International Journal of Innovative Research and Advanced Studies (IJIRAS)
Volume 5 Issue 5, May 2018

ISSN: 2394-4404

An Empirical Evaluation Of Ipsas Adoption And Public Sector Financial Management

Olaoye, F.O

Olaniyan N.O.

Department of Accounting, Faculty of Management Sciences, Ekiti State University

Abstract:** This study examined the effects International Public Sector Accounting Standards (IPSAS) adoption has on public sector financial management in Ekiti State, Nigeria. The study adopted a descriptive survey research design because it helps in obtaining similar information from various groups of persons through the use of an administered questionnaire. The population covered all the staffs of Ekiti State Accountant General's Office; out of which 50 staff was selected as the sample size and this was achieved through random sampling technique. A close ended questionnaire was used to elicit the needed information from the respondents and the necessary validity and reliability of the instrument were done accordingly to authenticate the items on the questionnaire. Data generated from the respondents was analyzed through simple regression and mean and standard deviation. The findings of the study revealed that the independent variable explained about 11.2% of the systematic variation of the dependent variable. The overall fitness of the model as shown in the F statistics of 18.189 with a probability of 0.04 was statistically significant as it was lesser than the standard critical p-value of 0.05. This, therefore call for the rejection of the null hypothesis. Hence, there is a significant effect of IPSAS on the public sector financial management in the Nigerian Public sector. Hence, we conclude that IPSAS would significant influence public sector financial management in Nigeria and that the challenges of Nigerian public sector are costs associated with tracking and identifying government tangible assets. Hence, it was recommended that government at all levels; should as a matter of necessity embark on continuous training and retraining of accounting personnel who are charged with the responsibilities of preparing the accounts in order to maintain and sustain enhanced credibility of financial reporting.

I. INTRODUCTION

Over the years, countries of the world are been governed by a set of standards in reporting their activities which varies from cash basis, accrual basis and modified cash basis and each of this methods are subject to their territories perception on the method that will best fulfilled and in line with their reporting focus or desires that will satisfied their governance style. IPSAS pre-adoption era, cash basis of accounting has been Nigeria basis of reporting which has some limitations and setbacks that affects financial transactions such as poor budget implementation, mismanagement of public fund which distinguished government reporting from private reporting and this has created an issue of poor budget implementation *(Olaoye, 2010 and Ama, 2013)*. Also, Ebai & Forge (2009) noted that the declining sense of integrity honesty and lack of professionalism and conflict of interest has destroyed African public service since. Under traditional cash-based accounting methods, expenses and revenues recognition need not be recorded in the period to which they relates and cash-based do not fully recognize assets and liabilities. Recently, the trend of globalization and lapses that standards setting bodies and government organisations had discovered from the three basis of government reporting has brought about International Public Sector Accounting Standards (IPSAS). Out of the need to develop a unify accounting reporting system across the globe was the need that the Nigeria Government opted for IPSAS and other standards like International Financial Reporting Standard (IFRS).

The roadmap for the adoption of IFRS and IPSAS in Nigeria was approved by the Federal Executive Council (FEC) in Nigeria for both private and public sectors respectively in

July, 2010 (Erin, Okoye, Modebe, & Ogundele, 2016), while the implementation of Accrual Basis under the International Public Sector Accounting Standards (IPSAS) in Nigeria started in January 2016 (Frank, 2015). International Public Sector Accounting Standards Board (IPSASB), which used to be the Public Sector Committee (PSC) of the International Federation of Accountants (IFAC), developed a set of International Public Sector Accounting Standards (IPSAS), in order to improve the quality of general purpose financial reporting by public sector entities, leading to better informed assessments of the resource allocation decisions made by governments, thereby increasing transparency and accountability (ICAN 2014). Hence, this study aims to examine the empirical evaluation of International Public Sector Accounting Standards (IPSAS) on public sector financial management in Nigeria.

II. LITERATURE REVIEW

A. CONCEPTUAL LITERATURE

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSASS)

International Public Sector Accounting Standards (IPSASs) are a set of accounting standards issued by the International Public Sector Accounting Standards Board for use by public sector entities around the world in the preparation of financial statements (Modebe, & Ogundele, 2016). These standard is a replicate of the private sector standard (International Financial Reporting Standards) issued by the International Accounting Standards Board (IASB). IPSASs are issued by IPSASB (International Public Sector Accounting Standards Board), an independent organ of IFAC (International Federation of Accountants). The IPSASB adopts a due process for the development of IPSASs that provides the opportunity for comment by interested parties including auditors, preparers (including finance ministries), standard setters, and individuals. IPSASB’s meetings to discuss the development and to approve the issuance of IPSASs or other papers are open to the public. Agenda papers, including the minutes of the meetings of the IPSASB, are published on the IPSASB's website (Heald, 2003; Acho, 2014; ICAN 2014; Frank, 2015; Erin, Okoye, Modebe, & Ogundele, 2016).

THE PUBLIC SECTOR

The public sector is usually composed of organizations that are owned and operated by the government. This includes federal, state and local governments. Ibhahulu (2012) described public sector as that sector of the economy established and operated by the government and its agencies distinguishable from the private sector and are organized on behalf of the whole citizens. Mathias (2004) explained that private sector accounting aim in theory is different from public sector accounting and argued that most government agencies and municipalities need to track funds generated from tax revenues and direct it towards their expenditures and other related projects or appropriations. In addition, nations may need to follow a set of standard of accounting principles different from private sector accounting rules. But with the development of international accounting standard, helps countries to follow similar rules thus making preparation and presentation of similar financial statement possible.

While public sector accounting according to Oshisami (1992) and Olaoye (2010) refers to the process of recording, analyzing, classifying, summarizing, and communicating and interpreting financial information about the government in aggregate and in detail, which reflects all transactions involving receipt, transfer and disposition of government property and funds. Accounting is often said to be the language of business”. It is used in the business world to describe and report the transactions entered into by all kinds of government parastatals. In any situation where money is used as a mean of exchange, this calls for the recording of the facts and figures underlying the financial transactions at least for ease of reference (Muyiwa, 2002).

PUBLIC SECTOR FINANCIAL MANAGEMENT

The public sector financial management is describe as a high-quality financial information in the public sector that enables an accurate and complete assessment of the impact of policy decisions, supports external reporting by governments to electorates, taxpayers, and investors; and aids internal decisions on resource allocation (planning and budgeting), monitoring, and accountability of the government (International Federation of Accountants, 2017).

CHALLENGES OF IPSAS ADOPTION

In the pre-adoption era, Ijeoma and Oghoghome (2014) asserted that Nigeria transition to Accrual basis of IPSAS will bring about a lot of challenges such as: Systematic identification and valuation of assets and liabilities as at the date from which accrual accounting commenced; Lack of adequate technical resources; Political ownership such as inadequate support at the highest levels of the executive; Consolidation issues. Also, Shehu, and Adamu (2014), that it challenges may be time consuming as well as resources needed to be provided in order to carry out seminar and workshops for those who dealt with financial reporting matters of public organisations may be inadequate to fully meet up with the requirements of IPSAS.

B. THEORETICAL REVIEW

a. PRINCIPAL-AGENT THEORY

Ross and Mitnick proposed independently the creation of agency theory in 1972 (Ross, 1974; Mitnick, 2006). Efobi and Bwala (2013) argued that the seminal works of Meckling and Jenson (1976) and Fama and Jensen (1983) have been widely attributed to propagate the agent-principal relationship (Agency Theory). This theory opines that there are times when conflict arises between the principal (providers of capital) who in this study depicted the tax payers and the agents (managers of capital) Public office Holders, such that the principal requires the agents to effectively and efficiently utilize the resources committed into their hands. Meanwhile, the agents pursue their personal interest at the expense of the principal interest. As a result of this, there exists conflict of interest (agency problem). Consequently, the public is demanding more accountability from their elected officials through qualitative financial reports of their activities. This is in contrast to stewardship theory that states that managers, if left on their own, will indeed act as responsible stewards of the assets they control.

b. STEWARDSHIP THEORY

According to Donaldson, (1990), stewardship theory holds that there is no conflict of interest between managers and owners, and that the goal of governance is to find the mechanisms and structure that will facilitate the most effective coordination between the principal and their agent. Hence, this study relates the two theories to drown out the relationship between the providers of funds (Principals) and the government officials (agent) whose public resources are entrusted into their hands in order to empirically evaluate if IPSAS adoption has improved public sector financial management in Nigeria.

C. EMPIRICAL REVIEW

Roje, Vasicek and Vasicek (2010), carried out a study on accounting Regulation and IPSAS implementation: Efforts of Transition Countries toward IPSAS Compliance. The study examine the comprehensiveness and effectiveness of public sector accounting and financial reporting model, taking into account the existing accounting regulations and financial reporting system in countries of Croatia, Slovenia, and Bosnia and Herzegovina all in Europe. The study which employs discussion of the status and perspectives of developing countries towards IPSAS adoption paid more attention to Croatia, Slovenia and Bosnia and Herzegovina to ascertain their level of convergence to the new international standards. The statistical tools employed were the Chi-square test and Kruskal Wallis test. Their findings shown that the level and changes of public sector accounting systems in most countries were dependent on their peculiar natures that ought to be looked at when implementing the standards pointing out that most of the countries experienced one challenge or the other in their attempts to implement the standards.

Ofoegbu, (2014) studied the new public management and accrual accounting basis for transparency and accountability in the Nigerian public sector which aimed at ascertaining the experts' perception on the implementation accrual basis of IPSASs of accounting in achieving accountability and improved quality of accounting information in the Nigerian public sector. The study administered questionnaire to 112 auditors and accountants in the public sector. The data collected were analyzed tested using standard deviations, means, and Friedman's test statistics. Findings of the study indicated that the adoption and implementations of IPSASs in the Nigerian public sector significantly enhance transparency though, with some challenges.

Mhaka, (2014) examined IPSAS, A guaranteed way of quality government financial reporting; a comparative analysis of the existing cash accounting and IPSAS Based Accounting Reporting. The study was aimed at examining the cost benefit of IPSAS adoption in Zimbabwe by way of comparing the existing cash accounting basis with the proposed IPSAS based accounting reporting. The study adopted a well qualitative method of reviewing and analyzing of relevant discourse, publications, and documentary materials from some professional accounting organizations. Findings shown that IPSAS adoption enhances and improves the quality of public sector financial information, assets managements and the level of accountabilities of government reporting; thereby increasing the confidence of both domestic and foreign donor organizations to make financial assistance available for public sector entities.

Shehu, and Adamu (2014), explored the challenges of first time adopters of International Public Sector Accounting Standards (IPSAS) in Nigeria. Their research was more of qualitative review of the Pre-IPSAS adoption. Their findings revealed that, first time adopter will be expecting to comply with the requirement of the standard when switching to IPSAS. Also the challenges include it is time consuming as well as resources need to be provided in order to carry out seminar and workshops for those who dealt with financial matters of an organization.

Nkwagu, Uguru and Nkwede (2016), examined the implications of international public sector accounting standards on financial accountability in the Nigerian public sector: Their study adopted survey design and administered questionnaires on a sample of 314 out of 1458 Accountants and Internal Auditors in the ministries of finances of south Eastern states of Nigeria. The data was analyzed using descriptive statistics. Hypotheses formulated were tested using one-way ANOVA model via Prism GraghPad at 5% level of significance. Their Findings unveil that IPSASs adoption enhances accountability in the Nigerian public sector as the standards pave way for improved management of public funds. It further showed that application of IPSASs paves way for effective budget implementation and checks for possible cases of corruption in the Nigerian public sector.

Ademola, Adegoke, and Oyeleye, (2017), evaluated the impact of International Public Sector Accounting Standard (IPSAS) on the financial accountability of selected local governments of Oyo State, Nigeria. Their study which adopted survey design collected data using five point likert-scale questionnaires which was administered on sample of 105 Accountants and Internal Auditors in some selected local governments of Oyo State Nigeria. The data was analyzed using descriptive statistics. The hypotheses formulated were tested using chi-square analysis at 5% level of significance. The result of the study showed that adoption of IPSAS increases the level of accountability, transparency and reduces corruption in the selected local governments.

In view of scholars findings regarding the benefits and challenges of IPSAS (Roje, Vasicek and Vasicek 2010; Nkwagu, Uguru and Nkwede, 2016; Shehu, and Adamu, 2014; Mhaka, 2014; Ofoegbu, 2014; Ademola, Adegoke, and Oyeleye, 2017). And as such the mandatory adoption of IPSAS have started for about a year plus, but it aims are based on transparency, accountability and efficiency of government financial reporting on resources committed into the hand of

ISSN: 2394-4404

government officials by the tax payers. Yet cases of indisposed, inefficiency and bureaucracy have also manned the post adoption era of IPSAS in the public sector reporting. Even, cases of mismanagement, budget padding, corrupt practices is been reported in the dallies on Nigerian public sector which IPSAS adoption and framework ordinarily opt to have detected or prevented, for example, IDPs Contracts Scam in North East (Samson, 2016) and NNPC scandal of $25 Billion (Dirisu, 2017). Hence, few studies have dealt with the issue of IPSAS in South West Nigeria. This study seeks to fill a gap by examining the effect of IPSAS on the public sector financial management in the Nigerian Public sector, thereby including the post-adoption era.

III. METHODOLOGY

The study adopted a descriptive survey research design because it helps in obtaining similar information from various groups of persons through the use of an administered questionnaire. The population covered all the staff of Ekiti State Accountant General's Office (188 staff); out of which 50 staff was selected as the sample size and this was achieved through random sampling technique. A close ended questionnaire was used to elicit the needed information from the respondents and the necessary validity and reliability of the instrument were done accordingly to authenticate the items on the questionnaire. Data generated from the respondents was analyzed through simple regression and mean and standard deviation. Simple regression was used to analyze the first objective while mean and standard were used to analyze the second objectives. The regression model was specified below:

$$IPSAS = \alpha_0 + \alpha_1 FINMAN + U$$

Where:
IPSAS= International Public Sector Accounting Standards
FINMAN = Financial Management
α_0 = constant of the equation
α_1 = coefficient of the predictor variable
U=Stochastic Error Term

IV. RESULTS AND ANALYSIS

A. REGRESSION ANALYSIS

Dependent variable: FINMAN.

Model	coefficients	Std Error	R	R^2	F	Prob
Constant	1.48	0.444	0.335	0.112	18.189	0.000
IPSAS	0.445	0.104				

Source: Authors' compilation

Table 1: Simple Regression

In the table above, the R-square, which showed the overall explanatory power of the model, revealed that the independent variable explained about 11.2% of the systematic variation of the dependent variable. The overall fitness of the model as shown in the F statistics of 18.189 with a probability of 0.04 was statistically significant as it was lesser than the standard critical p-value of 0.05. This, therefore call for the rejection of the null hypothesis. Hence, there is a significant effect of IPSAS on the public sector financial management in the Nigerian Public sector.

B. MEAN AND STANDARD DEVIATION ANALYSIS

S/N	Items	Mean	Std Deviation	Remarks
1.	Excessive costs associated with tracking and identifying government tangible assets	3.14	0.702	Agreed
2.	Implementing IPAS comes with a lot of difficulties in reconciling budget and financial statement information	2.98	0.804	Agreed
3.	Consolidation issues in respect of elimination of all inter-agency transactions, and balances	2.89	0.838	Agreed
4.	Lack of qualified Accountants to adequately carryout the changes in IPSAS as opposed to the financial reporting frame work currently existing in Nigeria.	2.98	0.884	Agreed
5.	Some terminologies used in IPSAS could not be applied to country's financial reporting system due to some uniqueness	2.83	0.993	Agreed

Table 2: Responses of the Respondents on the Challenges of IPSAS

The analysis above revealed that the respondents unanimously agreed that excessive costs associated with tracking and identifying government tangible assets; a lot of difficulties in reconciling budget and financial statement information; consolidation issues in respect of elimination of all inter-agency transactions and balances; lack of qualified accountants to adequately carryout the changes in IPSAS as opposed to the financial reporting frame work currently existing in Nigeria and some terminologies used in IPSAS that could not be applied to countries financial reporting system due to some uniqueness that constituted the challenges of IPSAS in Nigeria with mean and standard deviation of 3.14 and 0.702; 2.98 and 0.804; 2.89 and 0.838; 2.98 and 0.884 and 2.83 and 0.993 respectively.

C. DISCUSSION OF FINDINGS

Major in the discovery made was that there is a significant effect of IPSAS on the public sector financial management in Nigeria. This implies that IPSAS has paved the way for transparency and probity in Nigerian public sector. The corollary of this finding is that IPSAS could positively influence fund management in the Nigeria Public sector when used by qualified Accountants. Hence, it should be used by all government parastatals and institution in a bid to achieve efficiency of operations, effectiveness of public officers and drastic reduction in the corruption and mismanagement level among public officers. This finding corroborated the findings of Ademola, Adegoke, and Oyeleye, (2017); Shehu, and Adamu (2014) and Mhaka, (2014) Their Findings unveil that IPSASs adoption enhances and improves the quality of public sector financial information, assets managements and the level of accountabilities of government reporting; thereby increasing the confidence of both domestic and foreign donor organizations to make financial assistance available for public sector entities; and that it application paves way for effective budget implementation and checks for possible cases of corruption in the Nigerian public sector.

It was also discovered that excessive costs associated with tracking and identifying government tangible assets; difficulties in reconciling budget and financial statement information; consolidation issues in respect of elimination of all inter-agency transactions and balances; lack of qualified accountants to adequately carryout the changes in IPSAS as opposed to the financial reporting frame work currently existing in Nigeria and some terminologies used in IPSAS that could not be applied to countries financial reporting system due to some uniqueness constituted the challenges of IPSAS in Nigeria. This outcome was in line The results is collaborated with Roje, Vasicek and Vasicek (2010) and Ofoegbu, (2014), their results shown that the level and changes of public sector accounting systems in most countries were dependent on their peculiar natures that ought to be looked at when implementing the standards pointing out that most of the countries experienced one challenge or the other in their attempts to implement the standards.

V. CONCLUSION AND RECOMMENDATIONS

Based on the findings of this study, it was concluded that IPSAS would significant influence public sector financial management in Nigeria and that the challenges of Nigerian public sector are costs associated with tracking and identifying government tangible assets; difficulties in reconciling budget and financial statement information; consolidation issues in respect of elimination of all inter-agency transactions and balances; lack of qualified accountants to adequately carryout the changes in IPSAS as opposed to the financial reporting frame work currently existing in Nigeria and some terminologies used in IPSAS that could not be applied to countries financial reporting system due to some uniqueness that constituted the challenges of IPSAS in Nigeria. It was therefore recommended that government should employ professional Accountants; government at all levels; should as a matter of necessity embark on continuous training and retraining of accounting personnel who are charged with the responsibilities of preparing the accounts in order to maintain and sustain enhanced credibility of financial reporting and management by the public sector entities and that the Federal Government should enact an enabling law to back up the adoption and implementation of IPSAS and more importantly institute appropriate sanctions to ensure full compliance.

REFERENCES

[1] Ademola, O. A., Adegoke, A. K. and Oyeleye, A. O.(2017), Impact of International Public Sector Accounting Standards (IPSAS) Adoption on Financial Accountability in Selected Local Governments of Oyo State, Nigeria, Asian Journal of Economics, Business and Accounting, 3(2), 1-9, ISSN: 2456-639X.

[2] Ama, G.A.N (2013) Public Sector Accounting and Finance: Today's Theory and Practice, Divine Favour Publications, Enugu, Nigeria.

[3] Dirisu, Y.(2017), $25b NNPC scam: Nigerians can now see the hypocrisy in Buhari's anti-corruption fight – PDP, vanguard newspaper, accessed on 17th November, 2017. Retrieved from: https://www.vanguardngr.com/2017/10/25b-nnpc-scam-nigerians-can- now-see-hypocrisy-called-anti-corruption-fight-pdp/

[4] Donaldson, L. (1990), The ethereal hand: Organizational economics and management theory. Academy of Management Review, 15, 369-381.

[5] Donaldson, L., & Davis, J. (1991). Stewardship theory or agency theory: CEO governance and shareholder returns. Australian Journal of Management, 16(1), 49-64.

[6] Efobi, U. R. & Bwala A. (2013). Voluntary information disclosure practice of listed companies in Nigeria. ICAN Journal of Accounting, 2(1), 13-30.

[7] Erin, O., Okoye, L.U., Modebe, N. J. & Ogundele, O. (2016), International Public Sector Accounting Standards (IPSAS) Adoption and Quality of Financial Reporting in the Nigerian Public Sector, ESUT Journal of Accountancy, 7(2), 22-30

[8] Fama, E. and Jensen, M.(1983) Separation of Ownership and Control. Journal of Law and Economics, 26, 301–325.

[9] Frank, I. (2015), IPSAS: January 2016 for implementation, The Nation Newspaper, accessed on 17th November, 2017, Retrieved from: http://thenationonlineng.net/ipsas-january-2016- for-implementation/

[10] Ibhahulu, O. M. (2012), The impact of public sector accounting in Nigeria: A case study of Esan South/East local government area, Edo State. Department of Accountancy, Faculty of Social Sciences, Caritas University, Amorji-nike, Enugu.

[11] ICAN (2014), The implementation of the international public sector accounting, Presentation, accessed on 17th November, 2017, retrieved from: https://www.icanig.org/ican/documents/ICAN2014PresentationbyAGF.pdf

[12] IFAC (2017), Public Sector Financial Management, accessed on 17th November, 2017, retrieved from: https://www.ifac.org/mosaic/public-sector-financial-management?resources&overview

[13] Ijeoma.N.B and Oghoghomed (2014). Adoption of International public sector accounting standards in Nigeria: Expectations benefit and challenges, Journal of investment and management, Science publishing group.

[14] Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. Journal of Financial Economics, 3: 305-360.
[15] Mhaka, C. (2014), IPSAS, A Guaranteed Way of Quality Government Financial Reporting? A Comparative Analysis of the Existing Cash Accounting and IPSAS Based Accounting Reporting, International Journal of Financial Economics, 3(3), 134-141
[16] Mitnick, B. (1975). The Theory of Agency: The Policing 'Paradox' and Regulatory Behavior. Public Choice 24: 27–43.
[17] Nkwagu, L.C., Uguru, L.C. and Nkwede, F.E.(2016) , Implications of International Public Sector Accounting Standards on Financial Accountability in the Nigerian Public Sector: A Study of South Eastern States, Journal of Business and Management, 18(7), 105-118, ISSN: 2319-7668.
[18] Ofoegbu, G.N. (2014), New Public Management and Account Basis for Transparency and Accountability in the Nigerian Public Sector, Journal of Business and Management, 16(7), 104-113
[19] Olaoye, D. (2010), Elements of Public Sector Accounting, Aseda Publishing, Ibadan Nigeria.
[20] Oshinsami, K. (1992), Government Accounting & Financial Control. Spectrum Books; Ibadan, Nigeria.
[21] Roje, G., Vasicek, D. and Vasicek, V. (2010), Accounting Regulation and IPSAS Implementation: Efforts of Transition Countries Toward IPSAS Compliance, Journal of Modern Accounting and Auditing, 6(12), 1-16
[22] Ross, S. (1973), The Economic Theory of Agency: The Principal's Problem, American Economic Review, 63, 134–139.
[23] Samson, A.U. (2016), SGF, Babachir Lawal involved in IDPs Contracts Scam in North East, Daily Post Nigeria accessed on 17th November, 2017, retrieved from: http://dailypost.ng/2016/12/14/sgf-babachir-lawal-involved-idps-contracts-scam-north-east/
[24] Shehu, A. A. and Adamu, D. A.(2014), IPSAS and Nigerian Public Sector: The Challenges of First Time Adopters, International Journal of Social Sciences and Humanities Innovations, 2(1), 151-160.