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RESEARCH ARTICLE

IMPLICATIONS OF INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS ADOPTION AND FINANCIAL REPORT QUALITY IN LAGOS STATE

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Abstract

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The Poor quality of Financial Report in Nigeria can be attributed to inherent inadequacies present in the Accounting systems. This paperaimed to evaluate the adoption of International Public Sector Accounting Standards (IPSASs) as well as the financial report quality in Lagos State. The paper employed primary source of data, while thepopulation consisted of all the public sector workers in Lagos State. The sample size was 300 comprising public sector accountants and auditors using stratified random sampling technique. Data were collected with the aid of questionnaires. A total of 291 copies of questionnaire were retrieved from the respondents. Data were analyzed using paired sampled T-test. The paper revealed that the adoption of IPSASs has a significant influence on financial report quality ($t = -28.787$, $p = 0.000$) andconcluded that the adoption of IPSASs influenced financial report quality in Lagos State.

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Introduction:-

Appahand Appiah (2010) supported the work of Philip (2006) and opined that Poor financial report quality in Nigeria can be attributed to the inadequacies of the cash basis accounting systems used in the Nigerian public sector. Cash basis accounting disclosure requirements is a basic setback facing financial report quality in the public sector and efforts at ensuring financial report quality have always been short lived (Udeh, &Sopekan, 2015). Further, Kelly and Hartley (2010) submitted that authenticating function of external auditing in accounting has had it fair share of blame, criticism and failures on ensuring financial report quality.

Okolieaboh (2013) informed that attempts introduced by the Legislations such as Economic and Financial Crimes Commission (EFCC) and Independent Corrupt Practices and other related offences Commission (ICPC), either wholly or partly were targeted to reduce the inadequacies of cash basis disclosure requirement in the public sector. However, this has not equally solved the problem. ,Nonetheless, the wide spread use of International Public Sector Accounting Standards (IPSASs) is an important trendtowards ensuring financial report quality, epitomizing the emergence of a global accounting architecture (Adhikari&Mellemvik, 2010).

IPSASs were issued by The International Public Sector Accounting Standard Board (IPSASB) formed in 2004. The IPSASB issued IPSASs dealing with financial reporting under the cash basis of accounting and accrual basis of accounting. IPSASB encourages the adoption of IPSASs and the harmonization of national requirements with IPSASs (Mukoro, 2013). For these reasons, IPSASs deserve the attention of accounting policy makers, practitioners

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and scholars alike. Hassan (2013) noted that only six governments across the world had actually issued financial statements on the full accrual basis. Hassan (2013) further revealed that some countries such as United States of America, Australia, Albania, Chile, Canada, Cyprus and Germany applied accounting standards that are already consistent with IPSASs. World Food Program (WFP) was the first United States' agency to implement IPSASs. Moreover, Hassan (2013) disclosed that some countries are yet to implement IPSASs and these include Afghanistan, Armani, Austrian, Estonia, Lebanon, Republic of Macedonia, United Arab Emirates, Ghana and Nigeria

However, by 2014 the Nigerian Federation Account Allocation Committee (FAAC) approved the implementation and commencement of IPSASs cash basis while the IPSASs accrual basis is to be implemented by 2016. Alamu (2014) noted that only Lagos State Government started complying with IPSASs requirements since 2014 and subsequent financial reports have been prepared and presented based on IPSASs requirements. Report byMalahleha (2013) andAdebimpe (2014) noted that some other state governments in Nigeria including Oyo, Osun, Ogun, Ondo, Ebonyi and Enugu States are fully aware of the practices of IPSASs but are yet to implement IPSASs.Hence, what is the influence of adoption of IPSASs on financial report quality in the public sector in Lagos Statesince its adoption in 2014?

Literature Review:-

Financial ReportingQuality:-

Given the picture that the subject of financial report quality is broad, several definitions of the term have been expressed based on the objectives of differentresearch scope and focus. A commonly accepted definition is provided by Jonas and Blanchet (2000), which states that "financial reporting quality is full and transparent financial information that is not designed to obfuscate ormislead users".

In the same vein, Lister (2007) defined financial reporting quality as "the precision with which financial reports convey information about the firm's operations, in particular its cash flows, in order to inform equity investors". Other researchers (Tang, Chen &Zhijun, 2008; Appah, &Appiah, 2010; Bellanca, &Vandermoot, 2014) define financial reporting quality as "the extentto which the financial statements provide true and fair information about the underlying performance and financial position".

American Institute of Certified Public Accountants (AICPA) (1970) defines the purpose of financial accounting and financial statements as "the provision of quantitative financial information about a business enterprise useful to the statement users". The role however of financial reporting is broader and "aims to providequality financial and other information that together with information ofother sources facilitates the efficient functioning of capital and other markets and assists the efficient allocation of the scarce resources in the economy", (Federation Accounting Standard Board FASB, 1978). The concept of financial reporting quality is therefore broad and includes financial information, disclosures and non-financial information useful for decision making.

Jonas and Blanchet (2000) describe two general perspectives that are widely used in the assessment of financial reporting quality Baxter (2007) pointed out that the first perspective relies on the needs of users,. Fromr this perspective, financial reporting qualityis determined on the basis of the usefulness of the financial information to its users. The second perspective is focused on the notion of shareholder/investor protection. While the user needs perspective is mainly concerned with the provision of relevant information to users for making decisions, the shareholder/investor protection perspective aims toensure that the information provided to users is sufficient for their needs, transparent and competent (Jonas & Blanchet, 2000).

As a response to the need for improvement and convergence of existing financial reporting frameworks of IASB and FASB, the IASB issued in 2008 an exposure draft titled "An improved conceptual framework for Financial Reporting". According to IASB's conceptual framework a key prerequisite for financial reporting quality is the adherence to the objective and the qualitative characteristics of financial reporting information (IASB 2008). Financial reports should meet certain qualitative criteria in order to avoid poor quality and accomplish their purpose (Alamu, 2014). Qualitative characteristics are the attributes that make financial information useful and thesecomprises of relevance, faithful representation, comparability, verifiability, timeliness and understandability. Qualitative characteristics are distinguished as fundamental or enhancing depending on the way they affect the usefulness of the information (IASB, 2008).

Adoption of IPSAS:-

There is no legal requirement at the international level for national jurisdictions or individual public sector entities to apply IPSASs (Alshujairi, 2014). Where a national jurisdiction chooses to adopt IPSASs that decision is then given effect through legislation or regulation. In the case of International organizations, IPSASs adoption is a decision of the relevant governing body. For example, in the case of the United Nations, IPSASs adoption was a decision of the United Nations' General Assembly.

Presentations by International Federation of Accountants (IFAC) and Public Sector Committee (2011) indicate that more than forty national jurisdictions have adoptedIPSASs. However, few governments of the world claim full compliance with all IPSASs requirements, while others rather adapt them to allow for local needs. Eurostat report, prepared by Ernst and Young (2012), suppliedoverview information and comparison of public accounting and auditing practices in the 27 European Union (EU) member States, andfound out that eight (Estonia, France, Hungary, Malta, Poland, Spain, Sweden, and The United Kingdom) European Union member statesapplied accounting standards that were 75% or more aligned with IPSASs for their central government public sector entities.

Ofoegbu (2014) claimed thatinformation provided by IFAC member bodies, which report to IFAC on their jurisdictions' compliance with IFAC supported standards, identifies other countries that have adopted IPSASs, including Austria, The Cayman Islands, Chile, Guatemala, Peru and Switzerland, while at least 21 countries further have partially adopted IPSASs.Public sector entities in New Zealand have applied IPSASs since 2014. The majority of international organizations have adopted IPSASs; they include the Organization for Economic Co-operation and Development (OECD), all United Nations system organizations, the European Commission, the North Atlantic Treaty Organization among others. Acho (2014) expressed that IPSASs are treated as the starting point for development of European Public Sector Accounting Standards (EPSASs), which are expected to support improvement and harmonization of public sector financial reporting within the European Union.

In a debate by Bellanca, &Vandermoot, (2014), they postulated that IFAC, the World Bank, the International Monetary Fund (IMF) and the European Commission's Eurostat support IPSASs adoption on the basis that it can improve the financial information reported by public sector entities, with likely improvements to entities' such as financial management and financial sustainability. Okoro (2015) also observed that Eurostat promoted IPSASs adoption for consideration by European Union countries because of the benefits that are expected to arise from financial information quality as a basis for Government Finance Statistics (GFS) reports.

Methodology:-

The paper adopted field survey research design. The population consisted of all the public sector workers in Lagos State. The sample size was 300 using stratified random sampling technique. The samples consisted of public sector Accountants and Auditorsworking in Lagos State Government Accountant Generals' Office, Auditor Generals' Office, Ministry of Finance and Lagos Internal Revenue Service. According to IFAC (2011), public sector Accountants and Auditors are obliged to seeing to the successful implementation of IPSASs. The choice of the Ministry and Department is because they are directly concerned with finances and auditing of finances (Klynveld, Peat, Marwick &Goerdeler, KPMG, 2016). Most often, quite a huge number of Accountants and Auditors are found in these Ministries andDepartments (Udeh&Sopekan, 2015).

The choice of Lagos State is based on the fact that, only Lagos State Government started complying with IPSASs requirements since 2014 and subsequent financial reports have been prepared and presented based on IPSASs requirements. Presently, Lagos is the only State that has started preparing financial reports based on IPSASs in Nigeria. Data were collected using structured questionnaire and atotal of 291 copies of questionnaire were retrieved from the respondents from the 300 copies distributed. The questionnaire comprised of questions regarding examining the influence of IPSASsadoption on the financial reportingquality in the public sector in Lagos State. These questions were based on multiple choices.The Likert scale was used because it is one of the most widely used for itemized scales.The closed-ended questions were measured using paired sampled T-test.

Result and Discussion:-

Question:-

What is theinfluence of IPSASs Adoption on the Financial Reporting Quality in the Public Sector ofLagos State?

Results:-
Table 1 show whether or not the adoption of IPSASs has influence on the financial reportingquality. A paired sample t-test was carried out and observations gotten from Lagos State public service. The table below depicts the test result. The results provide strong evidence (t = -28.787, p = 0.000) that the adoption of IPSASs influence the financial reporting quality in Lagos State. From these indices, it can be said that the adoption of IPSASs has contributed to the increase in the financial reporting quality in the public sector in Lagos State. Therefore, there is a significant influence of IPSASs adoptionon the financial reports quality prepared in the State.

Table 1:- Paired Sampled T Test for the Influence of IPSASs Adoption on the FinancialReporting Qualityin Lagos State

Paired Sampled Test								
	Paired Differences					T	Df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Model	-3.139	1.096	0.109	-3.355	-2.922	-28.787	100	0.000

Source: Field Survey, 2018

Discussion:-
The findings of this study negate Ellwood and Newberry (2010) view that explains the introduction of IPSASs in New-Zealand has been accompanied by misunderstanding and confusion. Ellwood and Newberry also commented that there was little evidence that information was extensively used in decision making within the public sector. Meanwhile, Acho (2014); andOfoegbu (2014) unveiled that the adoption of IPSASs has significantly improved objective and timely financial reporting and recording system of accounting practice.These findings support this study result as IPSASs adoption has improved objective and timely financial reporting in Lagos state. Findings from Mhaka (2014) also observed that, IPSASs adoption improves the quality of public sector financial information, thereby increasing the confidence of both domestic and foreign donors and investment organizations in making financial assistance available for public sector entities. This also supports the results of the this study as it reveals that IPSAS adoption increase grants from foreign donors

Furthermore, Acho (2014) unveiled that the adoption of IPSASs would significantly improve financial reporting quality and recording systems in Nigerian public sector which would in no doubt enhance comparability and reduce other ill practices in the sector. In line with this, the results of this study have shown that IPSASs adoption influenced financial reporting quality in Lagos State. Ishola (2009) revealed that accrual accounting provides wide scope for the exercise of judgment and this requires technical knowledge, a disciplined approach and an audit system capable of monitoring how judgment is exercised.Ijeoma and Oghoghomeh (2014) found that the adoption of IPSASs would enhance comparability and international best practices.Likewise, the adoption of IPSASs based standards would provide more meaningful information for decision makers and improve the financial report quality system in Nigeria.The study suggested that the adoption of IPSASs by Nigerian government would improve comparability of financial information reported by public sector entities in Nigeria.

Alshujairi (2014) recommendedthat State Governments should adopt and implement the full accrual accounting based IPSASs if the country wants to maintain a robust public sector financial system capable of eradicating corruption and subsequently, engender transparency, accountability, and comparability of financial information in the country.Conversely,Mellet, Macniven and Marriot (2008) objects to the findings of the this study, while maintaining that, IPSASs adoption and financial reportingquality, may not carry with it special benefits and as thus,governments which have undertaken to implement accrual accounting should therefore be aware that many potential benefits may not be realized.

Conclusions and Recommendations:-
The findings of this study establish that IPSASs adoption has contributed to the financial reporting quality in the sampled public offices. Results from this study shows that there is significant influence of IPSASs adoption on the financial reportquality. This means that IPSASs adoption has influence on financial reporting quality in the sampled Lagos State public offices. In view of this, the paper informs other State Governments on the positive significance

of IPSASs adoption and financial report quality. Therefore, preference should be giving to enforcing IPSASs adoption. In order words, Governments should endeavor to give the ministries, departments and agencies necessary support towards implementing IPSASs in their States.

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