

The Effects of Adoption International Public Sector Accounting Standards on General Purpose Financial Statements in the Public Sector (A Case Study of Local Governments/Local Council Development Areas in Lagos State)

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Abstract: This study examined the impact of adoption of IPSASs on General Purpose Financial Statements (GPFS) of Local Governments/Local Council Development Areas (LCDAs) in Lagos State. The secondary data were used and collected from 20 Local Governments and 37 Local Council Development Areas in Lagos State. The International Public Sector Accounting Standards Manual and Annual Statutory Reports of the Auditor General for Local Governments were also reviewed to aid the proper appreciation and better understanding of the project. The following are the summary of major findings of this research: The data for the study is a cross sectional data from 2016 to 2018. The data for each year was analyzed including the post estimation test of the model. The data for each year was tested in line with the first, second and third objectives of the study. The results of the findings for year 2016 shows that inventory and accounts receivable have coefficient figure of -69.69 and -2.66 respectively, implying that these two variables are inversely related with General Purpose Financial Statements (GPFSs). Statutory transfers (allocations), Inventory, non-current assets and accounts payable have positive coefficient values of 0.12, 1.05 and 2.29 respectively. By implication inventory, non-current assets and accounts payable have positive and strong influence on General Purpose Financial Statements of all the Local Governments and Local Council Development Areas. Among all the IPSAS Accrual indicators adopted for this study only non-current assets has a significant effect on financial position management for the year 2016. The outcomes of the analysis on 2017 data series reveal that statutory transfers (allocations), non-current assets and accounts payable have positive coefficient values, suggesting positive relationship between these variables and General Purpose Financial Statements, this relationship is only significant for non-current asset and financial position management. The last test conducted on 2018 data indicate that the statutory transfers (allocations) and non-current assets have positive coefficients that is to say they are positive determinant of General Purpose Financial Statements. Also, non-current asset has a strong and significant effect on financial position management. In conclusion, the researcher recommends the following to the State Government: It is recommended that the Local Governments/Local Council Development Areas should continual adopting the international public sector accounting standards (IPSAS ACCRUAL) since some of its factors have strong, positive and significant impact on General Purpose Financial Statements (GPFSs). Lastly, the researcher recommended that Local Governments/Local Council Development Areas should adopt more sophisticated techniques/accounting software that will improve the production of its General Purpose Financial Statements (GPFSs).

Keywords: Annual Statutory Reports, International Public Sector Accounting, General Purpose Financial Statements Local Governments.

1. Introduction

In recent times, there have been insistent calls by both the developed and developing countries for better transparency, accountability and disclosure of financial information among countries of the world in a bid to raise the level of public confidence in the public sector's financial reports to reflect the stakeholders' expectations. The number of studies which focus on accrual based IPSAS has grown extremely in the past few years. Most empirical researches have been done in the developed countries (see, for example, Connolly & Hyndman, 2006; Christiaens et al., 2010; Christiaens et al., 2015; Dabbicco, 2015; Gomes, Fernandes, & Carvalho, 2015; Oulasvirta, 2014). These researches have attempted to focus on the impact of IPSAS implementation, degree of compliance and adoption, transparency and accountability. However, the question of the sensitive factors of IPSAS that influence the financial positions of LGA's remains unanswered. An upsurge in cross-border activities have led to an increase in international transactions among countries of the world which necessitated the need for increased collaboration and commerce across different geographical zones (Ijeoma & Oghogbomeh, 2014). There is now emphasis on the

need for increased transparency, uniformity and comparability in the set of accounting standards guiding the preparation of financial statements for public entities (Trang, 2012 and IPSASB, 2013).

Many developing countries, particularly in Sub-Saharan Africa, are characterized by massive corruption, poverty and high level of opacity in the conduct of government business. Poor budget implementation and lack of accountability in the Nigerian public sector are identified as contributory factors (Ibanuchuka & James, 2014 and Christiaens, Vanhee, Rossi & Aversano, 2013).

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

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

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

There are no researchers that have investigated on the impact of IPSAS on balance sheet management especially in Lagos state Local Governments. So there still exist gap in the literature. In order to fill this gap the study intends to investigate into the impact of IPSAS on financial position (balance sheet management) of all the Local Governments and Local Council Development Areas in Lagos State.

Objective of the study

To examine the relationship that exists between IPSAS and financial position management in Lagos Local Government Accounts.

Hypothesis of the study

There is no relationship that exists between IPSAS and financial position management in Lagos Local Government Accounts.

2. Literature Review

According to Baker and Ronnie (2006), institutional forces leading to adoption of accrual-based accounting by the government of Canada, the result was that the decision was based on the interaction of the normative and coercive influence of the Auditor General of Canada and Mimetic Isomorphism with other jurisdictions. Mimetic isomorphism occurs when organizations model themselves after others. Normative isomorphism results from professionals creating standards and homogeneous pronouncements which affect the adoption of financial reporting among organizations (Baker and Ronnie, 2006). Benito, Brusca and Montesinos (2007) established that the role of IPSASs based on the survey sent to 30 countries showed that whereas some accounting systems are very close to the IPSASs model, others have a great diversity in compliance to International Public Sector Accounting Standards. Christiaens et al (2013) in their study on the effect of IPSAS on reforming the government financial reporting an international comparison; the comparative study revealed an important move to accrual accounting particularly IPSAS accrual accounting whereby there still remains a level of reluctance mainly in central governments, especially in countries where business-like accrual accounting has been developed. The study further revealed that transition towards IPSASs necessitates a long period of implementation whereby existing local business accounting regulations hinder jurisdictions to implement international standards.

Hyndman and Connolly (2005) assert that costs and benefits of adopting accrual accounting in Northern Ireland, a region of the UK, concluded that there was little evidence that accrual accounting information was extensively used in decision making within the Northern Ireland public sector. Many interviewees identified the problems of unnecessary complexity and incomprehensibility of the information undermining its potential use. They noted that there were serious deficiencies in the accounting skills available which contributed to a rushed, confusing and uneven implementation. Connolly and Hyndman (2006) in their study on the Actual Implementation of Accrual Accounting Caveats from a case within the UK Public Sector, asserted that the actual implementation of accrual accounting differed from that presented in pre-implementation of government publications resulting in complex expensive system that has provided few benefits due to overoptimistic claims and complication of costs.

Mellet, Macniven and Marriott (2007) studied the benefits of introducing accrual accounting to UK health service and concluded that there was no evidence that the perceived benefits from the introduction of accrual accounting were being realized. No positive impact on decision making was found as accounting measures did not influence rent or buy' or retain or dispose' decisions, although the desire not to take an adverse hit to the bottom line" could impede disposal decisions; no

evidence was found on the opportunity cost of capital expenditure being recognized, as reflected through measures based on resource accounting when acquiring or constructing fixed assets. They further argued that Governments which have undertaken to implement accruals accounting should therefore beware of the fact that any potential benefits may not be realized.

Guthrie et al (2005) concluded that various mechanisms built on the accrual accounting base have over the long term had a detrimental effect on departmental capability in a manner that has escaped parliamentary understanding and control. They further argued that this reform promised significantly more in terms of efficiency, better service and increased public choice than it delivered in practice. Ellwood and Newberry (2007) also argued that the fundamental purpose of government accounting is the protection of public money and that business sector accounting practices were not devised for that purpose.

According to Ijeoma (2014), the expectations, benefits and challenges of adoption of International Public Sector Accounting Standards (IPSAS) in Nigeria, it was observed that adoption of IPSAS is expected to increase the level of accountability and transparency in public sector of Nigeria. It was found that the adoption of IPSAS will enhance comparability and international best practices. Also, it was denoted that adoption of IPSAS based will enable to provide more meaningful information for decision makers and improve the quality of the financial reporting system in Nigeria. In addition, it was found that adoption of IPSAS by Nigerian government will improve comparability of financial information reported by public sector entities in Nigeria and around the world. Hence, the adoption of IPSAS in Nigeria is expected to impact operating procedures, reporting practices thereby strengthening good governance and relations with the government and the governed.

United Nations system organizations for IPSAS (2010) demonstrated that the adoption of IPSAS is beginning to have a major impact on United Nations system organizations, extending well beyond accounting. The conversion to IPSAS should allow for enhanced management of resources and business processes and improve results-based management across the United Nations system. Depending on the organizations' initial readiness for IPSAS requirements, the transition to IPSAS has been a major undertaking for most organizations as it is impacting accounting, financial reporting and associated information technology systems and should lead to a new approach to planning, decision-making, budgeting and financial reporting. It is expected that the reporting of assets, liabilities, revenue and expenses in accordance with independent international standards will significantly improve the quality, comparability and credibility of United Nations System financial statements to Member States, donors and staff, enhancing accountability, transparency and governance.

Ijeoma (2014) concluded that the implementation of IPSAS will improve reliability, credibility and integrity in state government financial management in the public sector of Nigeria. Chan (2006) on IPSAS and Government Accounting and Reform in Developing Countries concluded that as much as accrual accounting in developing countries enable the government to identify and measure the government's assets and liabilities, corruption tends to result in understatement of governments assets or the overstatement of government liabilities leading to loss of integrity, credibility and reliability of governments financial information.

Kiungu (2010) conducted a survey on the adoption of international public sector accounting standards by local authorities in Kenya. The researcher adopted descriptive research design with a target population of 60 local authorities. The researcher concluded that the adoption of IPSASs by local authorities improved transparency and accountability despite challenges such as lack of sufficient skilled labour, lack of regular training and financial misconduct. Mabruk (2013) conducted a study to establish if the adoption of International Financial Reporting Standards (IFRSs) had an effect on the quality of accounting reports of small and medium enterprises (SMEs) in Nairobi County. The study was based on a target population of 150 SMEs with the assumption that they had adopted IFRSs in their accounting practice. The study measured the reaction of the respondents on the introduction of IFRSs using correlation analysis which showed that there was a positive significant relationship between relevance and quality of accounting reports. Multiple regression analysis on understandability had a positive and significant relationship with the quality of accounting reports with the adoption of IFRSs. This study is related to the current study on International Public Accounting Standards since IPSASs are an adoption of IFRSs in as far as they are applicable to the public sector. Maina (2013) carried out a study on factors influencing effective financial management systems in government sector in Kitui Central Ministerial departments. The researcher adopted descriptive research design on a sample of 90 respondents from 30 ministerial departments. The researcher noted that majority of the respondents were not involved in the formulation of budgets and had no access to the financial reports of the government. He further recommended that there was need for legal framework, clear financial regulation on accounting instructions, improvement of public access to fiscal information and adoption of accrual system of accounting in conformity with International Public Sector Accounting Standards.

Kamwenji (2014) conducted a study to ascertain the effect of adoption of International Financial Reporting Standards on quality of accounting information of deposit taking savings and credit cooperative societies (SACCOS) in Nairobi County. He adopted descriptive research design with target population of 34 SACCOS in Nairobi County. Data was analyzed using descriptive statistics as well as regression models. The results showed that adoption of IFRSs increased transparency and honesty in disclosure and presentation of financial statements and that the presentation of accounting information was

comparable with other institutions that have adopted IFRSs. He asserted that IFRSs adoption improved relevance, reliability and understandability of accounting information provided in the financial statements and related disclosures. The IPSASs being an adoption of IFRSs are meant to promote transparency and accountability in public sector financial reporting by enhancing the quality of financial information disclosed in the financial statements. The quality of financial information provided increases understandability of financial statements and enhance decision making.

3. Methodology

The researcher collected these data from annual statutory reports of the Auditor General for local government in Lagos state for a period of 3 years. Which range from 2016 to 2018. In this study, the year dimension is 3 years and the number of cross-sectional units is 57. The model adopted for this work is cross sectional multiple regression model, and this model is estimated using Ordinary Least Square estimation technique

$$bsm_i = con + x_i''b + e_i \quad e_i \sim NIID(0, \sigma^2) \quad 3.1$$

$x_i'' = (nca, invent, allo, rec, paya)$

$b = (b_1, b_2, b_3, b_4)$

Where: bsm.General Purpose Financial Statements (GPFSS), nca-non-current asset, invent-inventory, allo-statutory allocation, rec-account receivable, paya-account payable, e is the disturbance/error term and it assumed to be normally and identically distributed.

4. Results

Table 1: Linear Regression Results for year 2016

Variable	Coefficient	Std. Error	t-Statistic	Prob.
INVENT	-13.84632	11.57536	-1.196189	0.2374
NCA	1.029319	0.018267	56.34796	0.0000
PAYABLE	-0.001956	0.004140	-0.472437	0.6387
RECIEVABLE	0.698662	1.844643	0.378752	0.7065
ALLO	-0.041242	0.127575	-0.323274	0.7479
C	53530598	78442302	0.682420	0.4982

Note: that the independent variables are the indicators/factors of International Public Sector Accounting Standards they are statutory allocation, inventory, non-current assets, payable and receivable, while balance sheet management is the dependent variable.

Source: Author

Table 1 above shows the test results conducted on the factors/indicators of international public sector accounting standards (IPSAS) and balance sheet management. It was discovered that statutory allocations, accounts payable and inventory have negative values approximately -0.04, -0.002 and -13.85 respectively. This implies that these two variables have an inverse relationship with the explained variable balance sheet management. Notwithstanding, non-current assets and accounts receivable all have a positive impact on balance sheet management of all the local governments and local council development areas of Lagos state for this study. Also, non-current assets has the strongest and significant relationship with balance sheet management for the year 2016.

Cross-sectional Instigation based on 2017 Data

Table 2: Linear Regression Results for year 2017

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ALLO	0.106219	0.209365	0.507341	0.6142
INVENT	-69.68579	36.03293	-1.933947	0.0589
NCA	1.045959	0.050710	20.62612	0.0000
PAYABLE	2.291524	1.319340	1.736871	0.0887
RECEIVABLE	-2.660015	2.511674	-1.059061	0.2948

C	1.63E+08	1.78E+08	0.916850	0.3637
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Note: that the independent variables are the indicators/factors of International Public Sector Accounting Standards they are statutory allocations, inventory, non-current assets, payable and receivable, while balance sheet management is the dependent variable.

Source: Author

As seen in the above table 2 the test outcome on the investigation of the impact of adopting the factors/indicators of international public sector accounting standards (IPSAS) on balance sheet management for the year 2017. The coefficient value for statutory allocation, inventory non-current assets, accounts payable and accounts receivable are approximately 0.12, -69.69, 1.05, 2.29 and -2.66 respectively. It was revealed that statutory allocations, non-current assets and accounts payable are positive. Meaning they have positive influence on balance sheet management, but non-current assets that has significant effect on the dependent variable at 1 percent. Also inventory and accounts payable have a significant influence on the explained variable at 10 percent. Inventory and accounts receivable are negatively related to balance sheet management. Among the factors/indicators of international public sector accounting standards (IPSAS) used for this study only accounts payable that has the strongest influence on balance sheet management.

Cross-sectional Instigation based on 2018 Data

Table 3: Linear Regression Results for year 2018

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ALLO	0.262362	0.098411	2.665989	0.0105
INVENT	-5.693614	4.814098	-1.182696	0.2429
NCA	1.006637	0.012939	77.79959	0.0000
PAYABLE	-1.567538	0.340974	-4.597241	0.0000
RECEIVABLE	0.621549	0.664267	0.935692	0.3542
C	28009154	60428004	0.463513	0.6451

Note: that the independent variables are the indicators/factors of International Public Sector Accounting Standards they are statutory allocations, inventory, non-current assets, payable and receivable, while balance sheet management is the dependent variable.

Source: Author

From Table 3 the test results of the analysis conducted for 2018 for factors/indicators of international public sector accounting standards (IPSAS) and balance sheet management are reported here. From these results it is seen that statutory allocations, accounts receivable and non-current assets have positive values. Non-current assets has a strong and significant relationship with the dependent variable balance sheet management. Meaning as this variable is increasing so also the dependent variable will increase. The relationship between statutory allocations and balance sheet management is significant at 10 percent alpha value. Coefficient values for inventory, and accounts payable are approximately -5.69 and -1.57 respectively. These variables are negative determinant of balance sheet management. That is they all have negative influences on the explained variable. However, accounts payable seen to have a significant relationship with the regress and since it probability value is lesser than 5 percent significant value.

5. Conclusion and Recommendation

This research work has empirically investigated the impact of adopting the International Public Sector Accounting Standards (IPSAS Accrual). Thus, three basic conclusions as regards each year of the analysis are drawn from the findings of this work and they are discussed below as follows; For 2016 it is concluded that statutory transfers (allocations) and accounts receivable have an inverse relationship with the General Purpose Financial Statements. While, inventory, non-current assets and accounts payable have positive effect on General Purpose Financial Statements of the Local Governments and Local Council Development Areas of Lagos State selected for this study. Furthermore, inventory has the strongest relationship with the explained variable. Only, non-current asset has a significant effect on statement of financial position for the year 2016.

We conclude that statutory transfers (allocations), non-current asset and accounts payable have positive influence on General Purpose Financial Statements. However, only non-current asset has significant effect on the explained variable. Inventory and accounts payable are negatively related to statement of financial position. Accounts payable has the strongest influence on statement of financial position. Thus, this conclusion is for 2017 data.

Finally, is concluded that statutory transfers (allocations) and non-current asset have direct impact on General Purpose Financial Statements. Non-current asset has a strong and significant relationship with statement of financial position. Also, statutory transfers (allocations) and accounts payable have significant relationship on General Purpose Financial Statements. Inventory, accounts payable and accounts receivable have negative influence on statement of financial position.

Based on the three conclusions drawn by the researcher the following recommendations are made to the Local Governments/Local Council Development Areas in Lagos state;

It is recommended that the Local Governments/Local Council Development Areas should continual adopting the international public sector accounting standards (IPSAS ACCRUAL) since some of its factors have strong, positive and significant impact on General Purpose Financial Statements (GPFs).

The researcher recommended that Local Governments/Local Council Development Areas should adopt more sophisticated techniques that will improve the timely computation of General Purpose Financial Statements (GPFs) of the Local Governments and the Local Council Development Areas. Training and retraining of the account personnel is recommended as the full adoption of IPSAS requires modern and up to date knowledge on emerging issues.

Contrary to cash accounting basis, where government assets especially Non-current assets were written off in the year of acquisition, it's now mandatory to be included in the General Purpose Financial Statements- Loss of government properties eliminated.

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