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Original Research Article

## **Determinants of the Adoption of International Public Sector Accounting Standards in Lagos State**

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### **Abstract**

*The study examined determinants of the adoption of International Public Sector Accounting Standards (IPSASs) in Lagos State. The study employed primary data. The population consisted of all the public sector accountants and auditors working in ministries and departments in Lagos State. The sample size of 300 was selected using stratified random sampling technique. Data were collected with the aid of structured questionnaire. A total of 291 copies of questionnaire were retrieved from the respondents. Data were analyzed using ordinal logistic regression technique. The study revealed that acceptable in cash accounting based system (CABS), adequate multidimensional reporting requirement (MDRR), awareness on the transition of IPSASs (AOT), commitment of central entities and key officials (CCEK), effective project management structure for IPSASs (EPMS), budget for additional human resources (BAHR) are major determinants of adoption of IPSASs. Also, adequate technology capacity and information system (TCIS), regular update of the governing bodies on the headway made in the adoption of IPSASs (UGBH), interim financial statement (IFSR), continuous testing of internal controls (CTIC) and prevention of corrupt practice (PCP) are also major determinants of adoption of IPSASs. The study concluded that an increase in these will raise the likelihood of the occurrence of higher level of adoption of IPSASs. The study recommended that each State should put into consideration the identified determinants in order to enhance the adoption of IPSAS.*

**Keywords:** *Determinants, Adoption, Standards, IPSASs Corrupt practices.*

**JEL Classification Codes:** *G28, J48*

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## 1. INTRODUCTION

According to Udeh and Sopekan (2015), the adoption of International Public Sector Accounting Standards (IPSASs) in public sector accounting is important in that stakeholders need useful financial information in terms of quality and public sector accounting is supposed to accomplish this need. The fact that IPSASs are unique and offer high quality is the main argument for making use of them (Alamu, 2014). IPSASs were adopted in Nigeria in 2010. Ijeoma and Oghoghomeh (2014) revealed that the Federation Account Allocation Committee (FAAC) fixed implementation commencement dates of IPSASs cash basis to be 1st January, 2014 and IPSASs accrual basis to be 1<sup>st</sup> January, 2016. Ijeoma and Oghoghomeh (2014) further reported that the Federal Government gave directive to all the 36 States in Nigeria on the adoption of IPSASs. However, only Lagos State has started adopting IPSASs since 2014 in Nigeria. Why is it that other state governments have not started adopting IPSASs despite that the Federal Government has enforced IPSASs adoption on all state governments in Nigeria?

This neglect on the part of other States may hinder accountability and transparency in handling public fund and financial reports (Alamu, 2014). Moreover, instigated reform in public sector accounting should be preceded by investigating the determinants influencing the success of the adoption of the reform (Yosra & Yosra, 2017). According to Kuye (2010), reform in public sector accounting may either delay or collapse if there is no feasibility studies conducted to determine the factors contributing to the success of its adoption. Consequently, this paper aimed at identifying and assessing the factors influencing IPSASs adoption in Lagos State.

In order to address the main focus of this paper, the second section looks at literature review and section three stated the methods used for collecting and analyzing data. Section four discusses results while the conclusion and recommendations drawn from this study are presented in section five.

## 2. LITERATURE REVIEW

Conceptual reviews as well as empirical studies relating to determinants of the adoption of IPSASs in Lagos State were examined in this section. Both the conceptual and empirical studies were reviewed in order to gain insight into the state of knowledge and to serve as input into this study. To this end, the section is divided into three parts. Part 2.1 was on Public Sector Accounting Reform in Nigeria, part 2.2 dealt with the advent of unified accounting standard and part 2.3 was on empirical review on adoption of IPSASs

### 2.1 Public Sector Accounting Reform in Nigeria

Shakirat (2013) posited several factors that may influence adoption of public sector accounting, which include, adopting modified cash accounting based system, incorporating adequate multidimensional reporting requirement and creating awareness on the transition into public sector accounting reform. According to Hassan (2013), public sector accounting reform requires political and management support. Success depends on the ability to mobilize support from political leaders, who set the tone by demanding greater accountability and transparency (Oyewobi, 2014). Also, Udeh and Sopekan, (2015), postulated that their political determination will stand a better chance of realization if it is reinforced by the support of ministers and

commissioners to change the way the government operates.

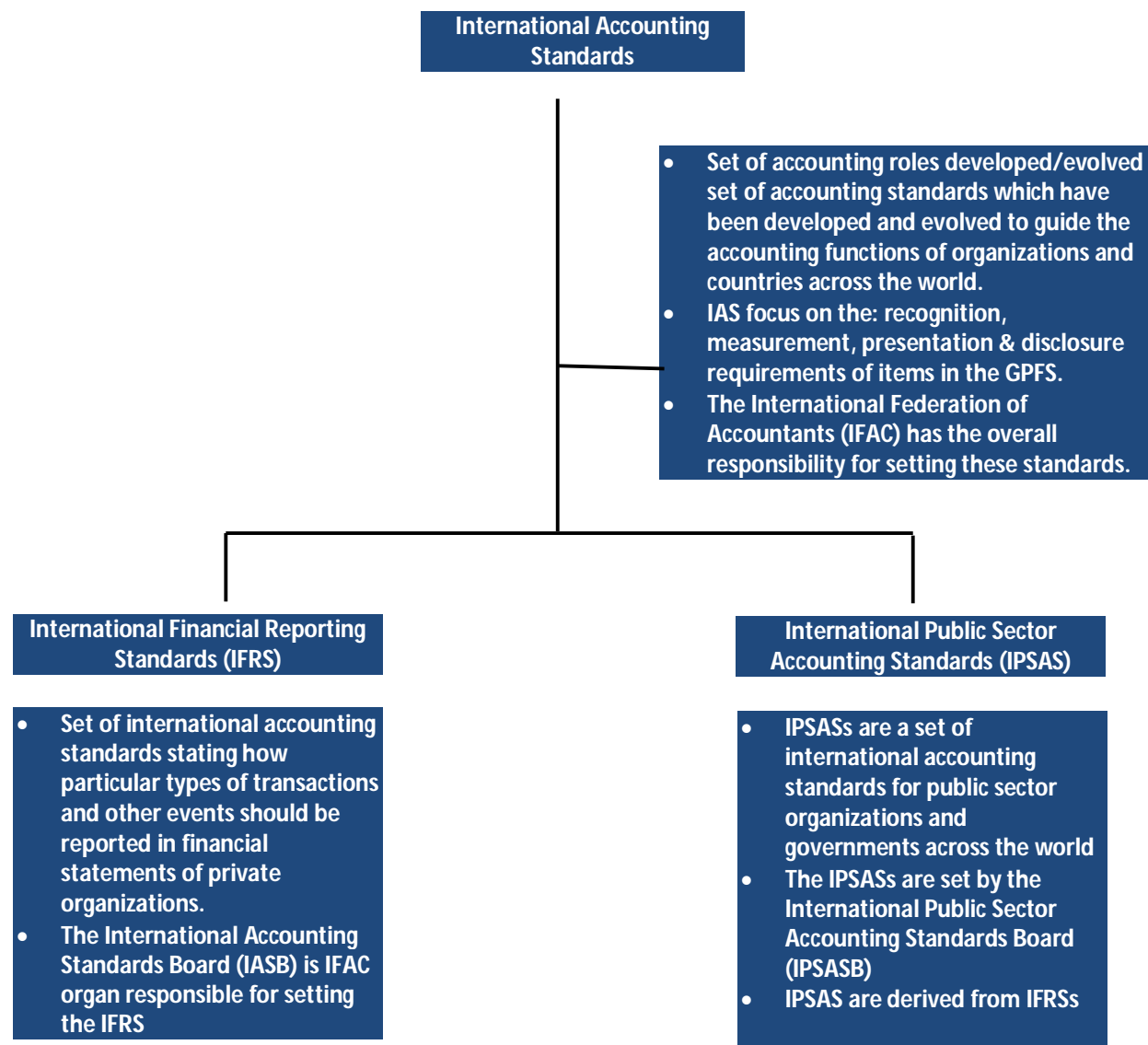
Resource support is also critical to successful public sector accounting reform in Nigeria. Sufficient budgetary support is necessary to acquire software and hardware, and to hire qualified staff (International Monetary Fund {IMF}, 2016). Also, International Monetary Fund (IMF) (2016) articulated that in many developing countries, the shortage of technical personnel imposes a severe constraint, thus, human resources are another obstacle to overcome. Yosra, and Yosra (2017) similarly enunciated that reform involves changing policies and procedures of government accounting. There are national guidelines and directives enforced by law for running public sector accounting systems in the countries although there may be difference in the institutional arrangements for setting such guidelines and directives (Agbo, 2014).

Kelly and Hartley (2010) reported that efforts at ensuring quality financial reporting have always been short lived. Hassan (2013) and Mukoro (2013) opined that the authenticating function of external auditing in accounting has had its fair share of blame, criticism and failures on ensuring quality financial reporting in Nigeria. Considerable expenditures and investments have been made by governments, institutions and concerned agencies to ensure quality financial reporting. Legislations such as Economic and Financial Crimes Commission (EFCC) and Independent Corrupt Practices and other related offences Commission (ICPC), either wholly or partly were also targeted to reduce the inadequacies of cash basis disclosure requirement in the public sector. These equally have not yet solved the problem.

### **The Advent of Unified Accounting Standard**

The advent of unified accounting standard can be traced to the International Accounting Standards Committee (IASC) formed in 1973 which determines and disseminates information about International Accounting Standards (Mukoro, 2013). In 2001, the IASC was reconstituted to become the International Accounting Standard Board (IASB) thus making it an independent international standards setter (Oyewobi, 2014). The first set of accounting standards issued by the board is known as International Accounting Standard IAS and it contains 41 accounting standards. In year 2009, over 100 countries of the world had adopted IAS and 13 more countries were in the process of adopting the standard (Oyewobi, 2014). IAS was later modified to International Financial Accounting Standards (IFRS) in 2001 and has since risen to 55. Therefore, IFRSs refers to the new numbered series of pronouncements that the IASB issued, as distinct from the IASs series issued by its predecessor (Kuye, 2010). IASB (2008) broadly defined IFRSs as the entire body of IASB pronouncements, including standards and interpretations approved by the IASB, Standard Interpretation Committee (SIC) and International Financial Reporting Interpretation Committee (IFRIC).

IFRS was strictly adopted and applied in commercial entities and was later adapted to public sector accounting. The compliance by the Public Sector completes the entire transition circle. That is application of IFRS to public accounting, known as International Public Sector Accounting Standards (IPSASs) as prescribed by International Public Sector Accounting Standard Board (IPSASB) formed in 2004 (Kuye, 2010).



Source: Mukoro, 2013

**Figure 1:** Schematic Diagram of International Accounting Standard (IAS), International Financial Reporting Standard (IFRS) and International Public Sector Accounting Standard (IPSAS)

**Empirical Review on the Adoption of IPSASs**

Agbo (2014), investigated accountability in the Nigerian Public Sector. The population of the study was Nigeria public sector and the sample frames was drawn from Ministry of Finance, Presidency, Ministry of Works, and National Assembly. Source of data was primary and were collected through structured questionnaire which was distributed to 100 management staff of the above organizations at random. Data were

analyzed using Pearson Product Moment Correlation with the aid of SPSS. The result showed that there is weak accountability in Nigeria due to weak accounting infrastructure, poor regulatory framework and attitude of government officials. According to the study, measures like legislative committees, financial audit, ministerial control, judicial reviews, anticorruption agencies, advisory committees, parliamentary questions and public hearing to ensure accountability in

the public sector as in developed countries were adopted yet no tangible result has been achieved.

International Monetary Fund's (IMF) (2016) manual on, *Implementing Accrual Accounting in the Public Sector*, this technical note and manual (TNM) explains what accrual accounting means for the public sector and discusses current trends in moving from cash to accrual accounting. It outlines factors governments should consider in preparing for the move and sequencing of the transition. The note recognizes that governments considering accounting reforms will have different starting points across the public sector, different objectives, and varying coverage of the existing financial statements, it therefore recommends that governments consider each of these, and the materiality of stocks, flows and entities outside of government accounts when planning reforms and design the sequencing and stages involved accordingly. Building on international experiences, the note proposes four possible phases for progressively increasing the financial operations reported in the balance sheet and operating statement, with the ultimate aim of including all institutional units under the effective control of government in fiscal reports.

Yosra and Yosra (2017) reviewed Institutional and economic factors affecting the adoption of IPSASs. This work investigates the environmental factors associated with countries' decision to adopt International Public Sector Accounting Standards (IPSASs). Based on a sample of 110 countries, the results reveal a positive influence of external public funding (coercive isomorphic pressure), the degree of external openness (mimetic isomorphic pressure), and public sector organizations' importance on IPSASs adoption. The result shows a negative effect of the availability of local GAAP on this decision, whereas education level (normative isomorphic

pressure) is a non-significant factor. This research contributes to the international accounting literature in the public sector. The results are relevant to standard-setters, regulators, researchers, international financial organizations, and non-adopting countries.

Flynn (2018) reviewed the roadmap for adopting IPSASs. Despite these strong benefits, there is a wide variation in the rate of progress made with IPSASs adoption. Taking the sample of countries as examples, the review suggests progress remains slower than is desirable. Specific, complex and consistent implementation challenges have faced adopting countries, which need to be overcome. Here are further issues to consider in the transition towards successful full adoption of IPSASs: stakeholder engagement, structural and legal transformation, transformation and change management, skills capacity, cost, technology and infrastructure, implementation approach and external support.

### **3. METHODOLOGY**

The study employed primary data because it was adopted by related prior studies such as Agbo (2014) and Flynn (2018). Also, the view of public sector accountants and public sector auditors who are the primary subjects of the study would be easily captured. The population consisted of all the public sector accountants and auditors working at ministry and department in Lagos State Government. According to IFAC 2011, public sector accountants and auditors are obliged to seeing to the successful implementation of IPSASs. The sample size selected from the department and ministry (Auditor General's Office, Accountant General's Office, Ministry of Finance and Lagos Internal Revenue Service) was 300 using stratified random sampling technique. Most often, more of accountants and auditors are found in these ministries, departments (Udeh & Sopekan, 2015).

The ministry and department are directly concerned with finances and auditing of finances (KPMG), 2016). Most often, more of accountants and auditors are found in these ministry and, department (Udeh & Sopekan, 2015). Data were collected with the aid of structured questionnaire. Cronbach’s Alpha ( $\alpha$ ) coefficient test was used to calculate the reliability of the scale that was used. The reliability coefficient was 0.89. The Likert scale was adopted in this study because it is among the most widely used itemized scales. Model on the determinants of the adoption of IPSASs was drawn from empirical review of the study, that is, best practices for implementing a smooth transition to IPSASs.

$$LAI_i = f(DLA_i) \dots\dots\dots 1$$

Where:  $DLA_i =$  Determinants of the level of adoption, and  $LAI_i =$  level of the adoption of IPSASs

$$LAI_i = f(CABS, MDRR, AOT, TSU, CCEK, EPMS, BAHR, TCIS, UGBP, IFSR, CTIC, PCP).$$

Note that DLA is a vector of several factors that determine the adoption of IPSASs which include; cash accounting based system (CABS), adequate multidimensional reporting requirement (MDRR), awareness on the transition of IPSAS (AOT), total support and dedication given by political leaders (TSU), commitment of central entities and key officials (CCEK), effective project management structure for IPSAS (EPMS), budget for additional human resources (BAHR), adequate technology capacity and information system (TCIS), regular update of the governing bodies on the headway made in the adoption of IPSAS (UGBH), interim financial statement (IFSR), continuous testing of internal controls (CTIC) and prevention of corrupt practice (PCP).

Assuming a linear relationship, consequently, equation (3.1) can be explicitly expressed as:

$$LAI_i = \beta_1 + \beta_2 DLA_i + e_i \dots\dots\dots 2$$

Where:  $\beta_1$  and  $\beta_2$  are the parameters while the a priori expectation is that  $\beta_2 > 0$

Where:  $e =$  error term.

Data were analyzed using ordinal logistic regression technique.

#### 4. RESULTS AND DISCUSSION

Table 1 shows the determinants of the adoption of IPSASs in the public sector in Lagos State. From table 1, the diagnostics tests for the study reveal that the variation in the adoption of IPSASs as explained by variation in the determinants (as seen in Pseudo  $R^2$ ) is up to 5.86%. At 1% level of significance, the included variables in the model are significant in explaining this variation.

In the model, (which corresponds to the determinants of the adoption of IPSASs in Lagos State) only acceptable cash accounting based system (CABS), interim financial statement (IFSR) and continuous testing of internal controls (CTIC) are significant in explaining the determinants of the adoption of IPSASs in the sampled public offices at 5% each. Interestingly, a rise in acceptable in cash accounting based system (CABS) increases the odds of the occurrence of having a higher adoption of IPSASs by 1.399 while an increase in adequate multidimensional reporting requirement (MDRR) raises the odds likelihood of higher adoption of IPSASs by 1.304. Also, when the awareness on the transition of IPSASs (AOT) increases, it makes the odd likelihood of the adoption of IPSASs (AOT) to rise by 1.228.

In the same vein, commitment of central entities and key officials (CCEK), effective project management structure for IPSASs (EPMS), budget for additional human

resources (BAHR), adequate technology capacity and information system (TCIS), regular update of the governing bodies headway made in the adoption of IPSASs (UGBH), interim financial statement (IFSR), continuous testing of internal controls (CTIC) and prevention of corrupt practice (PCP): such that an increase in this will raise the likelihood of the occurrence of higher adoption of IPSASs by 1.418, 1.261, 1.28, 1.093, 1.128, 1.465, 1.675 and 1.111 respectively. However, total support and commitment from the political class (TSU) decreased the likelihood of the occurrence of higher adoption of IPSASs by 0.971.

The study revealed that the variables are significant at 1% in explaining the determinants of the adoption of IPSASs for the study. This means that there is significant influence of the determining factors on the adoption of IPSASs. The study corroborate Jones and Browrey (2013) who discovered that the re-introduction of the cash accounting and budgeting system (CABS) have great influence on IPSASs adoption such that it serves as foundation for government entity that desires to adopt IPSASs accrual basis of accounting.

Gruthrie, Humphry, Jones and Olson (2010) also averred that introduction of accrual accounting allows for interim financial reporting which assists management of government in funding capital investments expenditure. However, the results of this study negates the thought of Mellet, Macniven and Marriot (2008) when they stated that governments of developing countries may not experience improvement in the rating of internal controls through the adoption of IPSASs. Consequently, Shakirat (2013) found that there has been positive significant impact of financial control on appropriation processes and budgetary controls in Nigeria public sector.

**Table 1: Ordinal Logistic Regression for the Determinants of the Adoption of IPSASs in Lagos State**

<b>Variable</b>	<b>Model</b>
<b>CABS</b>	1.399** (2.15)
<b>MDRR</b>	1.304 (1.73)
<b>AOT</b>	1.228 (1.21)
<b>TSU</b>	0.971 (-0.17)
<b>CCEK</b>	1.418 (1.95)
<b>EPMS</b>	1.261 (1.29)
<b>BAHR</b>	1.280 (1.56)
<b>TCIS</b>	1.093 (0.55)
<b>UGBH</b>	1.128 (0.79)
<b>IFSR</b>	1.465** (2.17)
<b>CTIC</b>	1.675** (2.56)
<b>PCP</b>	1.111 (0.55)
<b>Number of Observations</b>	274
<b>LR Chi-Squared</b>	104.55
<b>Pseudo R<sup>2</sup></b>	0.0586
<b>Prob&gt;Chi-Squared</b>	0.0000

*Source: Field Survey, 2018*

The figure without bracket is the odds ratio while the figure with bracket is the Z test score for each variable.\* represents 1% and \*\* represents 5% levels of significance

## **5. CONCLUSION AND RECOMMENDATIONS**

The study revealed that cash accounting based system (CABS), adequate multidimensional reporting requirement (MDRR), awareness on the transition of IPSASs (AOT), commitment of central entities and key officials (CCEK), effective project management structure for IPSASs

(EPMS), budget for additional human resources (BAHR), adequate technology capacity and information system (TCIS), regular update of the governing bodies on the progress made in the implementation of IPSASs (UGBP), interim financial statement (IFSR), continuous testing of internal controls (CTIC) and prevention of corrupt practice (PCP) are the major determinants of adoption of IPSASs. The study concluded that an increase in these will raise the likelihood of the occurrence of higher level of adoption of IPSASs by 1.399, 1.304, 1.228, 1.418, 1.261, 1.28, 1.093, 1.128, 1.465, 1.675 and 1.111 respectively.

The study has highlighted the determining variables that are necessary for consideration for successful transition to adoption of IPSASs. The study shows that the implementation of these variables will raise the likelihood of higher adoption of IPSASs. The study therefore recommends that each state should put into consideration the identified determinants in order to enhance the implementation of IPSAS. Governments should endeavor to give the Ministries, Departments and Agencies (MDAs) necessary support towards implementing IPSASs in their States. In this regard, the Governments should provide adequate financial resources devoted to implementation of IPSASs adoption. Most other countries have adopted IPSASs in conjunction with a wider public financial management improvement programme, which requires additional investment.

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