2020)

- Consistency and harmony
- Comparability
- Keeping pace with globalization requirements
- Meeting legal requirements
- Meeting the requirements of local and international financiers outside the country
- Comprehensibility and the possibility of a unified and shared understanding of financial statements
- Improved quality of financial information provided

2.1.4. Beneficiaries of information in the field of public accounting

Public accounting is a set of important information that benefits entities that apply the public accounting system at the institutional level, as follows: (ACHAA, 2022)

Executive authority: The executive authority relies on the reports and financial statements provided by public accounting to evaluate the performance of administrative units, monitor their activities, identify deviations, and assist in planning and decision-making processes.

Legislative authority: The data produced by public accounting helps to monitor the activities and operations of government units by assessing their compliance with the rules and procedures for collecting public revenues. This data also helps the legislative authority to plan for the future and approve future public budgets.

Investors: This category includes current or prospective investors, both domestic and foreign, who study this data for information on the strength of the government's financial position, economic growth rate, debt level, and the state's ability to repay. This data and information plays an important role in convincing investors, whether domestic or foreign, to make various investments.

Creditor countries and financial institutions: They are interested in studying the country's financial situation and its ability to meet its obligations and service its debts.

Members of the public: In general, whether they are taxpayers or recipients of public services or subsidies and public assistance, this group needs reports containing information and indicators that help them understand the efficiency of government agencies in using the funds and resources collected from the people and their wealth,

and also in identifying the extent of fairness in the distribution of public goods and services to the people.

3. Project to reform the public accounting system in Algeria

As is well known, the 1995 accounting reform project failed due to difficulties encountered in implementing this reform, which was represented in the state accounting plan. However, the state did not stop at this obstacle but initiated a new reform in line with international accounting standards for the public sector. Algeria entered into agreements to prepare a project to reform its accounting system with the assistance of the French consulting firm GIP-ADETEF (a French firm specializing in public accounting reform) to benefit from French experience in the field of accounting reform. A four-year period was agreed upon, with work scheduled to begin in February 2005 and end in April 2009. A working group was also formed to focus on administrative aspects, with the creation of administrative committees tasked with overseeing the reform process, in addition to the project team represented by the General Accounting Department at the Ministry of Finance. (Bouabbana & Hassiani, 2021) The preliminary study of the project mentioned by Algeria can be summarized in the following table:

Table 1

Preliminary study for the modernization of the public accounting system in Algeria.

Title of study	Period of study	Content of study
Start of work	From February 15, 2005 to April 1, 2005	During this period, various contractual and administrative aspects were studied to determine the start date of the project and announce it by preparing a project launch report.
Start of presentation of reform principles	From April 1, 2005 to July 30, 2005	Various tests related to the reform of the public accounting system were identified and formulated and presented for consultation during this period.
Selection of expenditure cycle	From August 1, 2005 to November 1, 2005	At this stage, the conceptual framework for various aspects of the system was developed.
Report on cash flows	From November 1, 2005 to February 1, 2006	During this period, working methods and their implementation were studied, the working system was examined, the terms and conditions for the supplementary system were drafted, a system for monitoring and auditing state accounts

was proposed, and data for registering the modern system linked to the tasks and responsibilities of all officials was collected.

Source: Ministry of Finance, State Accounting Plan, Monthly Report, No. 30, Directorate General of Accounting, Algiers, December 2007, p. 36.

3.1. Objectives of the Public Accounting Modernization Project

Algeria sought to define the objectives of the new accounting framework for state financial operations. After the preliminary study was completed, these objectives can be summarized as follows: (Ministry of Finance, 2013)



Figure 1. This is a figure example

Source:

3.2. Evaluation of the project to modernize the public accounting system in Algeria

The project to modernize the public accounting system went through several stages before reaching the evaluation stage, which we will summarize in the table below:

Table 2
Evaluation of the project to modernize the public accounting system in Algeria

Title of study	Period of study	Content of study
Evaluation of the proposed system.	From January 1, 2006 to June 30, 2006	Study and evaluate the proposed system with a view to achieving comprehensiveness and identifying strengths and weaknesses.
Proposed guide to working methods.	From July 2006 to November 2006	Draft a manual for the accounting information system and general budget in order to define working methods.
Summary of international accounting standards for the public sector.	From December 7, 2006 to September 1, 2007	Provide a summary of standards for developing a chart of accounts for the state accounting system in line with international standards.
Meetings.	From December 2006 to September 2007	Correcting the additions to be made and providing an explanation of this project.
Guide to international accounting standards for the public sector.	From September 2007 to October 2007	Preparing a technical project manual for international accounting standards for the public sector.
Attempt to reconcile international standards and the accounting plan.	From June 2007 to April 2008	Working to find ways to adapt the state accounting plan to comply with international standards.

Source: Ministry of Finance, State Accounting Plan, Monthly Report, No. 30, Directorate General of Accounting, Algiers, December 2007, p. 37.

3.3. Finalizing the details of the project to modernize the public accounting system in Algeria

Table 3
Finalizing the details of the project to modernize the public accounting system in Algeria.

Title of study	Period of study	Content of study
Monthly report	From January 2008 to July 2008	Reformulation of the specifications relating to public expenditure.
State accounting plan guide	From January 2008 to October 2008	Study of the model defining how the state accounting plan is to be applied.
Draft texts	From January 2008 to October 2008	Drafting of administrative texts and documents.
International accounting plan.	From January 2008 to March 2008	Presentation of the state accounting plan and the financial statements for this system.
Draft Texts	From July 2008 to September 2008	Drafting of functional texts for the accounting and budgeting information system.
Reports Applicable to Training Programs	From June 2008 to September 2008	Preparation of basic configurations and programs to support the project implementation process.
Interim Report	From September 2008 to December 2008	This report explains how to roll out the project across all ministries.
Monthly Report	From December 2008 to March 2009	Support for the implementation of various previous reform proposals.
Final Report	April 2009	This report sets out the final vision for the modernization project.

Source: Ministry of Finance, State Accounting Plan, Monthly Report, No. 30, Directorate General of Accounting, Algiers, December 2007, p. 38.

4. Challenges that prevented the implementation of international public accounting standards

Algeria faced numerous challenges in applying international standards in public accounting, which can be summarized as follows: (Touileb, 2022)

- **Stakeholder involvement:** The level of awareness and understanding of IPSAS varies significantly across jurisdictions, as does the level of stakeholder involvement in its adoption. Public sector entities, ministries, parliaments, politicians, and the public are accustomed to cash accounting principles. Successful adoption of IPSAS requires understanding, education, and participation of key stakeholders, including political office holders, auditors, public accountants, state banks, and ministries. This is difficult and requires the executive branch of government to participate in and support the process, as well as the establishment of a public accounts committee or equivalent, and auditing and financing functions. However, this change will not succeed if it is imposed. Implementation requires political will to create momentum. Similarly, the adoption of international accounting standards for the public sector also requires successful internal participation. There must be cross-functional support, a strong partnership between finance and audit, and support for the audit function is particularly necessary.

- **Structural and legal transformation:** The task of structural reform to accommodate the application of international accounting standards for the public sector represents a major challenge. Legal changes are required, as well as new regulations and governance practices, which may be complex, time-consuming, and vary from country to country. There will also be a need for a government standards body and a financial committee to consider and deliberate on country-specific interpretations and applications. Some countries have chosen to introduce an advanced monetary standard as a useful milestone towards full implementation of IPSAS. Participants contributing to this study generally believe that 10 years for a full transition to IPSAS is realistic, although countries with federal and governmental models may take longer, possibly up to 20 years. Implementation plans should reflect constitutional, national, regional, state, and local circumstances. (EL-Saidi, 2022)

- **Change management:** Most countries that have adopted IPSAS have benefited from a subsequent and significant transformation and the inevitability of change. Adopting IPSAS requires effective project management, supported by change management capabilities and relevant expertise. Effective communication is also essential. The cultural change required by IPSAS is a major challenge that cannot be underestimated.

- **Skills and competencies:** Governments and public sector organizations may not have the required skills, competencies, and staffing levels. The adoption of IPSAS has been challenging in many countries, requiring the implementation of a training program to upgrade skills. There will be additional pressure to recruit and retain skilled staff focused on IPSAS. Beyond the skills challenge, there is a lack of basic knowledge and understanding of IPSAS. Other challenges will include translating

standards and guidance materials, including specific skills gaps in reporting areas, particularly in narrative reports accompanying financial statements to explain what the financial statements tell users. The adoption of IPSAS requires not only a step change in skills but also a change in financial culture and mindset to exploit the opportunities that professional accountants offer to create value, in addition to the technical skills required. There are country-specific language challenges that need to be addressed. Comprehensive accounting will affect a country's ability to recruit and retain qualified staff within the government, and implementation will require higher skills, which may lead to staff leaving the organization. However, it can also be seen as an opportunity to develop existing staff. The consideration here must be the balance between internal and external resources. External consultants should be used with caution, ensuring that appropriate knowledge transfer to internal staff is ensured in the long term.

- **Cost:** Implementation costs (both financial and resource-based) should not be underestimated from a funding and review perspective. Costs will be incurred for training, the use of specialized external consultants, IT upgrades, and the development of appropriate guidance and translation tools. Sufficient financial resources should also be allocated for the involvement of targeted stakeholders and other engagement and awareness-raising activities. Most countries have adopted International Public Sector Accounting Standards in conjunction with a broader program of public financial management improvement, which requires additional investment. (Sadaoui & Khali, 2021)

- **Technology and infrastructure:** Will not necessarily support implementation This may be necessary and will require expert advice and consultation to support configuration, user training, and business as usual transition. Adoption will likely require the replacement or adaptation of some existing IT systems, data structures, and chart of accounts. Reporting systems and structures may need to be updated as part of the transition.

- **Implementation approach:** Implementation plans should be considered on a country-wide basis. Some countries have developed a phased approach rather than a "big bang" implementation. A project management approach, including change management, is important for implementation. It is essential to learn from others who have already undertaken the process and identify replicable best practices. The implementation of IPSAS may have a short-term negative impact on service delivery, and this risk must be managed.

- **External support:** Governments and public sector entities can benefit from external support. Professional accounting organizations can help raise awareness of the need for transparent financial statements in the public sector by providing training on accounting standards. donors can support the professionalization of public sector financial management, while audit firms and other stakeholders can assist with training in public financial management, expertise, and capacity building.

Conclusion

In this study, we have provided a comprehensive overview of the reality and challenges of Algeria's success in modernizing its public accounting system through the application of international public sector accounting standards, given the advantages these standards offer the public sector in terms of transparency of public sector financial statements and improved quality of information. This change is also characterized by enhanced confidence in the financial statements provided to those who need them. However, this radical transformation has not been and will not be easy, but has faced many challenges. The main reason for these challenges can be concluded to be the lack of coordination between the various directorates and the Ministry of Finance, not to mention the problem of knowledge sharing and the lack of efficiency in the public sector. After studying this topic, we have reached the following conclusions:

- ❖ The state no longer has a choice but to keep pace with developments and apply international public accounting standards to ensure transparency in the presentation of information, especially in Algeria, to enable the people's representatives to clearly read the state's revenues and expenditures and also to know the state's financial liability.
- ❖ International accounting standards play a major and important role in enhancing the quality of accounting information in the public sector, providing a clear and transparent reading of financial information, and ensuring its reliability and comparability at the international level so that users can benefit from it, thereby preventing the squandering of public funds.
- ❖ International public accounting standards can achieve harmonization of accounting policies at the international level by providing advice and guidance to accounting professionals in order to improve the quality of financial statements while ensuring disclosure of the activities of public sector entities.
- ❖ The application of international public sector accounting standards is a double-edged sword for the government because, if these standards are used optimally and applied properly, this increases the people's confidence in their government. However, if the government fails to manage its financial affairs or fulfill its obligations, this makes it more accountable to the people and stakeholders.
- ❖ There are many challenges to implementing international accounting standards for public accounting, including varying levels of awareness and understanding of these standards, or perhaps a lack of interest in this change among many of those concerned, which requires greater effort on the part of the government to create coordination and exchange skills and competencies in the public sector, while drawing on the private sector's experience in applying these standards.

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