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International Public Sector Accounting Standards (IPSAS) and Credibility of Financial Reporting in Nigeria Public Sector: An Improvement or A Ruse

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Abstract
The objective of this work is to examine the application of IPSAS on financial reporting in Nigeria public sector and its economic benefits. The descriptive research survey method was adopted in this work while the population comprises of Fifty (50) members drew from ten (10) ministries randomly selected from all accounting departments of various ministries in Ado- Ekiti, the capital of Ekiti State, Nigeria. The primary source of data collection was employed through the use of questionnaire. The 4-point Likert scale was logically employed to quantitatively reflect order ranking while the mean scores of data analysis and Ordinary least square (OLS) were used. The results show that there is no relationship between application of IPSAS, financial reporting and its economic benefits to Nigeria. For instance, IPSAS has neither improved management and Revenue generation nor increased foreign direct investment into Nigeria. It was observed that IPSAS has no significant relationship with ability of the government or financial reporting in reducing corruption in the public sector, though, the findings show positive relationship between IPSAS and credibility of financial reporting-using accrual basis of accounting. The study concludes that adoption IPSAS has not really brought any improvement in term of its economic benefits to the government and the public; hence IPSAS is a ruse and a mere imposition on the developing countries. We recommend that government should put in place an enabling legislative framework that will aid the smooth running of IPSAS implementation in Nigeria. Government should strengthen anti-corruption agencies and engage professionals, and technocrats to drive the process to reflect stakeholders' expectation on IPSAS and financial reporting in the public sector.
Keywords: Accountability, Corruption, Financial Reporting, Public Sectors, Transparency.

INTRODUCTION

Background to the Study

The global anxiety for better public financial management that guarantees more accountability and transparency is the concern of both developed and developing countries. In view of this, the International Federation of Accountants (IFAC) establishes and promotes the application of International Public Sector Accounting Standards (IPSAS) by public sector entities around the world when preparing their General Purpose Financial Reports (GPFR) (IFAC, 2015). The adoption of IPSAS therefore, enhances transparency and accountability by governments in the management of public resources (Alshujairi, 2014).

The global wind of economic integration has now reached the doorstep of accounting profession with intense pressure on nations state to apply unified accounting Standards in government undertakings. This effort could be seen as a centaury reform to the profession. The reform agenda was perceived as way forward towards harmonizing public sector with private sector liked system and principle of financial reporting, which for long experts had been advocating on the believed that both sectors should operate at the same level of efficiency. The need for high quality standards to enhance sound and consistent financial reporting and the fact that the inefficiency and ineffectiveness of public sector extended to a belief that public and private sectors did not have to be managed in fundamentally different ways, fostered a wide-ranging discussion about the harmonization of public sector accounting systems and their convergence towards the private sector financial reporting standards (Kanellos, Evangelos, & Dimitrios, 2013).

Recently, there have been persistent calls by both the developed and developing countries for greater transparency, accountability and disclosure of financial information among countries of the world in a bid to raise the level of public confidence in the public sector's financial reports to reflect the stakeholders' expectations. 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). There is now emphasis on the need for increased transparency, uniformity and comparability in the set of accounting standards guiding the preparation of financial statement for public entities (Trang, 2012 and IPSASB, 2013).

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 and Christiaens, Vanhee, Rossi & Aversano, 2013).

In Nigeria, though operations of government business and accounts have been conducted within the general framework of the principles of fund accounting, the major problem is that financial reporting and public sector accounting is far from the principles in absolute terms and stakeholders' expectation (Obazee, 2008, and Christiaens, Vanhee, Rossi & Aversano, 2013).

Some scholars and researchers such as Izedonmi and Ibadin (2013) and Mukah, (2015), were able to establish both the long run and short run relationship between IPSAS and credibility and integrity of financial reporting but they did not attempt to investigate into the in-depth causal link that might exist among IPSAS, financial reporting and its economic benefits in terms of revenue generation, foreign direct investments, credibility of financial statement, war against corruption e.t.c.

Nevertheless, some researchers such as Trang (2012), Christiaens (2013), and Alshujairi (2014) in their various studies examined and confirmed a positive and significant relationship among IPSAS and credibility of financial reporting but they based their analysis on a pooled data of some developed countries which either did not consider developing countries like Nigeria and some African countries where corruption, lack of transparency in budget preparation, unemployment and low standards of living are rising every day.

To fill this gap the study intends to investigate into the in-depth causal link among IPSAS, financial reporting and its assumed economic benefits by ascertaining the nature and direction of causality that might exist among them.

Research Objectives

The objectives of this research is to examine whether the application of IPSAS on financial reporting in public sector has improved economy in Nigeria.

The research aims to achieve the following specific objective:

i. To examine whether IPSAS facilitates improved management and revenue generation.
ii. To examine whether IPSAS has improved internal control and transparency, hereby reduce corruption in the public sector.
iii. To evaluate if IPSAS has enhanced foreign direct investment in Nigeria.
iv. To determine if adoption of IPSAS has improved the credibility of financial reporting.

Research Questions

In the course of this work, it is expected that answers would be provided for the following questions:

i. Does adoption of IPSAS facilitates improved management and revenue generation?
ii. Does IPSAS improve internal control and transparency (or reduce corruption) in public sectors?
iii. Does adoption of IPSAS enhance foreign direct investment?
iv. Does IPSAS improve the credibility of financial reporting?

Empirical Review

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, 2010).

Consequently, public sector accounting carries out a basic purpose of safeguarding the public treasury by timely preventing and detecting corruption (Obazee, 2010). The public sector accounting and financial system in Nigeria is managed by the Ministry of Finance (MoF) which ensures the preparation, approval and implementation of the government budgets, and the preparation of the public sector financial reports for audit and publication. In the last two decades the system faced serious challenges of corruption and other financial irregularities and losses. No public sector audit has so far disclosed a mega financial scandal masterminded and executed in the year preceding the audit. Rather, financial indecorums are uncovered several years after the crime has been committed (Izedonmi & Ibadin, 2013, and Erin, Okoye, Modebe, & Ogundele , 2014).

Mhaka (2014) tested 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 shows the inherent problem 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.

Christiaens, Vanhee, Rossi & Aversano (2013) explained the extent to which European governments adopt IPSAS accrual accounting and how the various 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 revealed 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 the necessary requirement to be met. This was in line with the view of Ilie and Miose (2012) who opined that IPSAS lacks basic and clear conceptual framework rather an assumed IFRS framework is to be used. These post a lot of impediments in comprehending and certain treatment of items. They suggested that for IPSAS conversion to be successful, all role- players need to have at least a basic understanding of IPSAS and change should be driven from the top down, as well as from the bottom up.

Hassan, (2013) used the contingency model and introduced tribal identification and loyalty as factors that affect people's attitudes towards the public sector. Another variable identified to be influential on government accounting innovation is the international aid agencies. They demand and finance changes in the recipient country's system of accounting and financial reporting, as a condition for the award and renewal of financial assistance. Donors and creditors tie the award and renewal of financial assistance to improvement in accounting and financial management systems.

Ahmad (2013) emphasized that presentation of financial statements according to IPSAS claims professional expertise as accountants and auditors, it requires the availability of professional accounting skills framework. Although the number of professional accountants in Nigeria has increased tremendously in two decades with the Association of National Accountants of Nigeria (ANAN), Institute of Chartered Accountants (ICAN) and other professional bodies, IPSAS is a new concept, which is not understood by many. He suggests that government as the leading user of these standards will therefore require undertaking massive capacity building to enlighten its accountants on IPSAS. He further asserted that IPSAS requires a lot of actuarial information which is currently not available in Nigeria.

Mukah (2016) explained that Reformers criticize the government for its financial scandals involving corruption, embezzlement of funds, lack of accountability and transparency in financial management. A government can even become one of the reformers when it starts getting worried about its own performance and initiates ways to improve on its public financial management. For example, in an effort to combat corruption and embezzlement the Nigeria government has created structures such as the Economic and Financial Crime Commission (EFCC), the Audit Bench of the Supreme Court, and the Supreme State Audit.

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 Heald (2010) that provides evidence that developing countries are greatly affected by corruption.

Research Methodology

The research design adopted in the study was descriptive survey method. Since the elements under investigation cannot be manipulated by the researcher, the survey method is relevant for the study. The population of the study comprises of Fifty (50) members from all accounting departments of various ministries in Ado- Ekiti, Ekiti State, Nigeria. The elements in the population consist of junior, senior staff and professional accountants, auditors (internal) as well as permanent secretaries in the ten (10) ministries randomly selected for the study. Questionnaire was used for data collection. The 4-point Likert scale is: 4 = strongly agreed, 3 = agreed, 2 = disagreed, 1 = strongly disagreed; was logically employed and Ordinary least square (OLS) regression method was used for the study as the statistical method for analyzing the data gathered. The justification for choosing the permanent secretaries, accountants and internal auditors is because they are the key players in all financial matters in the ministries, hence the budget preparation of all government Ministries before submission for approval by the parliament are done by them and they also have reasonable knowledge about IPSAS and IFRS.

Model Specification

The model used in this study 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 as justified by Erin, Okoye, Modebe, Nwanneka & Ogundele (2013). The work employed stewardship theory. Stewardship theory considers IPSAS adoption and quality of financial reporting as variables or factors that affect national interest and for this study; the proxies for the variables were adapted from the core benefits of IPSAS to public sector. The model can be represented as follows:

Application of IPSAS = f (FR)…………………………………… (i)

Where: IPSAS = International Public Sector Accounting Standards, FR = Financial Reporting. Assuming a linear relationship, the analysis was guided by the following linear model:

$FR = b_0 + b_1REV + b_2FDI + b_3CORUP + e$ ……………ii

Where: REV = Revenue Generation

CORUP = Transparency

FDI = Foreign Direct Investment

CRDFR = Credibility of Financial Reporting

e = Error Term

Result Analysis and Presentation

The analysis was done based on the data collected through respondents and then processes using descriptive statistics with tabular method for the presentation of the data.

Decision Rule : The decision rule is 2.5. Any mean (X) below the decision rule is insignificant (NS) while a mean above the decision rule is significant(S).

Table 1: Responses on application of IPSAS and credibility of financial reporting as relating to the benefits of IPSAS adoption in the public sector.

s/n	Statement	S A	A	D	SD	X	Decision
1	IPSAS has been adopted in public sector.	6 (9.6)	39 (75.0)	5 (9.6)	0 (00)	3.00	S
2	Application of IPSAS facilitates improved management and Revenue generation.	0 (00)	12 (23.1)	23 (44.2)	15 (28.8)	1.94	NS
3	Adoption of IPSAS improve internal control and transparency (Reduce Corruption)	0 (00)	8 (15.4)	33 (63.5)	9 (17.3)	1.98	NS
4	Adoption of IPASA enhance foreign direct investment in Nigeria	0 (00)	10 (19.2)	33 (63.5)	7 (13.5)	2.06	NS
5	IPSAS – Accrual basis of accounting has enhanced credibility and reliability of financial reporting	2 (3.8)	34 (65.4)	13 (25.0)	1 (1.9)	2.74	S

Source: SPSS 21 Output from Field Data 2017

Result of Regression Analysis

The regression estimates are presented in the table below:

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Df	F	Sig
1	.504	.254	1.88	.42662	4	3.832	.009

Source: SPSS 21, Output from field work 2017.

Table 3: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.647	.453		5.838	.000
	REV	.149	.088	.232	1.682	.099
	CORUP	.198	.120	.246	1.641	.108
	FDI	.188	.114	.233	1.649	.106
	CRDFS	-.253	.111	-.302	-2.288	.027

Source: SPSS 21 Output from Field Data 2017. Significant at 5% level.

Analysis of the Results

The study addresses the economic benefits of IPASAS on financial reporting in Nigeria public sector. The analysis of the data collected pointed to the fact that the respondents investigated have good knowledge of IPSAS. The item 1 in the table 1 above shows significant result, since its mean scores is above 2.5. This supports the view of Ilie and Miose (2012) who suggested that for IPSAS conversion to be successful; all role-players need to have at least a basic understanding of IPSAS and IFRS.

From the results of the descriptive statistics, items 2, 3, and 4 were negative, meaning that they have no significant relationship with the application and adoption of IPSAS and financial reporting in the public sector. These items emphasized on the economic benefits of IPSAS. It was evident through the result that IPASA has not facilitates improved management and Revenue generation; improve internal control and transparency (Reduce Corruption) and foreign direct investment in Nigeria.

From table 2, the R2 (25%) shows that the explanatory variables significantly explain variations in the dependent variable. The F-test (3.82) presented table 2 shows that the exogenous variables jointly explain variations in the dependent variations to a significant degree. Table 3 reveals that the t-values for all the explanatory variables are statistically significant at 0.05.

Discussion of Findings

The study revealed that IPASA has not improved management and Revenue generation nor increased foreign direct investment into Nigeria. It means that the benefit of IPSAS adoption as suggested by IFRS (2012) and Ahamd (2013) that it promotes cross border investment thereby enhancing the flow of foreign Direct Investment is a mere assumption. This also negates the finding of Trang, (2012) who asserted significant relationship that IPSAS assures comparability of financial reporting with other countries, motivation of foreign investors to make investment in the country.

It was further reveals that respondents neither disagree that IPSAS has not improve internal control and transparency nor reduced corruption. It means that application of IPSAS has no significant relationship with ability of the government accounting system or financial reporting in combating or reducing corruption in the public sector. Considering the vulnerability of the government in developing countries especially Nigeria to financial misconduct, the reliability of transactions and numbers in their financial statement cannot be taken for granted, even if IPSAS are used. This finding collaborated with the findings of Keefer and Khemani (2004) as cited in the work of Erin, et al (201 6) who also reveals that … even in developing countries that are democratic, politicians often have unreserved apology or the incentives to divert resources to political activities and to private transfers that benefit a few citizens at the expense of many. The finding further uphold the view of Atuilik (2013) who observed 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. To this, Udeh and Sopekan (2015) argued that IPSAS- based financial statements are really not designed to demonstrate the accountability of government to their stakeholders and of the executive to the legislature. As such IPSAS can make only a limited contribution to economy and institutional capacity building in developing countries.

The findings show positive relationship between IPSAS - using accrual basis of accounting and credibility of financial reporting. It was revealed that IPSAS has improved financial reporting in the public sector. This negates the finding of Alshujairi (2014) that asserted significant difference between credibility of financial reporting and IPSAS but the results uphold Trang (2012) and Ijeoma and Oghoghomeh (2014) who suggested that adoption of IPSAS is expected to increase the level of accountability and transparency, as well as enhancing budget preparation in Nigeria public sector.

The paper concludes that IPSAS 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 favourably on the country's image thereby enhancing the quality of standard of living and increasing the inflow of foreign direct investment into the domestic economy which in turns might reduce the level of unemployment in Nigeria and facilitates economic diversification. Consequently, official corruption threatens a government legitimacy and authority, and reduces the amount of public money available to fund public services. IPSAS- based financial statements are really not designed to demonstrate the accountability of government to their stakeholders and of the executive to the legislature. As such IPSAS can make only a limited contribution to economy and institutional capacity building in developing countries, hence, IPSAS is a ruse just a mere imposition on developing countries.

Conclusion

This study examined the application of IPSAS and the financial reporting in the public sector in Nigeria. There is no doubt that weak public sector accounting; auditing and other tools for public accountability which have led Nigeria into economic recession are not to be overemphasized. Though, it was observed that the implementation of IPSAS accrual-basis of accounting standards facilitates and enhance credibility and reliability of financial reporting.

The findings of this study concluded that implementation of IPSAS has not reduced corruption in public sector, nor improved the revenue generation and foreign direct investment in Nigeria. Therefore, the adoption has not really brought any economic improvement and also in terms of government responsibilities to the public; IPSAS is a mere imposition on the developing countries like Nigeria.

Recommendations

Accountability is no doubt the hallmark for good governance, if Nigeria is to be a member of twenty most economic developed countries of the world by the year 2040, political office holders and other stakeholders in the Nigerian project should embrace accountability in the management of public fund and, shun corruption. Hence, government must commit to the provision of basic needs and enabling environment for business to thrive. A note of caution should be sounded in view of the encroachment of economic recession in the Nigeria which has affected every aspect of the economy. However, in view of our findings, we recommend that government should put in place an enabling legislative framework and also look inward into all the macro-economic factors that will aid the smooth running of IPSAS implementation in Nigeria. Government should also engage professionals, and technocrats to drive the process and implementation of IPSAS to reflect stakeholders' expectation and public confident in financial reporting in the public sector.

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