IPSAS adoption by the World Food Programme: an application of the contingency model to intergovernmental organisations

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Abstract: This paper intends to contribute to the body of literature that explores the drivers and reasons for public sector organisations’ accounting reforms. In 2009, the World Food Programme (WFP) became the first United Nations system organisation to successfully implement International Public Sector Accounting Standards (IPSAS) and full accruals accounting. This paper reviews the applicability of the contingency model (Lueder, 1992) and its subsequent version (Financial Management Reform model; Lueder, 2002) to intergovernmental organisations such as those making up the United Nations system. The WFP’s case is presented through the conceptual lens of the contingency framework and the case study findings are then used to further develop the contingency model for application to accounting reforms in intergovernmental organisations.

Keywords: accrual accounting; International Public Sector Accounting Standards; IPSAS; reform; intergovernmental organisations; IGOs; United Nations; World Food Programme; WFP; contingency theory.

1 Introduction

Intergovernmental organisations (IGOs) are adopting International Public Sector Accounting Standards (IPSAS); moving from cash- or modified cash-based accounting to full accruals. This trend includes the European Commission, NATO organisations, the OECD, and United Nations system organisations, all of which have adopted or are currently adopting IPSAS. In 2009, the World Food Programme (WFP) became the first United Nations organisation to successfully implement IPSAS. This major organisational change was described by WFP’s Executive Director, Ms. Josette Sheeran as a move from an ‘historical accumulation of rules that no one could understand’ to ‘best practice’:

“WFP’s financial statements used to be a Tower of Babel; an historical accumulation of rules and requirements. Now we have joined the rest of the world and WFP is following best practice. Updating for IPSAS requirements is less work than trying to keep up-to-date with ad hoc detailed requirements that no one understands completely and which have developed over many years for reasons that no one can explain.”

In the present paper, we use Lueder’s (1992) contingency model and its further development, the FMR model (Lueder, 2002) as a conceptual lens to analyse the accounting reform that happened at WFP. Lueder’s model has previously been used as a country-wide level framework to analyse and compare accounting reforms of whole countries or entire tiers of government. Our aim is to contribute to the further development of this theoretical framework by adapting the variables of this model to the context of a single organisation, taking into account the specificities of IGOs’ institutional and organisational context and further exploring the results of the accounting innovation, beyond the definition of a ‘more informative system’. This paper, thus, represents an original effort to apply the contingency framework to an IGO.
The introduction of accruals accounting is often portrayed as a fundamental (Hood, 1991, 1995; Lueder, 1992; International Federation of Accountants – Public Sector Committee, 1997) but also controversial [Olson et al., (1998), p.18; Lapsley, 1999] aspect of public-sector reforms. Indeed, accruals accounting has been praised as a more informative system for a variety of reasons [Barrett, 1993; Evans, 1995; Mellor, 1996; Funnel and Cooper, 1998; International Federation of Accountants – Public Sector Committee, (2002), pp.7–10] including that it allows the identification of costs of services and political programs; greater attention to cost control, efficiency, productivity, accountability on the use of resources, asset management, liabilities, financial position and long-term sustainability, long-term impact of decisions and emphasis on intergenerational-equity measurement; easier definition of public-service tariffs; comprehensive evaluation of such choices as privatisation, externalisation and borrowing.; and scope for constituents to better evaluate public organisations’ performances. Nevertheless, an increasing body of literature has criticised accruals accounting on both theoretical (Oettle, 1990; Ma and Matthews, 1993; McRae and Aiken, 1994; Guthrie and Johnson, 1994; Carnegie and Wolnizer, 1995; Lewis, 1995; Montesinos et al., 1995; Stanton and Stanton, 1998; Guthrie, 1998; Monsen and Näsi, 1998, 1999, 2000; Christiaens, 1999; Ellwood, 1999; Monsen, 2002) and practical grounds (Guthrie, 1998; Stanton and Stanton, 1998; Newberry, 2002; Carlin and Guthrie, 2003; Hodges and Mellett, 2003). For a review of this literature see Anessi and Steccolini (2005).

The literature initially focused on accruals accounting’s technical features and expected effects [Lapsley and Pallot, (2000), p.215]. More recently, the emphasis has shifted towards actual implementation and impacts. In particular, several studies have been published that compare the experiences of different countries and levels of government [among others, see for example, the papers contained in Chan et al. (1996) and Lueder and Jones (2003)]. From a theoretical viewpoint, many studies on the adoption of accruals accounting are founded on Lueder’s (1992) ‘contingency model’ and its subsequent developments (e.g., Chan et al., 1996; Lueder, 1994; Jaruga and Wojciech, 1996; Monsen and Näsi, 1998; Steccolini et al., 2008).
The contingency model of governmental accounting innovations was initially proposed by Lueder (1992) in order to analyse the transition from traditional governmental accounting to accruals accounting, viewed as "a more informative system" [Lueder, (1992), p.108], that is, a system that provides a more faithful representation of a government’s financial position and performance for both internal decision-making and external accountability. The contingency model is fundamentally an economic model in that it assumes a market for governmental accounting information (Chan et al., 1996). In its original formulation it is composed of four elements: users of accounting information; producers of accounting information; stimuli; implementation barriers. The model was then progressively adapted as other scholars used it to guide their own
analyses of government accounting reforms in different countries (Lueder, 1994; Jaruga and Wojciech, 1996; El-Batanoni and Jones, 1996; Montesinos and Vela Bargues, 1996; Bac, 1996; Likierman, 1996; Monsen and Näsi, 1998; Godfrey et al., 1996; Pallot, 1996). For a detailed review of this literature see Chan et al. (1996). These developments have led to a further revision by Lueder (2002), giving origin to the formulation of the Financial Management Reform (FMR) model (see Figure 1). The FMR model appears particularly useful as the starting point for our analysis as it corrects the emphasis of context over behaviours (Chan et al., 1996) evident in previous versions of the contingency framework and it establishes feedback and iterative/dynamic mechanisms to explain the design and genesis of the reform process, thus recognising the relevance of the temporal dimension in the adoption and implementation of reforms (for example, Pollitt, 2008). However, to date, the application of the contingency model has been characterised by the following features. First, the model has been applied at a country-wide level, that is, to analyse and compare the accounting reforms of whole countries or, at most, of entire tiers of government within countries. Second, it has been strongly targeted towards national systems (social structural variables, i.e., ‘socioeconomic status’ or ‘political culture’). No attempts at applying it at the supra-national and IGO level have been made. Third, it has generally defined the ‘dependent variable’ (innovation) in a generic way as the adoption of a “more informative system” (Lueder, 1992).

The aim of this paper is to contribute to the further development of the FMR model by adapting its variables to the context of a single organisation, taking into account the specificities of IGOs’ institutional and operational context, and further exploring and defining the results of the accounting innovation (i.e., the dependent variable of the model) beyond this general definition.

3 Methodology

3.1 World Food Programme as case study

This paper focuses on the experience of one United Nations system organisation, the World Food Programme (WFP). WFP was established in 1960 by FAO and the United Nations General Assembly. It is the largest multilateral food aid organisation in the world, serves 102.1 million beneficiaries in 78 countries, and delivers annually 3.9 million metric tons of food. WFP’s annual budget is about 3 billion USD, funded by voluntary donations from governments, other institutions, and individual donors.

WFP was chosen because it is the first United Nations system organisation to adopt IPSAS, moving from a modified cash basis to full accruals. WFP produced its first set of IPSAS financial statements in 2009 for the 2008 financial year. Other United Nations system organisations will be producing their first set of IPSAS financial statements in 2011, with the remainder expected to implement from 2012 to 2014. Information about the impact of the new information, already evident in 2009, is described further below.

3.2 Exploratory case study

The analysis of WFP’s transition to accrual accounting is conducted as an exploratory case study. The insights gained from the application of the contingency framework to this
exploratory study will be used to identify a revised model applicable to similar studies on the drivers and results of accounting change in IGOs.

Our analysis relies on a review of official documents, records of official speeches by people involved in the change, and participatory observations. The documentary analysis took into consideration:

1. minutes of the WFP Executive Board’s meetings between 2002 and 2008
2. minutes of the Task Force on Accounting Standards’ meetings and the HLCM meetings between 2004 and 2009
3. external auditors’ reports on WFP’s financial statements and on issues directly or indirectly related to IPSAS adoption between 2002 and 2009
4. WFP’s progress reports and periodic briefings to the Executive Board on IPSAS adoption between 2006 and 2009.

WFP’s representatives’ official speeches and presentations are mainly derived from system wide meetings (e.g., Task Force meetings and HLCM meetings) in the period between 2004 and 2009. Participatory observations were made for the period from 2005 to 2009 by one of the authors, with specific reference to the system wide accounting reform decision process (2005 to 2006) and the subsequent IPSAS implementation process (2006 to 2010, ongoing). Responsibilities included facilitating organisations’ accounting reform decision and subsequently supporting their implementation of IPSAS, and monitoring their progress towards full implementation. The Annex contains a list of the primary sources used to study the case.

4 Case study: IPSAS adoption in WFP

4.1 WFP’s Executive Director as reform promoter and the external stimuli for IPSAS adoption

In 2002, James Morris was appointed WFP’s Executive Director, the equivalent of Chief Executive Officer (CEO). An American, Morris had significant private and not-for-profit management experience. Given his background, he is likely to have found WFP’s financial statements deficient at best and misleading at worst.

WFP’s financial statements, consistent with United Nations System Accounting Standards (UNSAS), applied a modified cash basis of accounting. WFP’s biggest liabilities, those arising from employee benefits, were not reported. Food inventory, although central to WFP’s mission, was not reported, along with other assets such as buildings, vehicles, and investments in software. In a post-ENRON environment, with the Sarbanes-Oxley legislation forcing US firms to tighten their governance and financial reporting and consultants telling not-for-profits that they should follow that lead or risk a lack of credibility that could impact their funding, this poor quality reporting presented a significant risk. Bad publicity about accountability could have had a serious impact on WFP’s funding, which is voluntary in nature.

Morris emphasised the importance of good financial reporting. His first presentation to WFP’s Executive Board included a focus on strengthening WFP’s governance, with improvements to WFP’s financial reporting seen as contributing to effectiveness and
efficiency. In 2004, WFP’s biennial financial statements were included for the first time, in the board’s annual meeting documents. By making the financial statements available, Morris emphasised their importance for governance.

By early 2005, Morris had gained an ‘in principle’ decision from WFP’s Executive Board for adoption of ‘international accounting standards’. But without United Nations system-wide support for accounting reform WFP would have found it very difficult to proceed. WFP was ready for reform. At the system-wide level accounting reform was experiencing significant resistance.

4.2 Institutional arrangements and United Nations system-wide resistance to accounting change (implementation barriers)

The Task Force on Accounting Standards (Task Force), a system-wide group made up of directors of accounting of all United Nations system organisations, is responsible for development of United Nations system accounting. With reference to the contingency framework the Task Force needs to be interpreted as an extremely influential stakeholder formed by peer professionals of reform decision makers. The Task Force would have been able to legitimise accounting reform. But initially the Task Force, headed by the United Nations’ Director of Accounting, resisted fundamental change, opposed unilateral accounting reform by any individual organisation, and supported the accounting status quo, i.e., UNSAS.

When the WFP’s deputy director of finance reported that WFP’s management was reviewing the possibility for WFP to adopt IAS/IPSAS, the Task Force’s Chair expressed disappointment and:

“...strongly discouraged any organization taking such a decision unilaterally until the study on standards for the UN common system was decided and agreed upon by HLCM.”

At a joint meeting with the Technical Group of the Panel of External Auditors, which followed soon after, the Task Force Chair explained that:

“...adoption of IPSAS or any other international standard will be very complex and will be an expensive undertaking. As a result, in the interim the Task Force is conducting a review of UNSAS with a view to making it more prescriptive. This is ongoing work.’

In contrast to resistance at the Task Force level, the HLCM appeared to be more open to change. In 2003, responding to pressure from external auditors and reform-oriented organisations such as WFP, HLCM approved a project to review UNSAS. But the reform resistant Task Force Chair was tasked with supervising the project. The project’s terms of reference described a two year study into ‘ways to improve UNSAS’. By December 2004, the project’s start had been delayed by one year and attempts to recruit a project leader were still unsuccessful.

The news that WFP wanted to move ahead without reference to the Task Force helped to kick-start the project into life. A project leader, Gwenda Jensen, was appointed and took up her position in March 2005. Jensen, coming from a New Zealand public sector background and convinced of the benefits of full accruals, acted as a reform driver. She advised Task Force members on the benefits of accrual accounting and IPSAS adoption. More importantly, during 2005 Jensen gained the support of the newly
appointed United Nations’ Under-Secretary-General for Management. His role proved decisive in over-riding Task Force resistance to reform.

4.3 The oil for food scandal as new external stimulus and a new Under-Secretary General as political reform promoter...

Chris Burnham was appointed United Nations’ Under-Secretary-General for Management in June 2005. He was appointed with a management reform agenda that made him an important new political reform promoter, bringing forward an imperative for greater transparency and accountability. The United Nations had come under severe pressure to reform due to its role in the oil for food scandal. This pressure culminated in the release of the Volker report in March 2005, which called for improvements in governance, transparency and accountability. Burnham, an US, had a strong background in finance and administration. His past roles included Chief Financial Officer at the State Department, Treasurer of the State of Connecticut, and CEO of a major investment firm.

The oil for food scandal did not involve accounting irregularities, and financial reporting was not initially viewed as relevant to the reforms, despite their focus on governance, transparency and accountability. Jensen approached Burnham directly, appealed to Burnham’s familiarity with US private and public sector financial reporting requirements, made the case for United Nations system organisations’ adoption of IPSAS, and gained his support. The oil for food scandal appears to have played a significant role in directing the reform design towards a full adoption of IPSAS, as opposed to an adapted version of the standards as happens in many national legislations. IPSAS, as independently produced standards, provide external legitimacy and an external guarantee of quality that internally developed standards do not provide.

When HLCM met in October 2005 Burnham expressed the United Nations’ view that the accounting standards project be completed as soon as possible, with a recommendation in favour of IPSAS adoption. Reform-oriented managers from other organisations supported his position. The Task Force met in November 2005 and, unsurprisingly, agreed with the United Nations Under-Secretary-General’s and HLCM’s view that IPSAS adoption be recommended. With further support from Burnham, IPSAS adoption was then included in an omnibus reform report ‘Investing in the United Nations’, submitted to the General Assembly. In July 2006, the General Assembly approved IPSAS for the United Nations itself and noted that other United Nations system organisations planned to adopt IPSAS by 2010 with some organisations moving ahead earlier.

The system-wide support that WFP needed had been achieved. WFP’s Executive Board formally approved WFP’s adoption of IPSAS in June 2006, anticipating by a few weeks the General Assembly’s July decision.

4.4 Member states, IGOs and external auditors: from stakeholders to reform drivers and political reform promoters

Burnham’s actions as a reform promoter were decisive, but he did not work alone. Behind him stood member states pushing for management reform, the vocal minority of reformers within the HLCM, and external auditors. If the need for accounting reform had not already been raised within the United Nations system, the issue could not have been raised with Burnham and made part of the United Nations’ 2006 reform package.
Burnham’s decision to back IPSAS adoption was informed by the wider group of IGOs. The decision was made with reference to IGOs that had already implemented IPSAS: the European Commission, OECD, and NATO. It was also made with reference to IGOs that supported its use (the World Bank, Asian Development Bank, UNDP, IFAC, and the IMF). In contingency framework terms, the group of IGOs outside of the United Nations – and their finance directors – played the role of an important epistemic community, which validated and guided the choice of full IPSAS implementation.

The external auditors had a particularly important role to play as reform drivers. This is evident through consideration of the role played by WFP’s external auditor, the UK’s National Audit Office (NAO), in supporting WFP’s reforms. A 2004 NAO report on the possibility of WFP adopting international accounting standards concluded in favour of reform. The NAO could be expected to support adoption of accruals accounting, since it had already supported UK public sector entities’ adoption of full accruals accounting during the 1990s. The report had been provided in response to a request from WFP’s senior management. In effect, a reform promoter – WFP’s senior management – had engaged the services of a reform driver, the external auditors, which then presented arguments in favour of reform to WFP’s Executive Board.

4.5 WFP’s implementation strategy and barriers

The WFP IPSAS team was formed in mid-2006 and, just 18 months later, on 1 January 2008 WFP went live with IPSAS. But implementation began earlier, with some critical implementation tasks beginning in 2005. Work also continued throughout 2008 and into early 2009, before managers could be confident that WFP’s 2008 financial statements would gain an unqualified audit opinion. This major achievement took a dedicated project team, $3.7 Million USD (excluding IT system costs and non-project staff), and slightly over four years.

As stated above, WFP’s top management gained its Executive Board ‘in principle’ agreement for adoption of international accounting standards in 2005. Senior accountants then developed a budget and timetable for adoption, then formal approval was gained in mid-2006. In the following 18 months, the project team developed accounting policies and procedures, implemented an intensive communication and training programme, worked with the information systems upgrade project team to ensure that the new system would support IPSAS, developed a new Chart of Accounts, and developed pro-forma IPSAS financial statements. During 2008, interim IPSAS statements were prepared at six months and nine months. The nine months statements were reviewed by the external auditors, who identified a list of issues requiring further work.

WFP’s implementation was significantly participative and guided. WFP’s implementation was accompanied by a similarly comprehensive system-wide development and issuance of IPSAS guidance and accounting policies, aimed primarily at IPSAS adoption support, but with the secondary aim of ensuring harmonised IPSAS implementation across the United Nations system. The system wide IPSAS project team and the Task Force were important points of reference on IPSAS interpretation issues for WFP’s team. Moreover, in 2007 with the issuance of a United Nations system wide ‘stable policy platform’ WFP could rely on an agreed framework of IPSAS policy and guidance for United Nations system organisations. At the same time, WFP was very far ahead of other organisations; the organisation’s policy choices and implementation experience represented a significant learning opportunity for the others.
WFP encountered implementation barriers experienced by other implementers of accrual accounting, including:

- **Financial regulations and rules**: These required changes to allow various IPSAS requirements, with the first set of changes effected in 2006.
- **People**: Staff, management and stakeholders were unfamiliar with accrual accounting requirements and IPSAS specifics and there was resistance to change. An extensive communication and training programme was rolled out, including strong messages on the benefits.
- **Accounting issues**: There was a need to resolve challenging accounting issues and to apply IPSAS to WFP specifics. Issues included valuation of donated inventory, segment reporting within a fund accounting environment, employee-related liabilities, revenue from funding agreements, budget information, and extensive new disclosures related to financial instruments.
- **Information systems**: WFP’s information system had to be upgraded in order to produce the new financial information to the necessary level of audit assurance – particularly information on inventory. The ‘WINGS II’ information system project was run in conjunction with IPSAS implementation, but fell behind and additional work was necessary to cope with system gaps in 2008.
- **Geographic context**: WFP’s worldwide coverage meant that staff had to be trained worldwide often within under-developed countries and financial transactions, assets and liabilities tracked worldwide.

The implementation process ended with a final frantic push to reach full compliance. As late as January 2009, WFP’s external auditor reported to the organisation’s governing body that full IPSAS compliance might not be achieved for 2008. Audit concerns included both a list of issues identified in the nine months interim statements and the fact that the new information system would not be ready until half-way through 2009; special procedures had been developed to address opening and closing balances for items such as inventory. The issues raised in that January 2009 report were addressed, with the result that the final outcome was a ‘clean’ audit opinion on WFP’s 2008 financial statements.

### 4.6 The accounting reform outcome

WFP successfully achieved its intended accounting reform with the full implementation of IPSAS in 2008. As stated above, full compliance with IPSAS was verified by the external auditor on WFP’s 2008 Financial Statements.

The change from UNSAS to IPSAS meant major changes to the information reported in WFP financial statements. WFP moved from a modified cash basis for accounting to full accruals. Further changes included: reporting on an annual basis (rather than the United Nations system norm of biennial reporting); no longer using ‘funds reporting’; a large increase in note disclosures; and the provision of budget-actual information that complies with the requirements of IPSAS 24. This very large increase in transparency can most clearly be seen in its impact on WFP’s balance sheet. US$1,072 million of assets (US$1,022 million of inventory, US$19 Million of property, plant and equipment, and US$31 Million of intangible asset), a 28% increase in total assets compared to reporting under UNSAS, were reported for the first time (the amount of PPE is underestimated
because WFP invoked IPSAS 17 transitional provision which allows progressive recognition of assets). Liabilities increased by US$240 Million, a 34% increase in total liabilities, as previously unreported employee benefit liabilities were reported.

Information available from the new look financial statements immediately attracted the attention of key decision makers. For example, the ACABQ and the Executive Board of FAO discussed the appropriateness of WFP’s $1 Billion inventory levels in relation to WFP’s business model; the extent and nature of WFP’s $1.6 billion of cash and financial investments; the size of its accrued employee benefits liabilities and the extent of its funding; and, the significance of WFP’s reported surplus. Benefits highlighted by WFP senior management include enhanced Executive Board oversight of WFP’s financial and operational performance. As early as 2009, the first year that the new information was available, there was evidence that the new information was introducing changes to WFP’s financial management practices. As a result of the board’s discussion of WFP’s 2008 IPSAS financial statements, WFP’s Secretariat committed to the following specific actions:

- further develop WFP’s investment policy and guidelines to present to the Board’s 2009 Second Regular Session
- carry out an asset-liability study to determine the appropriate level of funding for employee liabilities
- provide a more holistic treatment of ‘post-delivery losses, write-offs and ex-gratia payments’ in future annual accounts.

In summary, WFP’s IPSAS adoption reform decision has had several specific results. First, it has resulted in the comprehensive achievement of the intended reform design, i.e., IPSAS adoption. Second, the reform has meant an increase in transparency. Third, new financial management issues have been identified and WFP is investigating changes to its financial management practices in order to address those issues.

5 Discussion: a revised contingency model for IGOs

As discussed in Section 2, the contingency framework has previously been used as a country-wide level framework to analyse and compare accounting reforms of whole countries or entire tiers of government. The aim of this paper is to contribute to the further development of this theoretical framework by:

1 applying it to the context of a single organisation
2 adapting the variables of the contingency model to the specificities of IGOs’ institutional and organisational context
3 further specifying the concept of accounting innovation and results of accounting reforms, going beyond the idea of a ‘more informative system’, as proposed by Lueder.

In the present section, the evidence from the WFP exploratory case study is used as the basis to propose an adaptation of the FMR model for application to IGOs. Figure 2 presents the FMR model adapted for application to IGOs. This adapted FMR model is proposed as a basis for future research, which could then either use, expand and further
revise the model or study in further detail the interactions between variables; thereby contributing to the application and testing of its explanatory power with respect to accounting innovation in IGOs.

**Figure 2** The revised contingency model for IGOs (see online version for colours)

5.1 Reform drivers, external stimuli, political reform promoters, and stakeholders

Within the FMR model ‘reform drivers,’ ‘external stimuli’ and ‘political reform promoters’ are described as the ones with the potential to initiate the reform process.
‘Stakeholders’ can either promote or resist change, but are not generally able to define the accounting reform or require its implementation. Based on the case, these four variables can be adapted to the context of IGOs, as described below.

**External stimuli.** IGOs operate in an international socio-political environment, with reform pressure arising from perceptions shared and channelled through member state representatives. The WFP case shows that external stimuli may arise from global trends or can be prompted by specific internal issues such as scandals, corruption cases and investigations, that impact on the credibility of either the whole group or an individual organisation. Indeed, IGOs still derive the large majority of their resources from the member states and, like national governments, are vulnerable to financial crises caused by economic downturns, public budget cuts and loss of confidence. Member states are able to direct voluntary contributions to a variety of alternative organisations and projects creating the risk of financial volatility for IGOs. For the many IGOs that depend on voluntary funding, credibility with donors is a critical factor in maintaining funding security and avoiding financial crisis.

IGOs can also, like national governments, be exposed to financial scandals. The oil for food scandal and corrupt procurement practices are two examples that have impacted the United Nations in the last decade. Critiques on insufficient accountability and management capability are usually moved directly by member states and, acting as financial resource providers, their impact on reform initiation is usually high.

The public sector reform agenda and the mainstream view on the superiority of accruals accounting are further stimuli that shape a specific response to scandals, critiques and financial crises. Starting from the mid 1990s IGOs have been exposed to the same new public management (NPM) reform agenda as that impacting on many governments. In many cases, reforms are brought about by public officials who experienced the same reform drive in their national contexts. The agenda for harmonisation of business practices and for coordination and coherence in field activities among IGOs has spread from the United Nations system and currently involves a wide group of intergovernmental development agencies. In the financial area, this agenda pushes for greater harmonisation of accounting policies and comparability of financial reporting among organisations to the benefit of the decision makers. More specifically, the doctrine of supremacy of accruals accounting over cash accounting has reached the IGOs’ decision makers indirectly, through external technical consultants in response to member states’ requests for accounting system modernisation or as a by-product of the public sector reform agendas.

**Reform drivers** are defined by the FMR model to be institutions and professionals in the reform field that promote reform through advice, talks, and publications. In the case of IGOs, we can identify external auditors, commissions of inquiry, epistemic communities, consulting firms and internal consulting functions, professional associations and standard-setting bodies and influencing groups as ‘reform drivers’. IGOs’ external auditors are generally the Supreme Audit Institutions (SAIs) of member states or, more rarely, international audit firms. These have been active in advocating FMRs, although their actual role in supporting their implementation may vary widely. In WFP’s case, the UK’s NAO had a proactive and participative role throughout WFP’s IPSAS implementation. The NAO’s previous experience in the introduction of accrual accounting in the UK’s public sector were important factors in the NAO’s willingness and ability to provide this level of reform promotion.
IGOs are widely exposed to the scrutiny of their member states through commissions of inquiry and in the last two decades have significantly strengthened their internal audit functions, administrative tribunals, evaluation and control offices. Widespread use is also made of one-off investigative studies such as the oil for food investigation.

Professional and academic communities and networks include epistemic communities, professional associations, standard-setting bodies and other influencing groups, which discuss, set, diffuse and may enforce professional and technical standards. Unlike the situation for national governments, finance professionals in IGOs are not associated with a single professional association. At the same time, at least in the United Nations system, finance professionals and directors form a very close group, which often rotates among organisations and develops its own professional culture and behaviour, similar to a small professional association. In addition, direct links between the IGOs’ external auditors and the IPSASB members may support the case for accounting change within IGOs. IGO professionals’ views are also influenced by the academic communities they are involved into as presenters or participants. The decision to adopt IPSAS in all the United Nations system organisations (including WFP) was mainly driven by two epistemic communities, the High Level Committee on Management (HLCM) and the Finance and Budget Network, with the first also acting as a system-wide decision-maker for harmonisation of business practices issues, and the second being the community of practice of Finance and Accounting Directors. These collective decisions represented a powerful stimulus and a point of reference used by organisations to build momentum, gather internal management support and catalyse resources for implementation.

IGOs use consulting firms for major reports, analyses and proposals of reform in the administrative and management area. Similarly to governments, implementation of new enterprise resource planning systems with built-in full accrual accounting systems is generally the means used by consulting companies and IT companies to push towards accounting change in IGOs. Within the United Nations system, the internal consulting function provided by the system-wide IPSAS project team was pivotal in providing evidence and analysis supporting IPSAS adoption. That internal consultancy was maintained and expanded post-decision in order to support implementation and provide consistent interpretation of IPSAS requirements across the system.

Political reform promoters are, within the FMR model, political actors that have the power to get an accounting change reform onto the agenda, get it approved, enforced and oversee its implementation. As shown in the case of WFP, where political promoters changed over time, IGOs have a variety of governance systems but, in the majority of cases, political power is diffused and transitory. The decision making process usually follows the process known as ‘consensus building’, the process of formation of coalitions around different positions that try to gain a critical mass of members to take the decision by consensus rather than by taking a vote. On this basis, it is hard to identify any single actor (either an individual person or group) that has sufficient power to get a reform onto the agenda, get it approved, and enforce its implementation. The political reform promoters can be Governing Bodies (e.g., the United Nations General Assembly or the WFP Executive Board); Member State Representatives (e.g., individuals representing individual nations or groups of nations); Top management (e.g., the Executive Director of WFP or the United Nations Under-Secretary General for Management); or high level interagency committees (such as HLCM).

Finally, stakeholders are defined in the FMR model as people or institutions that are positively or negatively affected by the accounting reform, but are neither reform drivers
nor political reform promoters. In the IGOs adapted FMR model, we took into consideration both the general public and the administrative and line departments. IGOs are heavily exposed to public opinion and media. Within the accounting reform agenda, public opinion may play a role when advocating for better value for money, transparency and a more accountable system to report on results. In the IGOs’ context, administrative and line departments have the burden of implementing new tasks and procedures such as evaluation of assets and liabilities, maintenance of inventory registries, and record of goods and services delivered for accounting purposes. Information systems may also require changes and customisations. These departments may actively or passively oppose accounting reform, in light of the burden that such change will place on them.

5.2 Institutional arrangements

Once the reform concept has been identified and approved, the reform needs to be implemented. Under the FMR model the ‘implementation strategy’ works through the ‘institutional arrangements’ to achieve the ‘reform outcome’. The implementation strategy must address these aspects, either by changing them or managing them. Institutional arrangements help to define the strategy during its development phase. Then causality reverses, as the implementation strategy is rolled out and acts to reform the institution.

For IGOs such as those making up the United Nations system institutional arrangements are made up of financial rules and regulations; business policies; organisational size, structure and level of decentralisation; civil service culture; and financial arrangements.

5.3 Implementation strategy and implementing barriers

Variables of the FMR model included in the ‘implementation strategy’ cluster are naturally geared towards reforms at the national government level (centralised/decentralised implementation; authoritative or participative approach; ‘big-bang’ or multi-step approach). The same variables can be usefully translated to each ‘family’ or system of IGOs to observe the existence of central guidance on interpretation of the new accounting rules and requirements, a participatory or authoritative process for implementation and a big bang or a multi step approach to accounting reforms. With reference to the United Nations system family of organisations, we showed in the WFP case that the IPSAS implementation followed an extremely participative approach, supported by a central Task Force and a technical team (the internal consultancy) issuing policies and guidance. In terms of timing, a multi step approach is being followed, with WFP being the first implementer and other organisations expected to implement IPSAS from 2010 to 2014.

5.4 The results: specifying the dependent variable

The ‘dependent variable’ of the contingency model was originally defined by Lueder to be the ‘transition to a more informative accounting model’. Over the years, a considerable amount of research has been produced to refine the list of independent variables of the contingency model and their mutual interactions while the dependent variable, the ‘reform result’ concept remained relatively unexplored. A particular aim of
this research is to identify more observable and measurable aspects to be associated with a ‘successful’ transition to full accruals, drawing from considerations and arguments raised by the contingency model.

From Luder’s model, we learn that the success of the accruals adoption stands on its ability to produce ‘new information’. The quality of the technical implementation, or, in other words, the comprehensiveness of the technical changes (from a cash/modified cash system) to a full accrual system is therefore a first essential attribute of the ‘results’ of the reform. In the case of WFP, this was reflected in the unqualified audit opinion on the 2008 Financial Statements, which provides assurance that the information fully complied with IPSAS.

Discussions on the original contingency model identified the need to distinguish between ‘accountability driven’ (or ‘transparency driven’) processes and ‘managerialism driven’ (or ‘economy efficiency effectiveness (EEE) driven’) processes (Lueder, 1994). More recent contingency model literature demonstrates interest in the ‘consequences in the real world’, resulting from the reform, with real world consequences associated both with increased transparency and with better financial management practices (Jaruga and Novak, 1996; Godfrey et al., 2001; Ouda, 2005).

With reference to the ‘accountability driven’ reforms we can identify as a second result variable the improvement in transparency and accountability generated by financial reporting improvements, in terms of fair presentation of the financial position of the government, inclusion of new information on inventories, fixed assets and long-term liabilities, [for example, McCulloch and Ball (1992), Lapsley and Pallot (2000) and Anessi (2007, p.34) for a review of this body of literature].

Down the path of the ‘managerialism driven’ reforms, accounting change is intended to promote better financial management and control practices and to foster change towards economy, efficiency and effectiveness. For the new accounting system to be able to foster improved practices and behaviours the discussion on ‘new’ financial management issues needs to happen at the strategic/political and operational levels. Under a theoretical perspective, this process of ‘socialisation’ of new information is included in the ‘dynamised’ diffusion-contingency model, that explicitly considers the extent of the use of new information by the political actors and bodies as an integral part of the reform model (Jaruga and Novak, 1996; Godfrey et al., 2001). In this context, the third reform result variable is represented by the use of new financial information for the identification of financial management issues.

Finally, with reference to the recent ‘consequences in the real world’ perspective on reform results (Jaruga and Novak, 1996; Godfrey et al., 2001, Ouda, 2005) the fourth reform result measure is the substantial improvement of financial management practices. Such improvements could, for example, include an improved asset management/control/maintenance system; better control over inventories; more efficient operations; or, more comprehensive control over financial investments and long-term liabilities.

6 Conclusions and research perspectives

From a theoretical perspective, this paper aimed to contribute to the further development of the contingency model by adapting its variables for application to the context of a single organisation and more specifically to IGOs’ institutional and organisational
context. In pursuance of these aims, the paper began by reviewing the various contingency models in literature and identified Lueder’s (2002) FMR model as suitable framework of reference. It then adapted the main variables of the FMR model with reference to the institutional and operational characteristics of IGOs using evidence provided by the WFP exploratory case study. Furthermore, this paper attempted to expand the result of the accounting innovation beyond the definition of a ‘more informative system’ to identify four reform result categories.

This paper enlarges the scope of application of the contingency framework to IGOs which have been to date almost entirely ignored by accounting researchers. These organisations are currently undergoing significant management reform, including adoption of full accrual accounting and IPSAS and represent a new and interesting research field.

Further empirical research could expand, focus or test the revised contingency model identified in this paper. For example, our paper does not open the ‘black box’ of the implementation strategy. This could be a fruitful path of research, as shown, for example, in Ouda’s (2005) ‘basic requirements model’ (BRM). Moreover, as more IGOs and United Nations system organisations implement IPSAS and the resulting impacts become observable, the identified framework could be used to explore the reforms’ results on a longitudinal perspective, and to analyse why given results were obtained in some organisations but not in others.

The present paper also has management implications. The identification of a contingency framework immediately applicable to single IGOs can be used by managers during the reform implementation phase to understand the interactive dynamics between stimuli, reform drivers and stakeholders. That understanding could be used by managers to support identification of an appropriate reform design and implementation strategy and to analyse the progress made in their own organisations against other organisations’ experiences. Managers can also use the expanded definition of reform results to better reflect on the actual achievements of the accounting reform against the expected benefits and to identify barriers to overcome and drivers necessary to achieve the full benefits of accounting reform.

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References

IPSAS adoption by the World Food Programme


Annex

List of primary sources
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