

Modernizing Algeria's Public Accounting System through the Adoption of International Public Sector Accounting Standards (IPSAS) in the Context of New Institutional Theory

<p style="text-align: center;"><i>EL HELALI Manel Meriem*</i> <i>Laboratory: Sustainable Development Engineering, University Responsibility and Social Integration</i> <i>University of Oran II Mohamed Ben Ahmed (ALGERIA)</i> <i>elhelali.manel@univ-oran2.dz</i></p>	<p style="text-align: center;"><i>MESBAH Yakout</i> <i>Laboratory: Sustainable Development Engineering, University Responsibility and Social Integration</i> <i>University of Oran II Mohamed Ben Ahmed (ALGERIA)</i> <i>mesbah.yakout@univ-oran2.dz</i></p>
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Abstract:

This article aims to define the organizational process followed to update and modernize Algeria's public accounting system in compliance with the International Public Sector Accounting Standards (IPSAS) within the framework of accounting reform. This research is based on identifying works related to organizational change resulting from the updating of the public accounting system and the new institutional theory as a framework for analyzing practices. The implementation of this new system in Algerian institutions requires organizational changes, taking into account the pressures these institutions face.

A qualitative descriptive study was adopted to achieve the research objectives and reach its results. The study demonstrated the impact of adopting the new system on the public accounting system in Algeria. These changes are the result of a fundamental shift in the public accounting system, which has become primarily based on the International Public Sector Accounting Standards (IPSAS), resulting in accounting and budgetary changes associated with this shift.

These changes were implemented according to a clear legal and regulatory framework, supported by a series of laws and implementing decrees, including Organic Law 18-15, Executive Decree 24-90, and Law 23-07, which illustrate the most significant transformations in the public accounting system in Algeria.

The accounting change process went through two phases: transitional and implementation, in addition to the homogenization of practices, which can be explained based on the new institutional theory through enforced isomorphism, normative isomorphism, and simulation.

Keywords: Modernization of the public accounting system, Organizational changes, New institutional theory, IPSAS

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* Corresponding author. EL HELALI Manel Meriem. elhelali.manel@univ-oran2.dz

Introduction:

Over 20 countries worldwide have reformed their public accounting systems by adopting the International Public Sector Accounting Standards (IPSAS). This transition involves a shift from cash-based to accrual-based accounting, aligning more closely with financial accounting practices.

The present article examines the modernization of the public accounting system in Algeria, focusing on the implementation of IPSAS in public institutions. It addresses the central research question:

How do Algerian public institutions adapt to the changes and reforms associated with adopting the International Public Sector Accounting Standards (IPSAS)?

To explore this research problem, the study analyzes the reform process within public institutions and its impact on accounting and budgeting practices. The research provides both an analytical perspective on the modernization of Algerian's public accounting system, in light of the new institutional theory.

The present research is structured into three sections: the first provides a theoretical framework for the study, the second examines the modernization process of the public accounting system and the associated changes, and the third analyzes these changes through the lens of new institutional theory.

I. THEORETICAL FRAMEWORK OF THE STUDY:

This research is based on three key pillars:

- **Studies on Change:** To analyze the process of accounting transformation resulting from the implementation of IPSAS.
- **Studies on Administrative and Accounting Innovation:** To examine the characteristics of the new accounting system and the adoption process.
- **Studies on New Institutional Theory:** To identify the pressures influencing the adoption and modernization of the public accounting system

1. ACCOUNTING CHANGE:

Change refers to the transition from one state to another. Schumpeter described it as "a process of organizational advancement that facilitates the

transition from one state to an improved state within the institution" (Franchisteguy I, 2001).

Hope Haily V and Balogun J, (2004) classify accounting change based on its nature and scale. Change can be rapid or gradual, progresses through organized stages. By scale, it can be comprehensive, impacting the entire institution, or targeted, affecting specific areas.

In this context, the accounting change resulting from the adoption of the International Public Sector Accounting Standards (IPSAS) represent an evolutionary change. This change was gradual, unfolding over time from the issuance of the initial legal text to full implementation, and comprehensive, as it covered all public institutions.

Table 01: Types of Change According to Hope Haily V and Balogun J, (2004)

	Comprehensive Change	Modification
Gradual	Evolution	Adaptation
Swift	Comprehensive Change	Restructuring

Source: Hope Hailey V and Balogun J, (2004)

Autissier D and Moutot J-M, (2003) focused on the importance of the time allocated for achieving change, distinguishing between unexpected and gradual change.

- Unexpected change occurs when management struggles to keep up with surrounding developments or misjudges their implications for the organization. In such cases, the organization must act quickly to realign its strategies based on the new realities.

- Gradual change takes place when the needs for change is recognized in advance, enabling the organization to plan and implement the necessary steps to support the transformation.

They further distinguish between imposed change and voluntary change:

- Imposed change arises when the organization is compelled to change due to external, non-organizational developments beyond its control.

- Voluntary change is initiated internally, when the organization recognizes and acts on the need for transformation.

In the case of accounting reforms driven by the adoption of International Public Sector Accounting Standards (IPSAS), the change can be classified as both imposed and gradual. It is imposed because Algerian public institutions were required to comply with IPSAS under Organic Law 18-15 concerning financial laws. However, its implementation has been gradual, providing sufficient time for institutions to adapt to the new framework.

Table 02: Types of Change According to Autissier D and Moutot J-M, (2003)

	Voluntary	Imposed
Gradual	Constructive Change	Known Change
Unexpected	Adaptation	Crisis Change

Source : Autissier D and Moutot J-M, (2003)

2. Comparison of Government and Institutional Responses to Public Sector Accounting Change:

The provisions of Law 23-07, define public accounting as a system that governs budgetary and accounting operations, presents financial statements and annual results, and assists the calculation and the evaluation of service and activity costs. Additionally, it facilitates the organization of data and information, facilitating their integration into national accounting systems.

Algeria is currently modernizing its public accounting system by adopting the International Public Sector Accounting Standards (IPSAS). The table below outlines the responses of both the government and public institutions this accounting change by describing this change.

This table was prepared based on the analysis of Djafri O and Selhami S, (2011) to describe the accounting change, taking into account Organic Law 18-15, Law 23-07, and Executive Decree 24-90, with the aim of clarifying the impact of adopting International Public Sector Accounting Standards (IPSAS) on public accounting change.

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**Table 03: Description of Accounting Change Resulting from the Adoption
of IPSAS.**

	Type of Change	Reasons for Change :	Nature of Change:	Change Procedures:	Evolution of Change:
GOVERNMENT	Voluntary Change: The Algerian government decided to voluntarily implement changes in its public sector to align its public accounting with international accounting standards.	Keeping up with the development of the market economy	Radical Change	Issuance of Organic Law 18-15 related to financial laws, which includes a set of articles defining the principles and rules of reform and change in the public sector.	The adoption of IPSAS standards through the new accounting framework for public institutions facilitates keeping up with economic developments and facing globalization.
INSTITUTION	Imposed Change: It was mandated for Algerian institutions under Organic Law 18-15 related to financial laws	Laws and regulations imposed by the state	Comprehensive Change Included changes in the principles and rules of accounting evaluation and registration, as well as the financial statements and their content.	Raising awareness among workers about deficiencies and motivating them to implement the change	Updating the accounting rules applied to public institutions. Keeping up with international alignment that imposed IPSAS as a model.

Source: Prepared by the researchers, based on Organic Law 18-15, Law 23-07, and Executive Decree 24-90, in addition to the analysis of Djafri O and Selhami S, (2011).

3. Characteristics of the New Public Accounting System:

The International Public Sector Accounting Standards (IPSAS) represent a revolution in public accounting. Their adoption has brought significant changes to the content and presentation of public sector accounts. These changes are particularly evident in accounting registration methods and valuation techniques. Moreover, the adoption of these standards required a transition from the traditional cash-based public accounting to accrual-based and hydride framework.

This new shift in the public accounting framework represents a significant transformation in public counting framework, translating new concept into laws and regulations that public sector institutions are required to implement to improve and organize accounting functions according to international standards. However, the adoption of prove to be complex, leading to this question: **How do institutions implement and adapt the new public accounting system?**

To theoretically address this question, relying on Godowski Ch, (2003), the implementation and adaptation of the new accounting system involves several key stages: **education, adoption, adaptation, acceptance, procedures, and finally, and integration.** These stages outlined in the following figure:

Figure 01: Stages of Adopting the New Public Accounting System.

Source: Demaria S and Couleau-Dupont A, (2009)

4. New Institutional Theory:

New institutional theory aims to explain how institutions develop and interact with their surrounding environment. According to Demaria S and Couleau-Dupont A, (2009), this theory is divided into two primary perspectives:

- **Economic Perspective:** explores why institutional behaviors vary, such as, why one organization adopts a specific strategy while another chooses a different approach.
- **Social Perspective:** examines why institutional practices converge focusing on why many organizations adopt similar policies and procedures.

New institutional theory highlights the tendency for organizational forms and practices to become more similar over time. According to Tournon Ph,

(2002), organizational structures evolve and disseminates through imitation or conformity. Institutions adopt practices similar to those of other organizations in order to gain legitimacy and credibility, which is essential for their survival and continued success.

This process of imitation and conformity, described by new institutional theory is known as isomorphism. Hawley, as referenced by Demaria S and Couleau-Dupont A, (2009), defines isomorphism as a set of pressures compelling institutions to imitate others under similar conditions.” DiMaggio P and Powell W, (1983), cited by Barbu E-M, (2006), identify three distinct types of isomorphism:

- **Coercive Isomorphism:** Results from formal and informal pressures imposed on organizations by other institutions or the societal cultural expectations in which they operate.

- **Normative Isomorphism:** Linked to the concept of professionalism, involving collective efforts by members of a profession to establish standardized practices and procedures that organizations are encouraged to adopt. Powell and DiMaggio highlight higher education institutions and professional training organizations as primary sources of normative isomorphism.

- **Mimetic Isomorphism:** Occurs when an organization faces uncertainty, leading them to imitate the actions of other organizations that have successfully navigate similar challenges. Colasse B and Pochet C, (2008) considers the adoption of unified practices within an organizational field as a significant driver of institutional change.

II. Modernization of Public Accounting Systems and Resulting Organizational Change:

Algerian public institutions were driven to reform their public accounting system in response to significant structural changes in accounting standards. This required the adaptation of their accounting information systems and the alignment of their financial statements with IPSAS requirements. To achieve this, institutions needed to develop internal projects and mobilize the necessary human and material resources.

1. Stages of Modernizing Public Accounting Systems:

Algeria's public accounting system operates on a cash basis, also known as "fund accounting". However, this approach offers a limited view of government performance accountability. To address this shortcoming, decision-makers initiated a reform aimed at modernizing the treasury accounting system. The objective was to align with advanced international best practices by adopting a system that enhances the quality of governmental data and financial statements. This reform was implemented in the following stages:

1.1. Transition Phase :

Algeria initiated a public accounting reform project following the failure of the 2005 accounting plan, which failed to align with international developments, particularly IPSAS. The reform processes unfolded in key stages:

1.1.1. Education Stage:

A select group of stakeholders provided preliminary interpretations of the accounting innovation, underscoring its importance and proposing a methodology for its integrating into the accounting system.

1.1.2. Adoption Stage:

This stage entailed establishing the organizational structure for the transition project, including the creation of a steering committee, project teams, and working groups. Their primary objectives were to conduct a comprehensive diagnosis of the organizational, accounting, and financial impacts, focusing on identifying discrepancies in principles and applications, and develop a detailed transition plan along with a training analysis.

1.2. Implementation Phase:

A series of legal texts were introduced to establish the principles and guidelines for implementing the accounting reform. Key legislative measure include:

Organic Law 18-15 (September 2, 2018): related to financial laws. Law 23-07 (June 21, 2023): Addresses public accounting and financial management

rules. Executive Decree 24-90 (February 22, 2024): Specifies the content and application methods for public accounting.

These regulations aim to enhance the public sector's performance by promoting governance, transparency, and accountability in managing public fund while adhering to international accounting standards. The implementation phase can be divided into:

1.2.1. Acceptance Stage:

Focused on training the personnel involved in implementing the system, clarifying their responsibilities and equipping them to minimize errors. The Training facilitate smoother transitions in to new roles, contributing to the reform's overall success.

1.2.2. Procedures Stage:

characterized by the integration of changes into institutional process, this phase swathe development of organizational procedures facilitating the adoption of the new system.

2. Organizational Changes from Public Accounting Modernization:

Modernizing the public sector to align with IPSAS introduced significant organizational changes, affecting both functional and operational aspects. Key points include:

2.1. Revisiting Functional Structures:

Adopting IPSAS necessitates reorganizing roles and responsibilities to ensure compliance with the new standards. This may involve creating specialized units or departments dedicated to financial accounting and reporting.

2.2.Improving Administrative Processes:

Enhancing and simplifying administrative workflows ensures accurate and efficient financial reporting, potentially including redesigning procedures and improving documentation of financial operations.

2.3. Updating Information Systems:

Modernization requires updating IT systems, including accounting software and data management systems, to meet IPSAS requirement and enhance the accuracy and efficiency of the financial operations.

2.4. Training and Capacity Building:

Successful IPSAS implementation depend on training staff and developing their financial accounting skills, thereby improving institutional performance.

2.5. Challenges and Costs:

Despite the benefits, modernization can be costly and complex, particularly in the initial stages. Effective planning and change management are essential for a transition's success.

III. Modernization of Public Accounting Systems in Light of New Institutional Theory:

This study examines the modernization of Algeria's public accounting system to align with IPSAS. Using qualitative analysis, the research highlight organizational practices influenced by new institutional theory, focusing on coercive, normative, and mimetic isomorphism.

The decision to modernize and implement the new public accounting system was heavily influenced by the institutional environment. Strong elements of coercive and normative isomorphism were evident, accompanied by significant imitation within the organizational field. These dynamics aimed to enhance legitimacy within both domestic and international institutional contexts, including alignment to international organizations.

1. Normative Influence:

The uniformity in accounting practices across institutions primarily stems from adherence to international accounting standards. This reflects the influence of coercive and normative isomorphism, as these standards were mandated by laws and regulations, making their application compulsory. Consequently, institutions adopt similar accounting practices, forcing consistently, and standardization.

2. Mimetic Isomorphism

The new public accounting system is rooted in Anglo-Saxon practices, as it is drawled on the International Public Sector Accounting Standards (IPSAS). This system represents a departure from a traditional accounting practice long used by public institutions, leading to some apprehension about he changes.

To ensure the smooth operation of the new public accounting system, most public institutions have resorted to imitating others, especially French institutions, as four of Algeria's public sector accounting standards are modeled after French accounting standards. As a result, the application of the new accounting system by public institutions has forced them to imitate these theories, which explains the similarity and homogeneity of organizational practices.

Conclusion

The process of updating public accounting in Algeria represents a normative change, mandated by laws enacted by the state ensure greater transparency in public finance and accountability. The adoption of the International Public Sector Accounting Standards (IPSAS) supports the theoretical framework of public accounting and contributes to increasing alignment and creating a common language among countries worldwide, enhancing the reporting of government financial statistics. To ensure coordination between the accounting and budgetary frameworks in the reform project, there must be a developed IT system related to the integrated budget management system (SIGB).

The modernization of the public accounting system also represents a cultural change, as it reflects the international public sector accounting standards inspired by Anglo-Saxon thought, which places importance on financial information, unlike the previous mindset in institutions. This is why the homogeneity of accounting practices is analyzed according to the new institutional theory.

Based on the study, we can propose the following recommendations:

- Leverage the experiences and expertise of countries that have successfully implemented the International Public Sector Accounting Standards (IPSAS).

- Implementing IPSAS gradually, beginning with cash-based standards and transitioning to accrual-based standards.
- Updating IT programs to support the reform of the public accounting system.
- Develop and implement a robust strategy for modernizing public accounting and transitioning from a cash basis to an accrual basis.

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