

THE IMPACT OF ADOPTING INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS ON CORRUPTION: TRANSPARENCY AND FINANCIAL ACCOUNTABILITY

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Pregledni nučni rad

Abstract

Transparent operations provide clear insight into all phases of business activities, thereby enabling their clear understanding. Transparency simultaneously serves as a barrier to corruption, which arises from the misuse of official or social position or influence for the purpose of gaining illicit benefit. Anti-corruption instruments are embedded within the standards themselves. IPSAS are designed to globally enhance the transparency and accountability of public sector entities. The effectiveness of IPSAS in combating corruption depends on the institutional context and the stage of implementation. This paper aims to examine how the implementation of IPSAS can contribute to reducing corruption. A conceptual and analytical approach is applied in the paper.

Keywords: IPSAS, transparency, corruption, forensic auditing.

JEL: H83, K42, M42

Introduction

Organizational governance encompasses establishing relationships that ensure the achievement of outcomes defined by stakeholders. In the public sector, governance should guarantee that desired results consistently serve the public interest. Acting in the public interest requires commitment to ethical values, respect for the rule of law, and an environment open to comprehensive engagement of all stakeholders.

The main objective of public sector entities lies in improving or maintaining the well-being of citizens, which distinguishes them from the private sector, which is profit-oriented. For instance, the implementation of social policy may at times require giving greater weight to issues of equality and fairness than to the financial performance of activities aimed at achieving those goals. Public sector entities are often obliged to reconcile the interests of various groups in society. They hold the authority to regulate entities from certain economic sectors and to protect and promote the interests of citizens, consumers, and other stakeholders (IFAC & CIPFA, 2014).

The paper is structured as follows. The first section focuses on examining IPSAS as a component of the public sector environment. The second section explores IPSAS as a tool for combating corruption. Conclusions are presented in the last section.

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IPSAS as a component of the public sector environment

The emergence and development of International Public Sector Accounting Standards (IPSAS) is a relatively recent phenomenon that was formally institutionalized in 1986 with the establishment of the International Public Sector Accounting Standards Board (IPSASB, 2023a) by the International Federation of Accountants (IFAC). The goal of adopting IPSAS has been, and continues to be, the reform of public sector financial reporting in line with modern principles of public sector governance, directed toward transparent, clear, efficient, and effective use of public resources and accountability to citizens and other stakeholders served by the public sector.

The IPSASB formulated these standards with the long-term aim of replacing the traditional cash-based reporting system in the public sector with an accrual-based system that captures all economic events, i.e., all transactions, regardless of whether they are completed with cash flows. In other words, the objective of these standards is to replace the traditional cash accounting system in the public sector with accrual accounting, which is widely applied in the private sector (Pina, Torres, 2003; Olson et al., 2000). The cash-based accounting system does not provide comprehensive information for decision-making, as it focuses solely on recording monetary transactions. “The development of accounting theory and practice, although not very dynamic, has influenced financial accounting” (Nićin, 2024). “Understanding the information system relevant to financial reporting is a matter of the auditor's professional judgment” (Zekić, 2015).

In addition to IPSAS, the IPSASB also issued a specific standard for financial reporting on a cash basis, *IPSAS: Financial Reporting under the Cash Basis of Accounting*, which sets out mandatory requirements and recommended guidelines for disclosure of transactions. This standard encourages entities to voluntarily disclose accrual-based information, even if their primary financial statements are prepared under the cash basis of accounting.

One of the key drivers for IPSAS adoption is the requirement for operational transparency. Transparent operations provide clear insight into all phases of business activities, thereby enabling more detailed knowledge of such activities and their clear understanding. Consequently, transparency increases the number of stakeholders and stimulates their active participation in public engagement. At the same time, transparency acts as a barrier to corruption, which arises from the misuse of official or social position or influence for the purpose of gaining illicit benefit (Law on the Prevention of Corruption, 2022). “Certain positions in the financial statements are a frequent target of fraudsters” (Gogić, 2022). Forensic accounting is defined in the literature as an interdisciplinary field that combines accounting, auditing and investigative techniques in order to detect, prevent and resolve financial fraud. This topic was the subject of research by various authors, who emphasized its key role in the fight against corruption, abuses and other forms of financial crime (Mitrić et al., 2012; Ilić, Anđelić, 2017; Cvetković, Bošković, 2018; Đorđević, Mitić, 2020; Knežević et al., 2021a; Knežević et al., 2021b; Knežević et al., 2022; Janković et al., 2023; Mitrović et al., 2025; Milojević et al., 2025; Milojević, 2025, Matejić et al., 2025).

IPSAS as an anti-corruption instrument

The literature contains a considerable body of research on whether the application of IPSAS can reduce corruption in the public sector. Much of the literature supports the claim that accrual-based accounting systems reduce corruption. There is also evidence that the application of IPSAS, allowing the use of cash-based accounting, as an initial step toward the adoption of accrual-based IPSAS, helps bring corruption under control. Studies by Tawiah (2023), Hamed-Sidom et al. (2022), and Cuadrado-Ballasteros et al. (2020) confirmed that accrual-based accounting systems mitigate corruption. Research results on the impact of IPSAS adoption on governance quality and corruption control, focusing on three Southern European countries – Spain, Portugal, and Italy, indicate that in countries

with a strong institutional framework (Spain), IPSAS adoption ensures a high level of financial transparency, governance, and corruption reduction. Partial IPSAS adoption (Portugal) and the ongoing transition of the Italian public administration toward IPSAS show less favorable outcomes (Maali, Morshed, 2025). Findings also suggest that increased clarity reduces information asymmetry between government authorities and the public, compelling public officials to act in public interest (Scannell, Tawiah, 2024).

Concrete anti-corruption mechanisms embedded in IPSAS include: the requirement to recognize all liabilities, receivables, revenues, and expenses at the time they occur; standardized presentation of all data; disclosure and valuation of total public assets; recognition of risk factors from contractual obligations; consolidated reporting; and more. These requirements enhance control over public resources, reduce opportunities for manipulation, and facilitate the functioning of oversight processes as well as financial and performance auditing. Standardized data, accrual accounting, and transparency enable precise analysis of cash flows, assets, liabilities, and budget variances, thereby significantly strengthening institutional resilience against misuse (Beke Trivunac et al., 2024).

Table 1: Examples of IPSAS - Embedded Procedures Contributing to Corruption Reduction

IPSAS or Component	Anti-Corruption Procedure Embedded in IPSAS	Contribution to Corruption Reduction
Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities	Recognition of all liabilities, receivables, revenues, and expenses at the time of occurrence	Preventing concealment of debts and obligations
IPSAS 1 Presentation of Financial Statements	Standardization of data presentation	Facilitating auditing and public oversight
IPSAS 17 Property, Plant, and Equipment	Recognition and valuation of all public assets	Preventing untraceable privatization
IPSAS 24 Presentation of Budget Information in Financial Statements	Comparison of planned and actual results	Detecting variances and misuse of funds
IPSAS 30 Financial Instruments: Disclosures	Recognition of risk factors and all contractual obligations	Preventing manipulation of public resources
IPSAS 35 Consolidated Financial Statements	Inclusion of all entities in reporting	Reducing the “grey zone” in public finances

Source: Authors’ own elaboration

Another dimension of IPSAS's contribution to corruption reduction lies in creating conditions that facilitate forensic auditing processes. The increased effectiveness and efficiency of forensic investigations arise from several factors:

- (1) **Transparency and accountability** required by IPSAS create an environment in which abuses are easier to detect and prove.
- (2) **Standardized data** provide a reliable foundation for forensic analysis. IPSAS ensures consistent, accrual-based data on assets, liabilities, revenues, and expenses. Forensic investigators use these data to identify anomalies, such as misclassified expenditures, undisclosed assets, and mismatches between budgeted and executed figures.
- (3) **IPSAS 24 Presentation of Budget Information in Financial Statements** requires a comparison of planned and actual budgets, which enables the detection of variances and the reconstruction of cash flows in suspected cases of misuse.
- (4) **IPSAS 17 Property, Plant, and Equipment** requires detailed recognition of fixed assets. Forensic investigations use this data to uncover fictitious or non-existent assets and track transfers of assets between entities.
- (5) In combination with systems that integrate public sector functions: budgeting, accounting, procurement, asset management, and human resource management – into a unified digital platform, IPSAS facilitates transparent and consolidated management of public finances. Such digital platforms are often developed during the transition process to new standards.

IPSAS have the capacity to illuminate what was previously hidden, and that is the first step toward accountability to citizens and other stakeholders.

Table 2: Examples of IPSAS - Embedded Procedures Facilitating Forensic Investigations

IPSAS or Component	Procedures Embedded in IPSAS Supporting Forensic Methodology	Application in Investigation
IPSAS 1 Presentation of Financial Statements	Business model reflected in financial statements	Forensic reconstruction of flows and concealment of transactions
IPSAS 12 Inventories	Disclosure of inventory valuation methods	Detection of fictitious inflows/outflows and value manipulations
IPSAS 17 Property, Plant, and Equipment	Monitoring the sequence of transactions	Detection of fictitious, unreported, or transferred assets
IPSAS 22 Disclosure of Financial Information about the General Government Sector	Mapping relationships among entities	Detection of related parties and hidden financial flows
IPSAS 24 Presentation of Budget Information in Financial Statements	Analysis of deviations between actual and planned budgets	Identification of misappropriations and hidden expenditures
IPSAS 30 Financial Instruments: Disclosures	Identification of contractual risk factors	Detection of irregularities in public procurement and contracts
IPSAS 31 Intangible Assets	Disclosure of intangible assets	Verification of usage rights, licenses, and valuations

IPSAS 33 First-Time Adoption of Accrual Basis IPSAS	Disclosure of audit trail during transition	Tracking system changes and detecting manipulations
Concept of Materiality	Disclosure of the needs of various stakeholders	Assessment of whether misstatement or omission could influence financial statement users

Source: Authors' own elaboration

IPSAS never operate in isolation. Their effectiveness depends on institutional will, auditing capacity, and public access to information. According to the *Framework for Ethical Reporting in the Public Sector* (International Federation of Accountants, 2023b), enhanced stakeholder engagement, stable and reliable oversight of operations and performance, and monitoring of those primarily responsible for determining the strategic direction, management, and accountability of entities lead to more effective interventions and better outcomes for the public as a whole.

Conclusion

The IPSAS accounting framework is designed to globally enhance the transparency and accountability of public sector entities through the application of accrual-based accounting. Their effectiveness in combating corruption depends on the institutional context and the stage of implementation.

Anti-corruption instruments are embedded within the standards themselves. Therefore, the introduction of IPSAS is associated with strengthening institutional resilience. The application of IPSAS simultaneously enhances financial reporting. It increases operational transparency in public sector entities, thereby laying the foundation for a more effective fight against corruption in the public sector.

It should be noted that the positive effects of IPSAS implementation do not occur automatically but depend on the presence of appropriate complementary factors, including institutional readiness, political stability, the quality of the legal framework, and the adequate education and capacity of accounting and auditing services.

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UTICAJ USVAJANJA MEĐUNARODNIH RAČUNOVODSTVENIH STANDARDA NA KORUPCIJU: TRANSPARENTNOST I FINANSIJSKA ODGOVORNOST

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Rezime

Transparentno poslovanje obezbeđuje jasan uvid u sve faze poslovnih aktivnosti, čime omogućuje njihovo jasno razumevanje. Transparentnost je, istovremeno, prepreka pojavama korupcije, koja nastaje korišćenjem službenog ili društvenog položaja ili uticaja radi sticanja nedozvoljene koristi. Instrumenti za borbu protiv korupcije ugrađeni su u same standarda. MRS JS su dizajnirani da globalno poboljšaju transparentnost i odgovornost entiteta u javnom sektoru. Efektivnost MRS JS u borbi protiv korupcije zavisi od institucionalnog konteksta i faze implementacije. Ovaj rad ima za cilj da ispita kako implementacija IPSAS može doprineti smanjenju korupcije. U radu su primenjeni konceptualni i analitički pristup.

Ključne reči: MRS JS, transparentnost, korupcija, forenzička revizija.

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