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IMPACT OF INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD (IPSAS) ADOPTION ON FINANCIAL REPORTING IN NIGERIA

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Abstract
The paper examines the impact of International Public Sector Accounting Standard (IPSAS) adoption on financial reporting in the Nigerian. 158 respondents were selected from the account departments of all government ministries under the Lagos State public service were sampled for the study. This study used regression analysis method to investigate the impact of IPSAS adoption on financial reporting in the Nigerian public sector and adopted adjusted R2 as a primary metric for measuring the model specification. The result shows that IPSAS adoption has a significant positive impact on the quality of financial reporting in the Nigerian public sector. This paper recommends that regulatory authorities should adopt adequate measures to ensure compliance by those saddled with the responsibility of preparing public sector financial statements. Also, measures should be taken to enhance the disclosure of relevant financial information that will help users take useful economic decisions and finally, there should be adequate training to ensure proper adoption of the relevant standards.
Keywords: International, public sector, accounting standard, IPSAS adoption, financial reporting in Nigeria

Introduction

Public sector refers to the segment of a country's economic agents whose activities are managed, on behalf of the public, by government-appointed individuals (Acho, 2014). It includes all corporations which are established, run and financed by government on behalf of the public (Adams, 2010). The Board of Public Entities or Corporations are appointed by the government to oversee the activities of the management of these entities. However, the regulation of the accounting standards of public sector entities is vested on the International Public Sector Accounting Standards Boards (IPSASB) with the exception of Government Business Enterprises (Heald, 2003).

In recent times, there have been persistent calls for greater transparency and disclosure of financial information among countries of the world in a bid to raise the level of public confidence in financial reports. An upsurge in cross-border activities have led to an increase in international transactions among countries of the world which necessitated the need for increased collaboration and commerce across different geographical zones (Ijeoma & Oghogbomeh, 2014). Due to this development, there is now emphasis on the need for increased transparency, comparability and uniformity in the set of accounting standards guiding the preparation of financial statement for public entities. The essence of these accounting standards is to make public entities' financial statements more relevant.

International Public Sector Accounting Standards Board (IPSASB) issued a set of accounting standards called International Public Sector Accounting Standards (IPSAS) to regulate government accounting in response to calls for greater government financial accountability, transparency and value relevance. IPSAS are recognized and accepted by international bodies such as the UN, World Bank, IFAC etc. Countries are therefore encouraged to align their national accounting standards with IPSAS so as to conform to international best practices. IPSAS in recent times has drawn the attention of government regulators, policy-makers, practitioners and academic alike (Kanellos & Evangelos, 2003). Many developing countries, particularly in Sub-Saharan Africa, are characterized by massive corruption, poverty and high level of opacity in the conduct of government business. For instance, Transparency International (2015) ranked Nigeria 136 out of 175 countries on corruption perception index based on their perception of public sector transparency and accountability. Poor budget implementation and lack of accountability in the Nigerian public sector are identified as contributory factors (Ibanuchuka& James, 2014). This paper seeks to examine the capacity of IPSAS adoption to enhance the quality of financial reporting in the Nigerian public sector. Primary data was adopted for the study. The data was generated using a well-structured questionnaire administered on a selected sample of the staff of the Account departments of all ministries in the Lagos State Civil Service.

LITERATURE REVIEW

Nigerian Public Sector and IPSAS Adoption

All public entities are expected to start the implementation of accrual IPSAS by January, 2014.

IPSAS are a set of accounting standards issued by the IPSASB for use by public sector entities around the world in the preparation of financial statements (IPSAS Handbook, 2015). The accrual IPSAS is based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB) where the requirements of those standards are applicable to the public sector. They also deal with public sector specific financial reporting issues that are not dealt with in IFRS. The Federal Executive Council (FEC) in Nigeria approved the roadmap for the adoption of IFRS and IPSAS for both private and public sectors respectively in July, 2010. The primary aim of this adoption is to enhance and strengthen the country's financing reporting standards in line with international best practice (Otunla, 2012). A sub-committee was set up in June, 2013 by Federal Account Allocation Committee (FAAC) to work out a blueprint for the implementation of IPSAS in the three tiers of government. PricewaterhouseCoopers (2012) feels that the objective of

IPSAS adoption is to ensure that public interest is served and protected by developing high quality public sector financial reporting standards and by ensuring the convergence of both national and international standards, thereby enhancing the quality, transparency and uniformity of financial reporting throughout the world.

IPSAS Adoption and Quality of Financial Reporting

IFAC encouraged public sector entities to adopt accrual basis of accounting for their general-purpose financial statement so as to ensure uniformity and comparability of financial reporting across countries (Udeh & Sopekan, 2015).

The public sector committee of International Federation of Accountants (IFAC) developed IPSAS to guide government entities in the preparation of high quality financial reports.

IPSAS Adoption and Accountability

The international public sector accounting standards (IPSAS) have become de-facto international benchmarks for evaluating government accounting practices and measuring accountability worldwide (Chan, 2008).

The recent shift to accrual accounting was initiated by the developed countries as a part of the public sector reform (Hassan, 2013). The annual financial statements play a significant role in the accountability of governments to their citizens and their elected representatives (Huges, 2013). The necessity is because the cash and cash moderated-based accounting does not allow obtaining the necessary information in order to provide better support for planning and managing resources and more generally for the decision-making processes, allowing greater accountability, even between different entities (Christiaens, Vanhee, Rossi & Aversano, 2013).

IPSAS Adoption and Transparency

Okolieaboh (2013) opines that IPSAS are set of public sector accounting standards issued by the International Public Sector Accounting Standards Board (IPSASB). The adoption of IPSAS is fashioned after International Financial Reporting Standards (IFRS), their private sector predecessor; IPSAS seeks to promote transparency in public sector financial reporting across jurisdictions.

Ijeoma and Oghoghomeh (2014) assert that IPSAS adoption must be value relevant to users of public sector financial statement such as international agencies, taxpayers, members of parliaments, creditors, suppliers, public sector employees and financial analyst. The essence of preparing financial statements in line with IPSAS is that public entities must present financial position and financial performance in such manner that users of those financial statements could make relevant and timely value relevant decisions.

IPSAS Adoption and Comparability

Comparability of financial reports reflects the need for public sector entities to have a uniform set of financial statements that is comparable to other public sector of other nations (Okoh & Ohwoyibo (2010). This comparability of financial reports places a greater demand for transparency and accountability on public officers who manage the activities and transactions of the public corporations. This may further enhance public-private partnership.

IPSAS Adoption and Full Representation

The adoption of IPSAS is expected to enhance full disclosure of financial information which will serve the need of different users (Ozugbo, 2009). According to Ozugbo, IPSAS adoption will eliminate partial disclosure of financial information as is presently the case in most government entities. Full representation will enhance the quality of financial reporting in terms of its contents, relevance and international competitiveness.

Previous Studies

Christiaens et al. (2013) examined the extent to which European governments adopt IPSAS accrual accounting and how the differing levels of adoption can be explained through the medium of a survey on related experts. They show that there is no uniform method to the adoption process of IPSAS and accrual accounting as well as some governments' still use cash based accounting with a smaller fraction applying IPSAS. The majority of local and central governments apply accrual accounting disregarding IPSAS which can be explained by the need for transparency and efficiency. The study disclosed that the main argument for the usage of IPSAS is the fact that it offers uniqueness and specific know-how and argues that the success of IPSAS strongly depends on setting out its strengths and emphasizing the necessary settings to be met. Ijeoma and Oghoghomeh (2014) examined the expectations, benefits and challenges of adoption of International Public Sector Accounting Standards (IPSAS) in Nigeria. The study employed primary data and adopted the Chi-square test, Kruskal Wallis test and descriptive analysis. The findings of the study reveal that adoption of IPSAS is expected to increase the level of accountability and transparency in public sector of Nigeria. It was found that the adoption of IPSAS will enhance comparability and international best practices. Also, it was shown that adoption of IPSAS based standards will enable the provision of

Mhaka (2014) conducted a cost-benefit analysis of IPSAS adoption in Zimbabwe by a comparative study of the current cash accounting basis and the proposed IPSAS based accounting reporting. The study reveals the challenges inherent in cash-based accounting which will be resolved by the adoption of IPSAS-based standards. He disclosed that the adoption of IPSAS would alter the basis for financial reporting from prevailing cash accounting to IPSAS-based cash accounting and accrual and finally to complete and total accrual based IPSAS. The study maintains that this facilitates the reconciliation between budgeted and actual results as it would be necessary to align the budget preparation to full accrual as well as the enhancement of existing capacity, allowing reporting and comparison of budget against actual results would also allow for improvement in results based budgeting. More meaningful information for decision makers and improve the quality of financial reporting system in Nigeria.

Alshujairi (2014) conducted a survey to determine whether a developing country like Iraq should adopt IPSAS as a means of improving the government accounting system. The study used qualitative methodology through a questionnaire to obtain required data with the survey result showing that a large number of respondents think that the Iraqi government accounting system needs an important reform citing the main reason as corruption. The result further emphasized the need to improve the transparency, quality of accounting system and accountability of government to citizens. Within this context, Iraqi government accounting should be reformed through adoption of IPSAS because accrual accounting gives a better financial integrity assurance compared to cash or modified cash based accounting.

Atuilik (2013) studied the relationship between the announcement of IPSAS adoption and the perceived levels of corruption in the developing and developed countries. The study employed quasi experimental research design where the Corruption Perception Index (CPI) compiled by Transparency International was used to measure perceptions of corruption. The study finds that the levels of perception of corruption for developed countries that have announced IPSAS adoption do not differ significantly from the levels of perceived corruption for the developed countries that have not announced IPSAS adoption. For developing economies, the result shows some degree of differences. He explained that the governments of developed countries may not have expected the IPSAS adoption to significantly enhance their ratings on corruption index while governments of developing countries may likely expect an improvement in their ratings following the adoption of IPSAS. This is line with the study of Alshujairi (2014) that provides evidence that developing countries are greatly affected by corruption.

Trang (2012) carried out a similar study which examined whether or not the Vietnamese government accounting should operate the IPSAS, and describes the extent to which they can be applied within the existing setting in Vietnam. He appraised the usefulness and feasibility of the IPSAS for the Vietnamese government accounting and financial statements and advocates that the movement in the accounting systems from cash to an accrual basis is usually an element of a broader set of their reforms, those changes are increased in delegation, departments are directed to provide a service for citizens rather than follow set rules, and there is better transparency of public sector in terms of reporting and performance measurement.

Udeh and Sopekan (2015) examined the adoption of IPSAS and quality of public sector reporting. It was observed that IPSAS adoption is expected to improve the level or quality of public sector financial reporting in Nigeria. The study affirms that accrual-based IPSAS has the ability to improve financial reporting compared to cash based accounting

Methodology

Survey design method was used to collect data through the use of questionnaire. All the ministries under Lagos State Government Civil Service were used for this study. The accounts department of each ministry was considered the major respondents. Lagos State Government has a total of twenty six (26) ministries; all were used as population for this study. Of a total population of three hundred and fifty (350), a sample size of one hundred and ninety (190) people was selected for the study. The sample size was derived using the Taro Yamane formula.

Applying the Taro Yamane formula, $n = N/1+N(e)^2$

n = sample size

N = population

e = error limit

Therefore, $n = 350/1+350(0.05)^2$

$n = 350/1.875$

$n = 186.66$

Based on the above calculation, the sample size of 190 with error limit of 5% was considered appropriate for this study. Out of the total 190 sample size, 164 people responded to the questionnaire which represents 86% response rate while 14% represent the rejection rate.

The questionnaire was constructed using a five-point Likert scale. The questionnaire was divided into two sections; Section A comprised the personal information on the respondents while Section B was on questions relating to the hypothesis. The data collected were analyzed with the use of both descriptive and inferential statistics.

Ordinary least square (OLS) regression method was used for the study as the statistical method for analyzing the data gathered. This study adopts OLS because it allows adjusted coefficient of determination (adj. R2) as a unit to determine and measure the relationship between dependent variables (IPSAS Adoption) and independent variables (Quality of financial reporting). The data was analysed with the use of Statistical Package for Social Sciences (SPSS) version 20.

Model Specification

The basis for this model specification is hinged on the theoretical framework which seeks to explain the relationship between IPSAS adoption and quality of financial reporting in the Nigerian public sector. This is carried out from the perception of stewardship theory. Stewardship theory considers IPSAS adoption and quality of financial reporting as variables that affect national interest by taking into account its effects on all public stakeholders.

The model can be represented as follows:

IPSAS Adoption = f (QFR) …………………………………………………………………………….(i)

Where: IPSAS = International Public Sector Accounting Standards, QFR = Quality of Financial Reporting. Assuming a linear relationship, we can rewrite equation (i) in an explicit form as:

$QFR = \beta0 + \beta1ACC + \beta2TRANS + \beta3VR + \beta4COMP + \beta5FR + e$ ……………………….. (ii)

Where:

B0= Constant term

ACC = Accountability

TRANS = Transparency

VR = Value Relevance

COMP = Comparability

FR = Full Representation

e = error term

Results and Discussion

The test results are presented and interpreted in this section. The descriptive statistics are presented in table 1.

Descriptive Statistics

Table 1: Responses on Key issues relating to IPSAS adoption and quality of financial reporting in the Nigerian Public Sector

S/N	Variable Responses (%) by Preparers/Authors of Financial Statements (Accountants)	SA %	A %	FA %	D %	SD %
1	Do you think IPSAS adoption will improve accountability of financial reporting in the Nigerian Public Sector?	117 71%	46 28%	1 1%	0 0	0 0
2	Is IPSAS adoption necessary for financial reporting transparency in the Nigerian Public Sector?	81 49%	81 49%	2 2%	0 0	0 0
3	Do you think IPSAS adoption will communicate value relevance to beneficiaries of financial reporting in the Nigerian Public Sector?	73 45%	87 53%	4 2%	0 0	0 0
4	Do you think IPSAS adoption will enhance comparability of financial information among public entities in Nigerian Public Sector?	66 40%	96 56%	5 3%	1 1%	0 0
5	Do you think IPSAS adoption will engender overall full representation of financial reporting in the Nigerian Public Sector?	75 46%	80 49%	9 5%	0 0	0 0
6	Do you think the introduction of IPSAS will improve the overall quality of financial reporting in the Nigerian Public Sector?	93 56.5%	70 42.5%	1 1%	0 0	0 0

Source: Field Survey.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.818[a]	.768	.650	.51132
A. Dependent Variable: IPSAS Adoption				
B. Predictors: Quality of Financial Reporting (Accountability, Transparency, Value Relevance, Comparability and Full Representation).				

Source: Field Survey.

Table 3: ANOVA[a]

Model	Sum of Squares	df	Mean Square	F-test	Sig.
Regression Residual Total	2.169 40.221 42.390	5 158 163	.434 .255	1.704	.001[b]

Source: Field Survey.

Discussion of Findings

Table 1 presents the descriptive statistics of respondents on IPSAS adoption and quality of financial reporting in the Nigerian public sector. 71% of respondents believe that IPSAS adoption will improve accountability in financial reporting while 98% agreed and strongly agreed that IPSAS adoption will enhance financial reporting transparency. Combination of strongly agreed and agreed respondents which represent 98% believe that IPSAS adoption will deliver value relevance to users of financial information in the Nigerian public sector. Finally, 99% respondents consider IPSAS adoption to improve the quality of financial reporting in the Nigerian public sector. From table 2, the adjusted R2 (0.65 or 65%) shows that the explanatory variables significantly explain variations in the dependent variable. The F-test (1.704) presented table 3 shows that the exogenous variables jointly explain variations in the dependent variations to a significant degree.

Conclusion

The paper concludes that IPSAS adoption can significantly improve the quality of financial reporting in the Nigerian public sector and thereby enhance public confidence in public sector financial reports. It is expected that this positive outcome will impact favorably on the country's image thereby enhancing the inflow of foreign direct investment into the domestic economy.

Recommendation

Regulatory authorities should adopt adequate measures to ensure compliance by those saddled with the responsibility of preparing public sector financial statements.

Measures should be taken to enhance the disclosure of relevant financial information that will help users take useful economic decisions.

There should be adequate training to ensure proper adoption of the relevant standards.

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