INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS) IMPLEMENTATION AND FINANCIAL REPORTING QUALITY IN CROSS RIVER STATE, NIGERIA

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Abstract

This paper explored the relationship between International Public Sector Accounting Standards (IPSAS) implementation and financial reporting quality in Cross River State, Nigeria. Survey research design and purposive sampling method were adopted. The population considered in this study was made up of middle and top-level management staff of Cross River State Ministry of Finance, totaling 35. Primary data were collected through administering questionnaires to a sample of 19 respondents who were accountants in the Ministry of Finance. Simple Percentage and Pearson correlation were used as techniques of data analysis. The results of the analyses indicated that IPSAS implementation has a significant positive relationship with faithful representation and reliability of financial reports. In conclusion, IPSAS implementation by the public sector in Cross River State, Nigeria would result in faithfulness and reliability of financial reports as well as enhancing a uniform standard of financial reporting by the various government institutions in Nigeria and even with the world at large. Thus, the study recommended among others that the implementation of IPSAS should be made mandatory for all government institutions in the federal, state, and local government. The cost of implementation should be budgeted by the concerned government and made available for speedy and smooth implementation.
Keywords: IPSAS, Financial Reporting Quality, Cross River State, Nigeria

1. Introduction

International Public Sector Accounting Standards (IPSAS) refers to accounting standards issued by the International Public Sector Accounting Standard Board (IPSASB) to guide public institutions globally in the preparation of financial statements. The major aim of IPSAS is to enhance financial reporting quality in government institutions, resulting in improved quality of evaluating financial decisions taken by government. However, some governments, including state and local governments have not actually implemented the standards.

The way organisations prepare their financial statements matters a lot as financial statements is a very important component of financial reporting, and a medium of communicating financial information to all stakeholders (John, 2014). Consequently, the preparation of financial statements is now a global issue which necessitates the release of reliable and generally acceptable standard to ensure accountability, transparency, uniformity, and comparability of financial reports by government entities.

The implementation of IPSAS in Nigeria has witnessed a lot of setbacks as the country is yet to fully implement both the cash basis and accrual basis provisions of IPSAS. As such, the accountability, transparency, uniformity, and comparability of financial reports of federal, state and local governments are undermined. The implementation of the cash basis of IPSAS in Nigeria commenced in 2014 while the accrual basis of IPSAS was implemented in 2016. However, some Ministries, Departments and Agencies (MDAs) are yet to comply with the implementation of IPSAS. Thus, the federal government through the Accountant General of the Federation (AGF) warned erring MDAs to comply with the implementation latest 2023 or face natural sanction of losing access to public funds. Also, state, and local governments are yet to join the implementation.

Fajobie (2010) noted that in the past, achieving a good accounting system was difficult due to porous accounting standards and practices. As such, both government revenue generated and allocations of the funds leaked due to the absence of proper accounting control system, coupled with weak auditing framework.

Among the reasons put forward by scholars as the cause of failed implementation of IPSAS in Nigeria is lack of the required expertise (Atuilik, Adafula, & Asare, 2016). Thus, the federal government through the office of the AGF has organized a series of seminars and workshops to train the personnel/accountants to ensure a smooth transition to IPSAS practice. For instance, the AGF organised a training course for key public sector accountants in September 2022 to equip them with the needed knowledge to migrate from cash basis IPSAS to accrual basis IPSAS in 2023.

Unfortunately, the continuous delay/failure of MDAs, state, and local governments in the implementation of IPSAS subverts the benefits, including accountability and transparency which negatively affect Nigerians. The need for accountability, transparency and effective reporting of government activities have been heightened in recent years due to widespread corruption in all levels of Nigerian government, including misappropriation of funds, embezzlement, changing figures and misrepresentation of financial reports. Consequently, Nigeria is ranked 154 out of 180 countries in the Corruption Perception Index of 2021, with a score of 24% (Transparency International, 2021). It is against this backdrop that this paper examined the effect of IPSAS implementation on the quality of financial reporting in Cross River State, Nigeria as the main objective. Thus, the specific objectives include:

i.   To examine the relationship between IPSAS implementation and faithful representation of financial reports in Cross River State, Nigeria.

ii.   To assess the relationship between IPSAS implementation and reliability of financial reports in Cross River State, Nigeria.

The following research questions will be answered in section 4 of this paper:

i.   To what extent does IPSAS implementation affect the faithful representation of financial reports in Cross River State, Nigeria?

ii.   What is the extent of the effect of IPSAS implementation on the reliability of financial reports in Cross River State, Nigeria?

The research hypotheses (stated in null form) to be tested in section 4 include:

H_{01}: Implementation of IPSAS has no significant relationship with faithful representation of financial reports in Cross River State, Nigeria.

H_{02}: IPSAS implementation has no significant relationship with reliability of financial reports in Cross River State, Nigeria.

This study was carried out in the Cross River State Ministry of Finance, an institution of the state government charged with the responsibility of managing the financial resources of the state. The Ministry is headed by a commissioner appointed by the governor.

2. Literature Review
2.1   *Conceptual Review*

IPSAS was developed by International Public Sector Accounting Standard Board (IPSASB) to guide government institutions globally in the preparation of their financial reports to enhance accountability, transparency, consistency, and comparability of financial reports even across jurisdictions. IPSASB is an independent accounting standards setting body established by the International Federation of Accountants (IPSAS, 2021). IPSAS is used to prepare financial statements aimed at satisfying the needs of the public who has no control over the financial reports (Adejola, 2013).

Thus, on June 13, 2011, the Federal Account Allocation Committee (FAAC) during its meeting decided to set up a technical subcommittee to prepare the modalities for IPSAS implementation in the federal, state and local government in Nigeria as approved by the Federal Executive Council (Otunla, 2014). The adoption of IPSAS in Nigeria is necessary to ensure that the public sector in Nigeria which consists of federal, state, and local governments, including their ministries, departments, and agencies, are accountable to the people. Thus, public sector accounting concerns the receipts, custody, disbursements and giving account of public funds entrusted.

The objective of financial statements of government differs from that of the private entities, though the accounting procedure might be similar. Hence, IPSAS targets the enhancement of the quality of financial reporting by public sector institutions to improve the standard of assessments of the resource allocation decisions taken by governments, resulting in transparency and accountability. As such, both the cash basis and accrual basis of IPSAS are important.

The cash basis of IPSAS guides the preparation and presentation of a statement of cash receipts and payments including additional accounting information/disclosures. However, the accrual basis of IPSAS sets out the different components of the financial statement and how to present them (from IPSAS 1 to IPSAS 43) (IPSAS, 2022). The accrual basis of IPSASs is based on the requirements of International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) where the requirements of such standards are applicable to the public sector.

Thus, IPSASB welcomes imputes from governments and recognized bodies in the development of its standards. This ensures harmony as IPSAS recognizes the right of government to set accounting/financial reporting standards in their jurisdiction. Therefore, IPSAS is currently the global benchmark for assessing government accounting practices and measuring accountability (Chan, 2008). Countries of the world should make their national accounting standards conform with IPSAS to ensure international best practices (Egolum & Ndum, 2021).

Ngama (2012) established that IPSAS implementation would ensure the harmonisation of budgetary system for the federal, state, and local government in Nigeria. Also, Nongo (2014) opined that the implementation of IPSAS in public institutions would ensure improved service delivery, efficient internal control, and enhanced performances of the institutions. Whereas Oulasvirta (2012) opined that IPSAS will guarantee comparability of financial reports of Nigeria with that of other countries of the world with ease.

2.2   Theoretical Review

This research paper is anchored on stewardship theory propounded by Donaldson and Davis (1989). The theory explains that a steward gets satisfaction in working for the best interest/achievement of the goal of the institution that employed him. The theory argues that a steward recognises that individualistic, opportunistic, and self-serving goals will be achieved if work is done for the greater good of the organization.

Government officials are likened to stewards as they are employed to manage the public funds and ensure development and a better standard of living for the people. For proper management of public funds, accountability and transparency are necessary. Thus, to ensure accountability and transparency in public funds management, the adoption of IPSAS is a sine qua non.

2.3   Empirical Review

Tawiah and Soobaroyen (2022) studied the relationship between IPSAS adoption and the level of government financing in developing economies. Fifty-four (54) developing countries were used as sample over a study period of 13 years. The study employed correlation technique in analyzing the data collected. The study found a significant positive relationship between the use of IPSAS and external funding as well as inflow of foreign aid and grants to developing countries. However, the study reported a negative but not significant relationship between domestic debt funding. The study concluded that international capital providers place more importance on IPSAS-based public sector financial reports.

Egolum and Ndum (2021) examined the effect of IPSAS on the quality of financial reporting in Anambra State government. Survey research design was adopted, and primary data were collected from 127 staff of Anambra State Ministry of Finance, Awka, using questionnaires. Chi-square was used for the analysis and the result shows that IPSAS adoption enhances accountability, transparency, and reduction in corruption among public officers in the state. The study recommended that Nigeria should provide the requirements necessary for full implementation of IPSAS in the government sector.

Mijbil and Jabal (2021) examined the impact of the transition to international accounting standards on the quality of financial reporting in Irag. The study employed a qualitative research approach by conducting a review of previous studies. The study showed that the adoption of international accounting standards in the public sector resulted in overcoming the difficulties encountered in performance evaluation process locally and internationally.

Okpanyi (2016) assessed the effect of adoption of IPSAS on quality of financial reports in Kenyan public sector. Descriptive survey design was adopted, and secondary data were collected from 19 ministries of Kenyan national government. Descriptive statistics and t-test were the techniques of analysis employed. The study showed that IPSAS adoption enhances comparability, relevance, timeliness, and faithfulness of financial reports. However, the result indicated no significant difference in transparency and

accountability between the reports prepared with the previously used accounting standards and the reports prepared using IPSAS. The study concluded that a significant difference exists between old accounting standard-based financial reports and IPSAS-based financial reports in the public sector of Kenya.

Using 164 respondents selected from account department of respective ministries, Olayinka, Okoye, Modebe and Olaoye (2016) examined the impact of adoption of IPSAS on financial reporting quality of Lagos State government, Nigeria. The study used regression technique in analyzing the data collected. The results of the analysis indicated the adoption of IPSAS has a positive and significant impact on financial reporting quality in Nigerian public sector. The paper recommended that the federal government should adopt the appropriate modalities to ensure compliance by the departments of government responsible for preparing financial reports.

Hamisi (2012) examined the factors affecting the implementation of IPSAS in Kenya. This study employed descriptive research design. The population of the study consisted of 38 Heads of accounting units (middle and top-level staff) as well as their deputies in 14 units. The stratified sampling method was used. Both primary and secondary data were used in the study. The techniques of data analysis involved descriptive and inferential statistics. The results indicated that the factors affecting the implementation of IPSAS in Kenya include accounting issues not tackled, lack of appropriate technology and lack of funds. It was concluded that certain problems, including inappropriate technology and funding, hindered the implementation of IPSAS in Kenya. The study recommended that the government should upgrade its Information and Communication Technology (ICT) to cope with the financial data transformation process in line with IPSAS standards.

Also, the United Nations (2009) studied the necessity for UNICEF to adopt IPSAS. A review was carried out by the Task Force on Accounting Standards for the CEB HLCM. The task force submitted its recommendations that the United Nations should adopt IPSAS to facilitate desired reforms and enhance financial statements preparation.

Nongo (2014) assessed the level of adoption and implementation of IPSAS in Nigeria. Qualitative research design was adopted by carrying out a review and the necessary information were obtained from the Office of the Accountant General (OAG) of the Federal Republic of Nigeria. The results of the study indicated that there exists substantial evidence about the implementation of IPSAS in Nigeria. The implementation was done in two phases, Cash-basis IPSASs first, before the accrual-based IPSASs. The

study recommended that for accrual based IPSASs to be implemented successfully, the necessary facilities should be put in place.

Finally, Pogiolini (2014) assessed the level of adoption and implementation of IPSAS in South Africa. Qualitative research design was adopted. Primary data collected from Accounting Standards Board (ASB) in South was used, while interview method was employed in collecting the data from respondents. The results showed that public institutions in South Africa have completed their transition to accrual-basis IPSAS. However, the study observed that some ministries were still in the process of transition to IPSAS.

3. Methodology

Survey research design was employed in this study. Survey research is the method of gathering data from respondents in a bid to provide answers to the research questions. It provides guidelines which direct the researcher towards solving the research problems and it may differ due to the nature of the problem studied.

A total of 19 people were purposively selected (purposive sampling) from the population of 35 middle and senior level staff of the Cross River State Ministry of Finance, Calabar. The sample size for the research was made up of accountants in the ministry. The questionnaires developed on a 5-point Likert scale were used to gather data from respondents.

The questionnaires contained closed-ended questions only and the copies were administered directly by the researcher. The developed questionnaire was presented to a senior academic who meticulously made relevant contributions to ensure its suitability for the subject matter.

Percentages and Pearson correlation were the techniques adopted to estimate the relationship between the implementation of IPSAS and quality of financial reporting. This was carried out using a two-tailed test at 5% level of significance. The primary data collected through the distribution of 19 copies of questionnaire to selected respondents in the Cross River State Ministry of Finance were used for the analysis. The study recorded 95% response rate as regards to collecting back the distributed questionnaires.

4. Data Presentation and Analysis

The data collected from respondents through the issuance of questionnaires were analyzed and the results are as presented in the tables below. The research questions that guided the analyses were appropriately answered.

4.1 Data Presentation

Table 4.1: Respondents Opinion on the Relationship between IPSAS Implementation and Faithful Representation of Financial Reports in Cross River State

Faithful representation	Responses										Total	
	U		SD		D		A		SA			
	X	%	X	%	X	%	X	%	X	%	X	%
There is the presence of valid arguments that backs certain assumptions and estimates in the annual report.	2	10.5	0	0	0	0	11	57.9	6	31.6	19	100
The information in the annual report highlights both the positive and negative events.	3	15.8	0	0	0	0	8	42.1	8	42.1	19	100
Government supports its choice of accounting principles on valid arguments.	0	0	0	0	1	5.3	10	52.6	8	42.1	19	100
The reports by the auditor included in the annual reports of government are free from material errors and are verifiable, truthful, and holistic.	1	5.3	1	5.3	1	5.3	13	68.4	3	15.7	19	100
The accounting procedures allow for adjustment of figures of previous accounting period to show the upgrades in accounting policies and revisions in accounting estimates of government.	1	5.3	0	0	0	0	10	52.6	8	42.1	19	100
Mean							54.7		34.7			
							89.4%					
U = Undecided; SD = Strongly Disagree; D = Disagree; A = Agree; SA = Strongly Agree, X= Score, % = percentage												

Source: Survey 2022

Table 4.1 shows the results of analysis of responses from respondents regarding the relationship between IPSAS implementation and faithful representation of financial reports in Cross River State. The overall result supports the fact that IPSAS implementation has a positive relationship with faithful representation of financial report in the state to a high extent of 89.4%. This result answers research question 1. The result implies that IPSAS implementation positively influence financial reporting quality in Cross River State, Nigeria.

Table 4.2: Respondents' Opinion on the Relationship between IPSAS Implementation and Reliability of Financial Reports in Cross River State

Items	Responses										Total	
	U		SD		D		A		SA			
	X	%	X	%	X	%	X	%	X	%	X	%
The inclusion of the forward-looking statement helps in building expectations as	1	5.3	0	0	0	0	14	73.6	4	21.1	19	100

	X	%	SD		D		U		A		SA		X	%
well as predictions regarding the future of government activities.														
The non-financial information in the report regarding business opportunities and risks complements the financial information.	4	21.1	0	0	0	0			10	52.6	5	26.3	19	100
The results presented gives feedback to the annual reports users on how various market events and transactions affected government activities.	3	15.7	0	0	2	10.5			9	47.4	5	26.3	19	100
Clarification of presented information and avoidance of technical jargons is necessary for easy comprehension of government financial statements.	1	5.3	0	0	0	0			14	73.6	4	21.1	19	100
Mean (A & SA)									61.8		23.7			
									85.5%					

U = Undecided; SD = Strongly Disagree; D = Disagree; A = Agree; SA = Strongly Agree
X= Score, % = percentage

Source: Survey 2022

From the results presented in Table 4.2, implementation of IPSAS affects the reliability of financial reports in Cross River State to a high extent of 85.5%. The result answers research question 2 and it complements the result presented in Table 4.1 that IPSAS implementation positively affects the financial quality in Cross River State, Nigeria.

The hypotheses of the study were tested from the outcome of the correlation analyses as presented in Tables 4.3 and 4.4 below.

Hypothesis 1

H_0: IPSAS implementation has no significant relationship with faithful representation of financial reports in Cross River State, Nigeria.

H_1: IPSAS implementation has a significant relationship with faithful representation of financial reports in Cross River State, Nigeria.

Table 4.3: Correlation Results for IPSAS Implementation and Faithful Representation of Financial Reports

		IPSAS_IMPLE MENTATION	FAITHFUL REPRESENTATION
IPSAS_IMPLEMENTATION	Pearson Correlation	1	.796**
	Sig. (2-tailed)		.000
	N	19	19
FAITHFUL REPRESENTATION	Pearson Correlation	.796**	1

| | Sig. (2-tailed) | .000 | |
| | N | 19 | 19 |

**. Correlation is significant at the 0.01 level (2-tailed).
Source: SPSS 20 Output

From the results of analysis presented in Table 4.3, IPSAS implementation has a positive and significant relationship with accounting reporting quality as represented by faithful representation of financial reports. Therefore, the null hypothesis is rejected while the alternative hypothesis stating that IPSAS implementation has a significant relationship with faithful representation of financial reports in Cross River State, Nigeria is accepted.

Hypothesis 2

H_0: IPSAS implementation has no significant relationship with reliability of financial reports in Cross River State, Nigeria.

H_1: IPSAS implementation has a significant relationship with reliability of financial reports in Cross River State, Nigeria.

Table 4.4: Correlation Results for IPSAS Implementation and Reliability of Financial Reports

		IPSAS_IMPLEMENTATION	RELIABILITY
IPSAS_IMPLEMENTATION	Pearson Correlation	1	.803**
	Sig. (2-tailed)		.000
	N	19	19
RELIABILITY	Pearson Correlation	.803**	1
	Sig. (2-tailed)	.000	
	N	19	19

**. Correlation is significant at the 0.01 level (2-tailed). *Source: SPSS 20 Output*

The results of Pearson Correlation shown in Table 4.4 indicated that IPSAS implementation has a significant positive relationship with reliability of financial reports. As such, the null hypothesis is rejected whereas the alternative hypothesis which state that IPSAS implementation has a significant relationship with reliability of financial reports in Cross River State, Nigeria is accepted.

4.2   Discussion of Findings

The **st**udy focused on the relationship between implementation of IPSAS and the quality of financial reporting in the Ministry of Finance, Calabar, Cross River State.

The results of the study indicated that IPSAS implementation has a positive and significant relationship with accounting reporting quality as peoxied by faithful representation and reliability of financial reports. The result of this study is in line with the findings of Okpanyi (2016) who found that the adoption of IPSAS

enhances comparability, relevance, timeliness, and faithfulness of financial reports. Similarly, Olayinka, Okoye, Modebe and Olaoye (2016) found that the adoption of IPSAS has a positive and significant impact on financial reporting quality in the Nigerian public sector.

The findings of Tawia and Soobaroyen (2022) indicated a positive and significant relationship between the adoption of IPSAS and external funding as well as inflow of foreign aid and grants to developing countries.

5. Summary of Findings, Conclusion and Recommendations

5.1   Summary of Findings
The findings from the hypothesis tests show that:

1)   A significant positive relationship exists between IPSAS implementation and faithful representation of financial reports in Cross River State, Nigeria.

2)   A significant positive relationship exists between IPSAS implementation and reliability of financial reports in Cross River State, Nigeria.

5.2   Conclusion

The study concluded that IPSAS implementation in Cross River State, Nigeria would positively affect accountability, quality of financial reports, transparency, faithfulness, and good governance. Also, the uniformity and comparability of financial reports would be achieved due to IPSAS implementation.

5.3 Recommendations

The following recommendations were given:

I.   IPSAS implementation should be made mandatory for all public institutions in the federal, state, and local government to have a healthy financial reporting standard as well as transparency and accountability.

II.   The cost of implementing both the cash and accrual basis of IPSAS should be budgeted by the concerned governments and made available to speed up the implementation process. Also, training and development programs should be organized to equip staff and management of the various public sector institutions to enable them to apply IPSAS properly for optimum result.

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