Innovations

Effect of International Public Sector Accounting Standards (IPSAS) on Reliability of Financial Reports in Nigerian Public Sector

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Abstract : *This study investigated the impact of IPSAS on the reliability of financial reports in the public sector of Nigeria. The results indicated a positive effect of IPSAS on financial reporting reliability, consistent with agency theory principles. This implies that adopting IPSAS could enhance the quality of financial reporting in Nigerian government entities, leading to the production of high-quality reports meeting user requirements. Furthermore, such reports are crucial for improving capital market efficiency as they influence the decisions of capital providers and other stakeholders. The research highlighted that IPSAS-based standards demonstrate qualities such as objectivity, impartiality, comprehensiveness, detail, and integration. Moreover, they are easy to prepare and understand, providing relevant value to beneficiaries. Overall, these attributes emphasize the importance of IPSAS implementation in enhancing financial reporting reliability.*

Keywords: *IPS, AS, Reliability, Financial Reports*

1.0 Introduction

In recent years, an increasing public demand for significant enhancements in global public sector management has driven widespread reforms in the realms of management, accounting, and finance (Christians and Rommel, 2008). Azuma (2002) introduced the concept of New Public Management (NPM), which advocates integrating market efficiency and economic principles into public sector administration. NPM is guided by six core principles in governance outlined by Connolly and Hyndman (2006): marketization, privatization, output orientation, decentralization, intensity of implementation, and quality systems. The primary aim of NPM is to align public sector operations more closely with private sector practices, emphasizing outcome-based accountability, as highlighted by Hood (1995). This paradigm shift has led governmental bodies to implement various

strategies, including cost-saving initiatives, financial management information systems, performance metrics, delegated budgets, and resource allocation guidelines (IFAC, 2004).

A pivotal aspect of NPM is the adoption of accrual accounting in the public sector to enhance transparency, efficiency, and responsiveness in financial management. International bodies such as the Organisation for Economic Co-operation and Development Public Management Committee (OECD PUMA) and the International Federation of Accountants Public Sector Committee (IFAC PSC) have played crucial roles in promoting the adoption of International Accounting Standards (IASs) as the foundation for developing International Public Sector Accounting Standards (IPSASs) (IFAC PSC, 2004).

IPSAS, a globally recognized set of financial reporting standards applicable to governments at all levels, plays a vital role in improving financial transparency and accountability (Chan, 2008). Its primary objective is to modernize the public sector, enhance the credibility of financial reporting, and raise standards of transparency and accountability (Benito, Brusca, and Montesinos, 2007). Developed by an independent international standard-setting body, IPSAS is widely respected in the global accounting profession for encapsulating best practices in government accounting. It serves as a benchmark, particularly in assessing and enhancing government accounting practices in developing countries. The World Bank has endorsed the use of IPSAS in financial assistance to developing nations, recognizing its importance in promoting good governance and financial management. IFAC advocates for a paradigm shift in government reporting, giving paramount importance to accrual-based IPSASs formulated by the IPSASB in this transformative process. With more than 40 countries already adopting accrual IPSAS, there is widespread acknowledgment of its effectiveness in advancing financial reporting practices. To address the specific requirements of developing nations, the IPSAS Board introduced a comprehensive "cash basis IPSAS" in 2003, aligning with traditional government accounting practices and offering a more cost-effective implementation alternative. Furthermore, in response to the cash basis of accounting, the IPSAS Board issued standards specific to the disclosure of external assistance. This dual approach highlights the flexibility of IPSAS in various financial settings while upholding a dedication to advancing global accounting standards. IPSAS, serving as a comprehensive framework for general-purpose financial reporting, addresses elements such as structure, recognition, minimum requirements, disclosure specifications, and measurement principles. Its main aim is to standardize the preparation of financial statements for better comparability across entities and time periods. The formulation of IPSAS undergoes a rigorous due

process involving research, deliberations, and stakeholder engagement, culminating in the revision and finalization of standards (IFAC, 2004).

Traditionally, public sector entities have primarily utilized cash-based accounting systems lacking universally accepted regulations for measuring, recognizing, and reporting state assets and liabilities. This disparity underscores the need for standardized global reporting practices. Acknowledging the vital role of consistent accounting information in managerial decision-making, there is a growing push towards a comprehensive accounting information system (Vasicek, 2004). The increasing focus on public financial management has elevated the demand for high-quality guidance and standards in adopting and implementing financial reporting standards. This research explores the impact of adhering to IPSAS on the reliability of financial reports within the Nigerian public sector, recognizing the critical role IPSAS plays in improving the transparency and credibility of financial information (IFAC, 2004; Vasicek, 2004).

2.1 Literature Review

2.1.1 Public Sector

The public sector generally consists of entities owned and operated by governmental bodies at different levels, including federal, state, and local. According to Ibhahulu (2012), it encompasses the segment of the economy that is established and managed by the government and its agencies. It is distinct from the private sector and is organized to serve the entire citizenry. On the other hand, Mathias (2004) points out the differences in objectives between accounting practices in the private and public sectors. He argues that government agencies and local authorities must monitor funds sourced from tax revenues and allocate them to various projects or expenditures. Additionally, different nations may adopt unique accounting principles that diverge from those used in the private sector. However, the development of international accounting standards has promoted consistency among countries, allowing for the preparation and presentation of comparable financial statements (Ibhahulu, 2012; Mathias, 2004).

2.1.2 Public Sector Accounting

Public Sector Accounting involves the thorough procedure of documenting, examining, categorizing, condensing, and communicating financial data pertaining to governmental entities, as delineated by Oshisami (1992) and Olaoye (2010). It encompasses a broad spectrum of information, encompassing both overarching and intricate details, which portray transactions concerning the acquisition, transfer, and utilization of governmental assets and finances.Described as the "language of

business," accounting serves as a vital tool in the business world, facilitating the description and reporting of transactions across various government parastatals. In any monetary exchange scenario, the necessity to document pertinent facts and figures underlying financial transactions becomes imperative, as emphasized by Muyiwa (2002).

2.1.3 Public Sector Financial Management

The effective management of finances in the public sector is crucial for providing accurate and comprehensive insights into the repercussions of policy decisions. The provision of financial data serves multiple purposes, aiding in both external reporting to stakeholders such as constituents, taxpayers, and investors, and facilitating internal decision-making processes related to resource allocation, planning, budgeting, monitoring, and government accountability (International Federation of Accountants, 2017). In Nigeria, public sector accounting assumes a pivotal role in the nation's advancement, influencing the operations of both the public sector machinery and the business activities of the private sector. At the national level, oversight of the financial system is entrusted to the Ministry of Finance and the budget office, while each of the thirty-six states manages its finances through its respective Ministries of Finance and budget offices. This decentralized structure is upheld by individual budgets, each supported by appropriation legislation. Moreover, the seven hundred and seventy-four local governments in the country function autonomously, maintaining separate budgets governed by distinct appropriation laws. Each tier of government in Nigeria, from budget formulation and approval to financial reporting for audit and dissemination, operates independently with its own set of responsibilities within the public sector financial framework.

2.1.4 International Public Sector Accounting Standards (IPSAS)

International Public Sector Accounting Standards (IPSASs) represent a set of accounting principles established by the International Public Sector Accounting Standards Board (IPSASB) to govern the preparation of financial statements for public sector entities globally (Otunla, 2014; Erin et al., 2016). Serving as the equivalent of the International Financial Reporting Standards devised by the International Accounting Standards Board (IASB) for the governmental sector, IPSASs are formulated independently by the IPSASB, an entity within the International Federation of Accountants (IFAC). The development process of IPSASs entails a thorough procedure that allows input from various stakeholders, including auditors, preparers (including finance ministries), standard setters, and interested parties. Crucially, meetings of the IPSASB, where the formulation and endorsement of IPSASs or related documents take place, are open to the public, with agenda papers and

meeting minutes accessible on the IPSASB's official website. Notable attendees at IPSASB meetings encompass organizations such as ADB, EU, IASB, IMF, INTOSAI, OECD, UN, UNDP, and the World Bank. The primary objective of IPSASs is to enhance the quality of financial reporting for public sector entities, facilitating more informed assessments of government resource allocation decisions, thereby promoting transparency and accountability. IPSASs are intended for use by a wide range of entities, including national governments, regional (e.g., state, provincial, territorial) governments, local (e.g., city, town) governments, as well as affiliated governmental bodies such as agencies, boards, and commissions. While intergovernmental organizations widely adopt IPSAS standards, it is important to note that IPSASs do not extend their applicability to government-owned businesses (IPSAS Outlook, 2014).

2.1.5 Faithful Representation or Reliability

Ensuring the integrity and trustworthiness of financial information is paramount, highlighting the need for impartiality and a dedication to objectivity. Individuals tasked with furnishing financial data must ensure the inclusion of all relevant details, aiming to fulfill the informational requirements of stakeholders (Cheung, Evans, and Wright, 2010). The practical implementation of reliability encompasses various factors, including impartiality, comprehensiveness, accuracy, verifiability, an unqualified audit opinion, and a statement on corporate governance (Jonas and Blanchet, 2000; Van Beest et al., 2009). Several research works underscore the critical importance of an unqualified audit opinion as a fundamental prerequisite for attaining superior financial reporting accuracy (Gaeremynck and Willekens, 2003; Kim, Simunic, Stein, and Yi, 2004; Van Beest et al., 2009). To assess the reliability of accounting information, a rating scale system based on predefined categories (e.g., 1 through 5) can be utilized (Jonas and Blanchet, 2000). It is imperative to acknowledge that faithful representation alone does not suffice in evaluating financial reporting accuracy; it should be evaluated alongside other qualitative attributes that enhance the reliability of accounting information (Van Beest et al., 2009).

3.0 Methodology

The primary thrust of this research is to adopt a quantitative methodology due to its suitability for testing research hypotheses, a task unfeasible with a qualitative approach. Traditionally aligned with positivist reasoning in scientific investigations, the quantitative approach follows a deductive method, elucidating hypothesized relationships. The study's target population consists of accountants engaged in implementing IPSAS across the 36 states of Nigeria, totalling 2215 professionals

employed in the Ministry of Finance (Accountant General Office) within these states. Utilizing the Cochran sample determination formula, a representative and descriptive sample of 384 respondents was determined to achieve results within a margin of error at a 95% confidence level, given the active population of 2215, ensuring statistical validity.

$$SSD = \frac{Z^2 p(1-p)}{e^2}$$

Where:

Sample size determination (SSD) involves calculating the number of participants needed for a study. For a 95% confidence level, the standard value used is Z=1.96. The parameter 'p' represents the proportion of the population selecting a particular choice, often set at 0.5 to maximize the sample size required. The 'e' value denotes the confidence interval, typically set at 0.05, resulting in a margin of error of ±5%.

$$SSD = \frac{1.96^2 \times 0.5(1-0.5)}{0.05^2}$$

$= 384.16$

$= 384$

The sampling unit was all accountants in the Ministry of Finance distributed in all the 36 States. So, each state government includes 10 respondents from the sample. Additionally, the selection of final participants employs a straightforward random sampling approach. The choice of this probability method was because there is single data base for the distribution accountants.

In this study, a self-administered questionnaire served as the chosen instrument for data collection. As defined by Hair, Black, Babin, Anderson, and Tatham (2003), a self-administered questionnaire is a method where respondents independently read and respond to survey questions without the presence of a trained interviewer. Despite the potential challenge of relying on the clarity of written language, this approach offers several advantages, including cost-effective and rapid surveying of a large sample size, flexibility in completing the questionnaire at the respondents' convenience, and the ability to reach a broader geographical area at a lower cost (Zikmund, 2003).To implement the data collection process, the questionnaire was distributed to respondents via mail. To enhance participant confidence, each questionnaire was accompanied by a persuasive and authoritative introduction letter bearing the official letterhead of the Department of Accounting, University of

Nigeria. This measure was taken to establish credibility and encourage active participation.

The investigation employed the Structural Equation Model (SEM) for evaluating the hypotheses. The choice of SEM as the suitable analytical approach for this research is justified on three grounds. Initially, various statistical techniques such as analysis of variance (ANOVA), factor analysis, multivariate ANOVA, discriminant analysis, and multiple regression typically overlook measurement errors. In contrast, SEM has the capacity to simultaneously incorporate multiple measures for constructs and address measurement errors (Hair et al., 2006). SEM encompasses both systematic and random measurement errors, as emphasized by Bagozzi and Phillips (1982). Utilizing other statistical methods may yield biased parameter estimates due to their failure to consider measurement errors.

In addition, Structural Equation Modeling (SEM) simplifies the analysis of data for inferential purposes by treating the relationships between variables as predetermined. This stands in contrast to alternative multivariate measures, which primarily serve descriptive purposes. Furthermore, SEM offers the unique capability of integrating both latent and observed variables, a feature absent in statistical methods that rely solely on observed measurements. In the context of our study, the constructs under investigation are latent in nature but can be assessed through associated observable measures.

4.0 Data Analysis/Results

This section analysed the data collected during the field survey supporting this research meet its objectives. Probably, it is to understand the effect of International Public Sector Accounting Standard (IPSAS) on financial reporting quality in Nigeria.

4.1 Response Rate

328 questionnaires were distributed to accountants working in the Ministry of Finance across all 36 states of Nigeria. These questionnaires were carefully crafted with detailed inquiries, refined based on feedback from a pilot survey, and clarified to ensure precision before being administered.The researcher used research assistants to make sure that the drop and pick approach was effective to secure the consents of respondents in filling the questionnaire. Therefore, all copies of the questionnaire (328) were returned representing 100% return rate.

4.2 Descriptive Analysis of Observed Variables

The research as primarily conceptualized presented two key variables – IPSAS and reliability of financial reports. Established by theory and empirical review, financial reports isseen as a multidimensional construct which involves reliability. In this sub-

section, the means and standard deviations of the five subscales of reliability of financial reports and IPSAS are presented and discussed.

Reliability Subscale

The initial trust subscale comprised 2 measurement items. The measurement scale utilized in this study was a Likert scale ranging from 1 to 5, indicating varying levels of agreement or disagreement with each question.Table 4.1 reveals mean and standard deviation distribution per subscale item.

Table 4.1. Means and Standard Deviations of Reliability Subscale Items

Item No.	Questionnaire item description	N	Mean	Std Dev
RL1	To what extent are valid arguments provided to support the decision for certain assumptions and estimates in annual report?	328	4.8594	2.06197
RL2	Which type of auditors' report is included in the annual report?	328	5.0078	1.89198
RL3	To what extent does the annual report contain disclosure related to both positive and negative contingencies?	328	3.6797	2.18922
RL4	To what extent does the annual report contain information concerning bonuses of the principal officers?	328	4.5339	2.23172
RL5	To what degree has there been a release of information regarding the follow-up on Auditor General inquiries from the preceding period?	328	4.6016	1.92553

The measurement scale for reliability construct showed that the scale item with the highest mean is "Which type of auditors' report is included in the annual report" – mean of 5.01 (SD=1.89). While the scale item with the smallest mean is "To what extent does the annual report contain disclosure related to both positive and negative contingencies" with a mean of 3.68 (SD=2.19). The scale item with the highest standard deviation is "To what extent does the annual report contain information concerning bonuses of the principal officers" with a standard deviation score of 2.23 while the lowest standard deviation is "Which type of auditors' report is included in the annual report" with a deviation score of 1.89.

The structural equation model (SEM) analytical techniques in AMOS 23 were applied to reach the conclusions on the effect of IPSAS constructs on financial reporting

quality. The SEM results were assessed on the foundation of estimated standardized path coefficient (β) value, critical ratios (C.R) or t-values and the significance level (p-value). The significance of the effect of IPSAS constructs on reliability of financial reports is based on p-values ≤ .05 or t-values greater than or equal to 1.96.

However, before analysing the final SEM result, adjustments were made to the structural model to improve the model fit. The final structural model fit indices were seen to be satisfactory and so the parameters and significance for the effect of IPSAS on reliability of financial reports.

Table 4.2: Direct Path of Hypothesised Model

Relationship	Standardized Estimates	Standard Error	Critical Ratio	Results
IPSAS ⟶ RL	0.77	0.12	6.417***	Supported

Note: RL = Reliability

The SEM results in Table 4.2 is the direct path coefficient between IPSAS and reliability of financial reports in Nigeria. It is observed from the result that IPSAS has positive and significant effect on reliability with estimated β (CR) value = 0.77(6.417).This supports the acceptance of the alternate hypothesis one. Therefore, when IPSAS increases by 1 standard deviation, reliability of financial reporting goes up by 0.77 standard deviations.

5.0 Conclusion and Recommendation

The findings of the research demonstrate a significant and favorable relationship between the trustworthiness of financial statements and the uptake of International Public Sector Accounting Standards (IPSAS). This implies that the integration of IPSAS within government ministries and public entities results in notable enhancements in impartiality, comprehensiveness, accuracy, verifiability, issuance of unqualified audit opinions, and governance disclosures.The effectiveness of IPSAS in achieving these outcomes is attributed to its incorporation of accounting principles and norms, utilization of double-entry techniques in account creation, and exposure of fraudulent transactions and reports. Consequently, financial statements produced under IPSAS are deemed more credible to a diverse range of users. This finding aligns with expectations and is consistent with the findings of Shakirat (2012) and Olusegun (2019).IPSAS was initially instituted to aid state-owned organizations in producing top-notch financial statements, thus bolstering the caliber and dependability of reporting frameworks within governmental bodies. Additionally,

according to Ijeoma (2014), implementing IPSAS plays a pivotal role in bolstering the trustworthiness and uniformity of financial statements. This underscores the credibility and reliability of IPSAS-based financial statements, fostering trust among residents and partners, both domestically and internationally. The cultivation of trust among investors fosters increased foreign aid accessibility for the country. When there's a lack of trust in the government, both local and international investments suffer, impeding the potential for rapid economic progress. Without a robust reporting mechanism, government financial transactions may stagnate, leading to economic challenges. Research by Chan (2008), Mhaka (2014), Ofoegbu (2014), and Ademola et al. (2020) supports the idea that implementing IPSAS in public institutions enhances the transparency and dependability of financial reports. Reliability, as operationalized, includes attributes like neutrality, completeness, absence of significant errors, verifiability, unqualified audit reports, and statements on corporate governance. Hence, while faithful representation is essential, assessing financial reporting quality should also consider other qualitative aspects of accounting information.

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